



**COLLEGE OF EASTERN UTAH**  
**A Component Unit of the State of Utah**

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Management Letter  
For the Years Ended June 30, 2006 and June 30, 2007

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Report No. 07-55

*Keeping Utah  
Financially Strong*

AUSTON G. JOHNSON, CPA  
UTAH STATE AUDITOR



**Auston G. Johnson, CPA**  
UTAH STATE AUDITOR

**STATE OF UTAH**  
**Office of the State Auditor**

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**FINANCIAL AUDIT DIRECTORS:**  
H. Dean Eborn, CPA  
Deborah A. Empey, CPA  
Stan Godfrey, CPA  
Jon T. Johnson, CPA

**MANAGEMENT LETTER NO. 07-55**

May 16, 2008

To the Board of Trustees, Audit Committee,  
and  
Dr. Mike King, Interim President  
College of Eastern Utah

We have completed our audits of the basic financial statements of the College of Eastern Utah (the College) as of and for the years ended June 30, 2006 and 2007 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our reports thereon, dated May 16, 2008, were issued under separate covers. We have also completed the College's portion of the statewide federal compliance audit for the years ended June 30, 2006 and 2007. The federal programs tested as major programs at the College were the Student Financial Aid Cluster in 2006 and 2007 and the TRIO Cluster in 2007. Our reports on the statewide federal compliance audits for the years ended June 30, 2006 and 2007 were issued in February 2007 and January 2008, respectively.

In planning and performing our audits we considered the College's internal control over financial reporting and compliance as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements and on the State's compliance with the requirements of its major programs, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies. These deficiencies are identified in the accompanying table of contents and are described in the accompanying schedule of findings and recommendations.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements or noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to 1) initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or 2) administer a federal program such that there is more than a remote likelihood that a misstatement of the entity's financial statements or that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

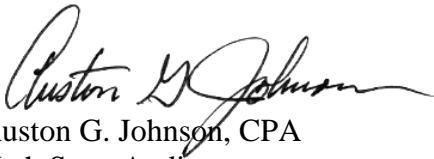
During our audits, we also noted another matter involving internal control deficiencies and noncompliance. We are submitting for your consideration the related recommendation designed to help the College make improvements and achieve operational efficiencies. This matter is described in the accompanying schedule of findings and recommendations.

This communication is intended solely for the information and use of the College's Board of Trustees, Audit Committee, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

The College's written responses to the findings and recommendations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We appreciate the courtesy and assistance extended to us by the personnel of the College during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please call Stan Godfrey, Audit Director, at (801) 538-1356.

Sincerely,

A handwritten signature in black ink, appearing to read "Auston G. Johnson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Auston G. Johnson, CPA  
Utah State Auditor

cc: Kevin Walthers, VP of Finance and Administrative Services  
Gina Gagon, Controller, College of Eastern Utah

**COLLEGE OF EASTERN UTAH**  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

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Finding Type:

SD Significant Deficiency of Internal Control  
RN Reportable Noncompliance or illegal acts

Applicable To:

e Entity's Financial Statements  
f Federal Program



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees, Audit Committee,  
and  
Dr. Mike King, Interim President  
College of Eastern Utah

We have audited the basic financial statements of the College of Eastern Utah (the College) as of and for the years ended June 30, 2006 and 2007, and have issued our reports thereon dated May 16, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies described in the accompanying schedule of findings and recommendations as Finding Numbers 1 through 3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

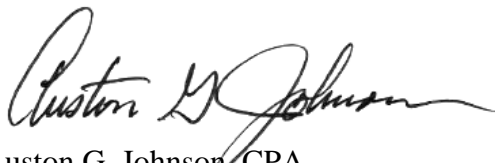
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that are included in the accompanying schedule of findings and recommendations.

The College's written responses to the findings identified in our audits are described in the accompanying schedule of findings and recommendations. We did not audit the College's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the College's Board of Trustees, Audit Committee, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.



Auston G. Johnson, CPA  
Utah State Auditor  
May 16, 2008

# **COLLEGE OF EASTERN UTAH**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

### **1. INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The College of Eastern Utah (the College) does not have adequate internal controls to ensure that all transactions were properly captured and recorded in the appropriate fiscal year and that the financial statements were properly prepared in accordance with generally accepted accounting principles. As a result, significant audit adjustments were required in the following areas to properly present the College's financial position, results of operations, cash flows and disclosures:

Fiscal year 2006 financial statements:

- Student financial aid expenditures were increased by \$559,547 and other operating expenses were reduced by \$373,872 due to improper calculation of the scholarship allowance;
- Unrestricted net assets, totaling \$408,442, were reclassified as nonexpendable restricted net assets for scholarships and invested in capital assets, net of related debt;
- Restricted investments, totaling \$274,722, were reclassified as a receivable to recognize the sale of investments in the appropriate fiscal year;
- Nonoperating revenues, totaling \$271,777, were reclassified as operating revenues;
- Cash and cash equivalents, totaling \$142,746, were reclassified as restricted investments; and
- Capital assets, totaling \$105,943 (historical cost), and the associated accumulated depreciation were not properly removed from the College's records when those assets were retired (see finding No. 3).

Fiscal year 2007 financial statements:

- Capital assets, totaling \$1,075,835, were reclassified as buildings and land improvements instead of land;
- Unrestricted net assets, totaling \$231,498, were reclassified as invested in capital assets, net of related debt; and,
- Accounts receivable, for the sale of restricted investments noted above, were reduced to recognize the sale of investments in the proper fiscal year.

Management is responsible for the preparation and accuracy of the College's financial statements and for establishing internal controls and procedures to accurately capture and record transactions.

#### **Recommendation:**

**We recommend that the College establish internal controls to ensure the financial statements reflect the College's financial position, results of operations, cash flows and disclosures in conformity with generally accepted accounting principles.**

# **COLLEGE OF EASTERN UTAH**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

### **College's Response:**

*The College agrees that internal controls over financial reporting are a vital responsibility. To that end, the College hired two CPA level accountants between March 2007 and December 2007 to improve internal controls and financial reporting. After adding these two additional staff members, the College began conducting month-end financial closings in FY 2008 and have begun more detailed reviews of reporting processes.*

### **2. INTERNAL CONTROL WEAKNESS OVER ACCOUNTS RECEIVABLE (Repeat Finding)**

The College does not have adequate controls to ensure the accuracy of accounts receivable. We tested a sample of 6 accounts receivable for fiscal year 2007 and noted that for one sample item, the account had an outstanding balance at year end of \$3,632, even though the receivable had been paid off during the fiscal year.

The College tracks accounts receivable on a separate spreadsheet instead of through Banner (the College's accounting system). When the financial statements are prepared, this spreadsheet is used to determine the outstanding receivable balance at the end of the fiscal year and to adjust the accounts receivable balance in Banner. Because controls are not adequate to ensure the accuracy of the accounts receivable spreadsheet, errors in recording billings, collections, and adjustments, whether intentional or accidental, can occur without detection.

### **Recommendation:**

**We recommend that the College implement appropriate controls to ensure the accuracy of the accounts receivable balance throughout the year.**

### **College's Response:**

*The addition of additional accounting staff provides the opportunity to restructure accounts receivable. Staff changes to be implemented by July 1, 2008 are underway that will provide more quality control in this area.*

### **3. INADEQUATE INTERNAL CONTROLS OVER CAPITAL ASSETS (Repeat Finding)**

While reviewing documentation of the College's physical inventory of equipment for fiscal year 2006, we noted that 52 of the 652 equipment items marked for removal from the College's records were not removed from the equipment listing used to generate the financial statements. We also noted one item that was marked for deletion in fiscal year 2006, but was not removed from the equipment listing until fiscal year 2007. These errors occurred because the College is using two separate systems to track capital assets and these systems are not reconciled for

# **COLLEGE OF EASTERN UTAH**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

preparation of the financial statements. These errors caused capital assets to be overstated on the fiscal year 2006 draft financial statements by \$105,943 (see finding No. 1).

### **Recommendation:**

**We recommend that the College reconcile capital asset systems used to generate the financial statements and that the College remove equipment from the capital assets listing promptly upon disposal of the equipment.**

### **College's Response:**

*The College uses a legacy system to track capital assets. Although the system is inadequate by modern standards, the College has focused on asset tracking and accuracy in the system. The Director of Purchasing is assessed annually on the accuracy of the database. However, the College realizes that this process is more labor intensive than is necessary and has begun a transition to SunGard Banner for asset tracking. This should be implemented by June 30, 2009.*

#### **4. INTERNAL CONTROL WEAKNESS OVER ACCOUNTING FOR STUDENT LOANS**

Federal Agency: **Department of Education**

CFDA Number and Title: **84.038 Student Financial Aid Cluster, Perkins Loan Program**

Federal Award Number: **P038A054192**

Questioned Costs: **\$-0-**

Pass-through Entity: N/A

We reviewed 4 student loan accounts at the College for fiscal year 2006. For one of these accounts, a Perkins Loan, the student's separation date recorded in the loan system did not match the registration records. In this instance, the student's separation date should have been May 2007; however, the loan system records showed a separation date of May 2008. The file did not contain any documentation that would indicate that the student was enrolled in another higher education institution, but did contain documentation that an exit interview was conducted during 2007. In order to properly administer the loan accounts in accordance with federal regulations (34 CFR 674), accurate separation dates must be maintained. This error was not detected at the time of the exit interview and this discrepancy could result in a lack of due diligence and untimely conversion to repayment.

We also reviewed 4 student loan accounts at the College for fiscal year 2007. One of the accounts had no documentation in the file to support the Perkins Loan cancellation/deferment which was recorded on the loan system. According to federal regulations (34 CFR 674.52), a student requesting a cancellation must submit a written request and documentation to prove they meet the criteria for cancellation. Without retention of such documentation, loans may be canceled without meeting specific conditions for cancellation or improper repayment may occur.

# **COLLEGE OF EASTERN UTAH**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

### **Recommendation:**

**We recommend that the College establish or strengthen existing internal controls to ensure that the students' separation dates are properly maintained in the loan system and that proper documentation is obtained and retained for all cancellations/deferments in accordance with federal regulations (34 CFR 674).**

### **College's Response:**

*The College recently posted a position announcement to recruit a new director of financial aid and will supplement that position with a second professional staff member to provide added help to ensure compliance with financial aid rules. New staff should be in place by December 31, 2008.*

*Contact Person: Kevin Walthers, VP of Finance and Administrative Services, 435-613-5654  
Anticipated Correction Date: December 31, 2008*

## **5. INTERNAL CONTROL WEAKNESS OVER CASH RECEIPTING**

The Cashier's Office does not reconcile the cash/check composition of daily deposits to the original receipting documentation, which increases the risk that misappropriations could occur and remain undetected. This weakness is in part due to the College's practice of cashing personal checks for employees from the change fund in the Cashier's Office. The purpose of this change fund is to provide change to students paying for tuition and fees, and other various items. It is inappropriate to cash employees' checks with funds received for other purposes since this practice causes the cash/check composition of the deposit to change and could allow the misuse of funds to go undetected.

### **Recommendation:**

**We recommend that the Cashier's Office reconcile the cash/check composition of all deposits to the original receipting documentation. In addition, we recommend that the College no longer cash personal checks for employees using funds received for other purposes.**

### **College's Response:**

*The College will implement this recommendation immediately.*