



COLLEGE OF EASTERN UTAH
Federal Compliance Audit

Management Letter
For the Year Ended June 30, 2008

Report No. 08-30

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



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UTAH STATE AUDITOR

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MANAGEMENT LETTER NO. 08-30

February 5, 2009

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

We have completed the College of Eastern Utah's portion of the statewide federal compliance audit for the year ended June 30, 2008. The federal programs tested as major programs at the College were the TRIO Cluster of Programs, the Student Financial Aid Cluster of Programs, the Career and Technical Education Program, the GEAR-UP Program, and the Scholarship Endowment Grant. Our report on the statewide federal compliance audit for the year ended June 30, 2008 should be issued in February 2009. We have not yet completed our investigation related to Finding Number 1, "Fraud, Waste, and Abuse of TRIO-Talent Search Funds." We have also not yet completed our audit of the College's financial statements for the year ended June 30, 2008. Detailed findings related to the TRIO-Talent Search investigation and any additional findings resulting from completion of our financial audit will be issued to you in separate management letters.

In planning and performing our audit 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 opinion 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 or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, one of which we consider to be a material weakness. 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 are more than inconsequential will not be prevented or detected by the entity's internal control.

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 or that material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected by the entity's internal control.

This communication is intended solely for the information and use of the College's management, Board of Trustees, Audit Committee, 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 Jon Johnson, Audit Director, at (801) 538-1359.

Sincerely,



Auston G. Johnson, CPA
Utah State Auditor

cc: Kevin Walthers, VP of Finance and Administrative Services
Gina Gagon, Controller, College of Eastern Utah
Kim Booth, Financial Aid Director
Brenda Rawson, GEAR-UP Coordinator
Donna Blake, Grant Accountant
Russell Goodrich, Dean of Applied Technology Education
Lynn Lee, Federal Grants Manager

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<u>Finding Type:</u> MW Material Internal Control Weakness SD Significant Deficiency of Internal Control MN Material Noncompliance RN Reportable Noncompliance or Illegal Acts	<u>Applicable To:</u> f Federal Program
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FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2008

TRIO PROGRAM

1. **FRAUD, WASTE, AND ABUSE OF TRIO–TALENT SEARCH FUNDS**

Federal Agency: **Department of Education**
CFDA Number and Title: **84.044 (TRIO) Talent Search**
Federal Award Number: **P044A060589-07**
Questioned Costs: **\$81,478 - \$799,997**
Pass-through Entity: N/A

As part of the statewide audit of the TRIO program, we noted that two of three disbursement transactions selected in a sample from the College of Eastern Utah (CEU) San Juan Campus Talent Search Program were for equipment purchases that we considered excessive or unreasonable. In addition, during our standard audit planning fraud inquiries of various College employees, allegations were made concerning the CEU San Juan Campus Talent Search Program Director. Based on these issues, we performed an investigation of Talent Search Program expenditures and other activities related to the Director during State fiscal years 2007 and 2008.

During our investigation, we found that the Talent Search Director spent significant amounts of time on non-federal activities while charging his time to the TRIO–Talent Search Program. In addition, the Director made unnecessary or excessive purchases using federal funds. Based on our findings, we have concluded that there were material internal control weaknesses which allowed material noncompliance, fraud, waste, and abuse of federal Talent Search funds at the CEU San Juan Campus.

While it is not practicable to determine the exact amount of questioned costs, we have determined that the questioned costs were at least \$35,193 and \$46,285 and would not exceed \$396,717 and \$403,280 for State fiscal years 2007 and 2008, respectively.

Recommendation:

We recommend that the College implement internal controls to ensure that only allowable payroll costs are charged to federal programs in compliance with Section J.10 of OMB Circular A-21, which requires adequate supervision, documentation, and appropriate allocation of payroll costs. We also recommend that the College implement internal controls to ensure that all purchases charged to federal programs are necessary, reasonable, and meet the objectives of the federal program. Additional details related to this finding and recommendation are detailed in a separate report issued to the College of Eastern Utah.

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College's Response:

We concur with the finding. The College has made substantial structural changes to the program to ensure compliance.

Contact Person: Kevin Walthers, VP Finance, (435) 613-5654

Anticipated Correction Date: October, 2008 (addressed last year)

CAREER AND TECHNICAL EDUCATION PROGRAM

2. **EXPENDITURES OUTSIDE THE PERIOD OF AVAILABILITY**

Federal Agency: **Department of Education**

CFDA Number and Title: **84.048 Career and Technical Education**

Federal Award Number: **V048A07/06/050044**

Questioned Costs: **\$24,061**

Pass-through Entity: N/A

During our review of the Career and Technical Education expenditures at the College, we noted that a total of \$24,061 of reported grant expenditures occurred after June 30, 2008. Per the grant award letter, "Federal funds must be expended by June 30, 2008. Unless you receive written notification from [the Utah State Board of Education] granting an exception, any Federal Perkins funds not expended during the grant period will be withdrawn and reallocated among eligible recipients." The College should implement controls to ensure that expenditures are made within the period of availability or ensure that extensions are requested and received in a timely manner.

Recommendation:

We recommend that the College implement controls to ensure that expenditures are made within the period of availability or ensure that extensions are requested and received.

College's Response:

This has not typically been a problem, and extensions have been requested, if needed, in past years. There were two factors that contributed to funds being expended in July this year:

- 1. Miscommunication: An extension was requested and granted for two related funds, Career Pathways and Perkins Leadership. Some had initially understood the approval could include all Perkins funds, but the specific request did not include the main grant.*
- 2. Misunderstanding: An extension for the main Perkins grant would have been approved but was not included in the extension request because requisitions for all expenses were*

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issued in June. We had understood incorrectly that the funds only needed to be encumbered by June 30.

The College has implemented the following Changes:

- 1. All requisitions for capital expenses must be issued by May 30, beginning with the current fiscal year.*
- 2. An extension request will be automatically submitted if any purchased equipment has not been received by June 20.*

*Contact Person: Russell Goodrich, Dean of Professional, Career and Technical Education,
(435) 613-5298*

Anticipated Correction Date: January 22, 2009

3. **INADEQUATE REVIEW OF EXPENDITURES**

Federal Agency: **Department of Education**

CFDA Number and Title: **84.048 Career and Technical Education**

Federal Award Number: **V048A07/06/050044**

Questioned Costs: **\$1,819**

Pass-through Entity: N/A

During our review of the Career and Technical Education expenditures at the College, we noted two expenditures totaling \$1,819 that were charged to the grant for tuition waivers for an employee's dependent. Per OMB Circular A-21 section J.10f(2), "Tuition benefits for family members other than the employee are unallowable." Therefore, we have questioned all costs charged for these tuition waivers. Inadequate reviews of expenditures can result in unallowable costs being charged to the grant; in addition, errors and misappropriations can occur without detection.

Recommendation:

We recommend that the College adequately review expenditures to ensure that they are allowable prior to payment.

College's Response:

The College disputes this finding. Some key facts that should be considered include:

- Tuition benefits for dependents are a standard employee benefit at CEU, and employee benefits must be paid for those on federal funds.*

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- *Marv Johnson, the state director, approved the expenditures by phone as we were preparing the initial reimbursement request and re-affirmed in response to this item. He is available to be contacted in regard to this matter.*

*Contact Person: Russell Goodrich, Dean of Professional, Career and Technical Education,
(435) 613-5298*

Anticipated Correction Date: N/A

4. **MISSING CERTIFICATION OF EFFORT FOR EMPLOYEES PAID FROM
FEDERAL FUNDS**

Federal Agency: **Department of Education**

CFDA Number and Title: **84.048 Career and Technical Education**

Federal Award Number: **V048A07/06/050044**

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

Pass-through Entity: N/A

The College did not require a certification of effort for contract employees paid from federal funds. OMB Circular A-21 J.10.c.1. (e) requires a statement to be completed and signed annually verifying that the work was performed and that salaries and wages charged to the federal program are reasonable in relation to the work performed. If a certification of effort for employees paid from federal funds is not completed, unallowable personnel costs could be charged to the federal grant.

Recommendation:

We recommend that the College require a certification of effort for employees paid from federal funds as required by OMB Circular A-21.

College's Response:

The College anticipates expenses planned for Perkins funds. In regard to the employee funded by Perkins funds, the percentage of her time spent in the program far exceeds the percentage paid from Perkins. Perkins funds paid about 29 percent of her salary this year and she actually spends over 70 percent of her time in related activities.

We understand the finding here questions reporting, not time actually spent. The College implemented changes to make sure we have a signed document for employees who receive only a portion of their salaries from Perkins funds.

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*Contact Person: Russell Goodrich, Dean of Professional, Career and Technical Education,
(435) 613-5298*

Anticipated Correction Date: January 21, 2009

5. **NONCOMPLIANCE WITH FIXED ASSET REPLACEMENT AND DISPOSAL**

Federal Agency: **Department of Education**

CFDA Number and Title: **84.048 Career and Technical Education**

Federal Award Number: **V048A07/06/050044**

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

Pass-through Entity: N/A

The College traded in a large piece of equipment purchased with Career and Technical Education funds and used the proceeds to purchase replacement equipment. However, the College did not obtain approval from the federal awarding agency through the State Office of Education to use the proceeds to offset the costs of the replacement equipment. Per OMB Circular A-110, Subpart C.34. (e) "When acquiring replacement equipment, the recipient may use the equipment to be replaced as trade-in or sell the equipment and use the proceeds to offset the costs of the replacement equipment subject to the approval of the Federal awarding agency." Not obtaining approval from the federal awarding agency results in noncompliance with OMB Circular A-110, which could affect the College's federal funding.

Recommendation:

We recommend that the College comply with OMB Circular A-110, Subpart C.34.(e), by obtaining approval from the federal awarding agency before using proceeds from equipment which has been traded in or sold to offset costs of replacement equipment.

College's Response:

The College has acted prudently in relation to asset management, but can improve its effort in reporting of transactions. The College will use the following protocol for future transactions:

Submit an Email approval to Marv Johnson, the state Perkins director, for any sales or exchanges that exceed \$5,000. Print and include the approval response in the Perkins folder.

*Contact Person: Russell Goodrich, Dean of Professional, Career and Technical Education,
(435) 613-5298*

Anticipated Correction Date: January 23, 2009

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GEAR-UP PROGRAM

6. **INADEQUATE INTERNAL CONTROLS FOR THE GEAR-UP PROGRAM**

Federal Agency: **Dept. of Education**
CFDA Number and Titles: **84.334 GEAR-UP**
Federal Award Numbers: **P334S050019**
Questioned Costs: **\$460**
Pass-through Entity: **Utah Valley University**

The College's expenditure reimbursement requests for the GEAR-UP program are not generated from or reconciled to the general ledger record of actual expenditures. Rather, the College's GEAR-UP Coordinator attempts to track GEAR-UP expenditures outside of the College's general ledger and prepares the reimbursement request from this external record. As a result, we noted the following:

- a. The College's reimbursement request for the December 2007 through February 2008 time period was for \$420 more than was included on the supporting schedules. This error was caused by the incorrect summing of the detailed transactions when the reimbursement request was prepared. As a result, we have questioned the \$420 overpayment.
- b. The College used GEAR-UP grant funds for a travel advance to an employee to attend a conference. \$40 of the travel advance was not used for the intended travel purposes and was appropriately returned by the employee to the College. The College appropriately credited these funds to the GEAR-UP program in the College's general ledger. However, the College did not subsequently reduce the reimbursement request to the grant recipient to reflect the return of the \$40. As a result, we have questioned the \$40 overpayment.
- c. One transaction for a newspaper help wanted advertisement, totaling \$95, was included in a reimbursement request by the College, but was not paid by the College until approximately one month after the grant recipient reimbursed the College for this expenditure. Requests for federal funds should be made on either a reimbursement basis or in a manner that minimizes the time between the reimbursement and the receipt of federal funds.

Recommendation:

We recommend that the College either use the general ledger record of actual expenditures to prepare the reimbursement request or reconcile the tracking sheet to the general ledger before the reimbursement request is sent to the grant recipient to draw federal funds.

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College's Response:

We agree. On January 2, 2009, the Director of our GEAR UP program, in conjunction with the College Controller, developed a process for reconciling reimbursement requests submitted to Utah Valley University by the Director with the College's general ledger. All future reimbursement requests will be reconciled to the College's general ledger before they are submitted.

*Contact Person: Brenda Rawson, Director of GEAR-UP Program, (435) 613-5648
Correction Date: January 2, 2009*

SCHOLARSHIP ENDOWMENT GRANT

7. INADEQUATE INTERNAL CONTROLS AND NONCOMPLIANCE WITH SCHOLARSHIP ELIGIBILITY REQUIREMENTS

We reviewed the financial aid files of 23 students who received scholarships under the Scholarship Endowment grant. We noted that 1 (4%) student who received a \$2,400 scholarship from the White Mesa Scholarship Fund for the Summer 2008 semester was ineligible because a Pell Grant Application was not completed, as required by the White Mesa Scholarship Fund policies and procedures. This error occurred because the College did not have appropriate oversight of scholarships that were approved by the White Mesa Committee. Although the College does not determine the awarding of scholarships under the Endowment grant, they have a fiduciary responsibility to ensure that scholarships awarded are given to eligible students according to the Plan of Operation of the Endowment grant as well as established policies and procedures of the respective funds.

In addition, failure to complete the PELL Grant Application also prevented an accurate needs analysis from being completed by the Financial Aid Office. As a result, this student was unduly awarded the above scholarship when the student had already been awarded a scholarship of \$4,939.95 from the Ute Mountain Ute Tribe under the Native American Career and Technical Education Program (NACTEP) grant to cover full tuition, fees, and books for the Summer 2008 semester.

Awarding of scholarships to ineligible students limit funds that can be awarded to eligible students and can result in grant funds being returned to the awarding agency.

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Recommendation:

We recommend that the College strengthen internal controls to ensure that applicable policies and procedures are followed in the awarding of scholarships under the College's Endowment grant.

College's Response:

The Vice Provost of the San Juan Campus will appoint someone from the College to sit on White Mesa's scholarship committee. That person will review the scholarship applications to ensure that all applicable policies and procedures regarding eligibility of the recipient are followed.