



COLLEGE OF EASTERN UTAH
Fraud, Waste, and Abuse of TRIO-Talent Search Funds

Management Letter
For the Year Ended June 30, 2008

Report No. 08-45

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

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REPORT NO. 08-45

March 17, 2009

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

We have performed an investigation of the College of Eastern Utah San Juan Campus Talent Search Program for the period July 1, 2006 through June 30, 2008, based on issues noted during our Statewide audit of the TRIO program. The purpose of these procedures is to assist the College in evaluating its internal control.

As part of our review, we evaluated the program director's time for compliance with certain federal requirements and College policies regarding payroll issues, such as allocating time spent on non-program activities and properly completing vacation forms. We also tested a limited number of the Talent Search Program expenditures for propriety, reasonableness, and compliance with federal regulations.

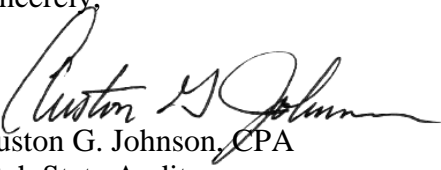
Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the College's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the College's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in this report. A summarized version of our findings was included in the Statewide Single Audit Report as finding No. 08-18, "Fraud, Waste, and Abuse of TRIO-Talent Search Funds," and is also included in this report as Attachment A. We feel that the issues addressed in this report and summarized in finding No. 08-18 represent a material internal control weakness and material noncompliance to the federal program. If these weaknesses are left uncorrected, an unacceptable amount of errors or fraud could occur without detection.

This report 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.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the College during the course of the investigation, 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
Brandon Keller, Controller
Gina Gagon, Assistant Controller
Bob McPherson, PhD, Vice President of San Juan Campus
Guy Denton, Vice Provost of San Juan Campus
Donna Blake, Grant Accountant

COLLEGE OF EASTERN UTAH
FRAUD, WASTE, AND ABUSE OF TRIO-TALENT SEARCH FUNDS

FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2008

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FINDINGS AND RECOMMENDATIONS
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INTRODUCTION

While performing the statewide federal compliance audit of the TRIO program, we noted that two of the three disbursement transactions selected in a sample from the College of Eastern Utah (College) San Juan Campus Talent Search Program were for equipment purchases that we considered to be excessive or unreasonable. In addition, during our standard audit planning fraud inquiries of various College employees, allegations were made concerning the San Juan Campus Talent Search Program Director (the 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.

We determined that the director was responsible for activities related to two funding sources: 1) federal Talent Search Program funds and 2) funds received from San Juan School District. We present in this report the detailed results of our investigation. Section A of this report includes issues and questioned costs related to inappropriate charges to the federal Talent Search Program. Section B of this report includes issues related to abuses of School District funds intended to reimburse the federal program. Section C reports noncompliance with State and College policies noted during our investigation.

We included a summarization of the findings in this report in our statewide Single Audit Report issued to the Federal Government as finding number 08-18, "Fraud, Waste, and Abuse of TRIO-Talent Search Funds." The summarized Single Audit finding is also included as Attachment A to this report. The Single Audit finding included a minimum questioned cost amount of \$81,478 with a maximum potential amount of questioned costs totaling \$799,997 for fiscal years 2007 and 2008 (see Attachment B).

A. INAPPROPRIATE CHARGES TO THE FEDERAL TALENT SEARCH PROGRAM

1. Inappropriate Payroll Charges

a. Director Time Spent on Non-Talent Search Activities

The Talent Search Grant application by the College states that "the Talent Search Director will devote full-time (100%) to the project." The director's salary was paid entirely from federal Talent Search Program funds. However, based on our observation of the director's office and scanning his computer files and email, it appears that he spent a significant amount of time on activities unrelated to the Talent Search Program. We identified several specific occasions, totaling a minimum of 45 work days over the two year period, when the director spent time on activities unrelated to the Talent Search

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Program and did not use leave time or allocate his time to a non-federal funding source as follows:

- As a member of the State Wildlife Board, the director attended a total of 15 board meetings during State fiscal years 2007 and 2008. He also attended a week long conference related to his service on the Wildlife Board in Arizona during July 2007. In addition to his Talent Search salary, the director received compensation for his service from the Wildlife Board. We estimated the time it took the director to travel to and attend the board meetings and the conference to be equivalent to 32 days, and have questioned the related costs.
- In both the summer of 2007 and the summer of 2008, the director took a personal trip to Alaska. For both trips, the personal leave the director requested was two days less than would be necessary for the trips based on trip itineraries and receipts. We inquired of the director who stated that in both instances he worked the previous Saturday and Sunday to compensate for taking off two extra days without taking leave. However, since there was no documentation to support the extra days worked, we could not verify this statement. As a result, we have questioned the cost of the director's time equivalent to 4 days.
- In May 2008, the director spent a week river rafting in Oregon. We inquired of the director who stated that the purpose of the trip was to get experience in order to qualify to become a licensed rafting guide for the benefit of the Talent Search Program. The director took two cameras purchased with Talent Search funds on this trip as discussed below (see Section A.2. of this report). Considering the purpose of the federal program, we did not consider it necessary or reasonable for the director to charge his time to become a licensed rafting guide to the federal program; therefore, we have questioned the cost of the director's time equivalent to 5 days.
- In April 2007, the director drove to the Midwest to pick up a canoe trailer and 9 canoes. The canoes and trailer were purchased with funding from the San Juan School District account as further discussed below (see Section B of this report). We inquired of the director who stated that the canoes would be available for use by various programs at the College, including the Talent Search Program. Since we do not consider the travel time spent to pick up these canoes a necessary and reasonable use Talent Search Program funds, we have questioned the cost of the director's time equivalent to 4 days.
- The director taught rafting and canoeing classes for the Summer Experience Program. The College paid him a small amount (\$3,008 total in State fiscal years 2007 and 2008) in addition to his Talent Search salary to teach these classes. The Summer Experience Program is a summer class at the College that is unrelated to the Talent Search Program, except that both programs may involve some of the

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same participants and both programs may be able to use the same equipment. It did not appear that the director used any leave time when he was involved with the Summer Experience Program, although it appeared that in addition to the classes he taught, he spent a lot of time preparing for the classes, including working on becoming a licensed rafting guide and purchasing and picking up canoes, as discussed in the above points. We inquired of the director who stated that he worked long days and weekends so he knew that he was working enough hours for the Talent Search Program. However, since we were unable to locate any documentation of how his time was actually spent, we could not verify this statement. The number of days the director worked on the Summer Experience Program is undeterminable; therefore, we have not questioned specific amounts here.

We also observed the following activities in which the director engaged while at work that should not have been charged to the Talent Search Program:

- San Juan Sports (a company owned and operated by the director) – see section B below.
- San Juan School District Banner Account – see section B below.
- Excessive personal files and activities (including pictures, personal bills, personal tax returns, newspaper/magazine articles, church files, etc.)

b. Talent Search Counselors Time Spent on Non-Talent Search Activities

There were 3 counselors who charged 100% of their time to the Talent Search Program during State fiscal years 2007 and 2008. These counselors worked at middle schools or high schools in the San Juan School District. The counselors were paid by the College, and the Talent Search director approved the Talent Search counselors' time. In State fiscal years 2007 and 2008, the College received a total of \$33,000 from the San Juan School District, which was described on a College invoice to be for "Professional Services [for three Talent Search Counselors] for Talent Search Match." However, none of this funding was used for Talent Search professional services, nor were any federal funds reimbursed by the College. The purpose and use of these funds are further discussed in section B of this report. We inquired of the Talent Search director and individuals at the School District and determined that a small portion of the Talent Search counselors' time was spent on non-program activities. However, since we were unable to estimate the portion of the counselors' time spent on non-program activities, we have not questioned specific amounts.

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OMB Circular A-21, Section J.10, states that compensation for personal services is allowable provided that costs are determined and supported based on payrolls documented in accordance with the “generally accepted practices” of the College, with employee’s salaries and wages apportioned to “produce an equitable distribution of charges for employee’s activities.” Therefore, only time that the director and the counselors spent on Talent Search activities should have been charged to the federal program.

Although the total actual time the director improperly spent on non-federal program activities is undeterminable, we have determined that the minimum amount of questioned costs related to the director is \$11,966 (\$5,883 and \$6,083 for State fiscal years 2007 and 2008, respectively), which is the equivalent to 45 days of the director’s salary, not including benefits. The \$33,000 received from the San Juan School District plus other San Juan School District funded purchases are discussed and questioned in section B of this report. The total questioned costs related to both the director’s and the counselors’ time would not exceed the total payroll costs charged to the grant of \$309,262 and \$301,649 for State fiscal years 2007 and 2008, respectively.

Recommendation:

We recommend that the College implement 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.

College’s Response:

The College is committed to ensuring payroll costs charged to federal funds are done in compliance with federal rules. Prior to the audit, new administrators at the College began implementing new policies designed to ensure accurate and timely reporting. Beginning with fiscal year 2009, the College implemented an electronic time and attendance system to address this issue.

2. Unallowable and Excessive Purchases

During our initial sample, we noted that two out of three Talent Search disbursement transactions at the San Juan Campus contained excessive and unreasonable amounts of equipment purchases. The first transaction included 3 digital cameras, 13 camera memory cards, and 11 sets of camera batteries. The second transaction included 5 camera adaptor plates (used to hold a camera to a tripod). Because these purchases were considered excessive for the federal program, we performed additional investigations as noted below.

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We attempted to locate the three cameras purchased with Talent Search funds on campus; however, at the time of our investigation, the director had two of the cameras with him on the river rafting trip to Oregon, as discussed above. Upon inquiring about why he had the cameras with him on the trip, the director stated that he was taking pictures of the rapids to prove that he completed requirements for a rafting guide license which would benefit the Talent Search Program in the future. As discussed above in section A.1., it is not considered necessary for the director to be a licensed rafting guide. Therefore, the purchase of the cameras and taking the cameras on the trip is considered abuse of equipment purchased with federal funds, and the related costs have been questioned.

In addition to the disbursement transactions selected as part of our initial sample, we also scanned all Talent Search purchases at the San Juan Campus for State fiscal years 2007 and 2008 and performed a detailed review of 35 additional disbursement transactions. During this review we determined that the total amount of excessive camera equipment purchases was \$2,832 and these purchases were all during State fiscal year 2008. We also identified one State fiscal year 2008 disbursement transaction related to a separate federal program that was improperly charged to Talent Search in the amount of \$431. Although we did not identify any other purchases that individually were clearly unallowable or excessive, we noticed numerous purchases of computer accessories and bookstore purchases that, taken all together, may be considered excessive. All of the disbursement transactions we reviewed were approved by two College employees, but this control was ineffective since it did not prevent unallowable or excessive purchases.

We have determined that the minimum amount of unallowable or excessive purchases would be \$3,263 for State fiscal year 2008, and the maximum amount would not exceed the total amount of non-payroll costs charged to the grant of \$58,145 and \$64,692 for State fiscal years 2007 and 2008, respectively.

Recommendation:

We recommend that the College strengthen internal controls over reviewing and approving disbursement transactions to ensure all purchases charged to federal programs are necessary, reasonable, and meet the objectives of the federal program.

College's Response:

The College concurs with this finding and has assigned two staff members to review transactions as part of their regular assignment.

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B. ABUSE OF SCHOOL DISTRICT FUNDS INTENDED TO REIMBURSE FEDERAL PROGRAM

It appears that the College has collected funds from the San Juan School District (the District) over many years which were intended to reimburse or benefit the Talent Search Program. These funds were described on a College invoice to be for “Professional Services [for three Talent Search Counselors] for Talent Search Match.” These funds were deposited into a College account labeled the San Juan School District account (District account) of which the Talent Search director was the account administrator.

Per discussion with individuals at the District, the funds paid to the College were to reimburse the College for the time the Talent Search counselors spent on activities not related to the federal program and for a “required” federal match. However, per review of the federal regulations, there is no federal match requirement for the Talent Search Program. The Talent Search director stated that the funds from the school district may be used for salaries or for other supplies or services that benefit Talent Search participants. There is no formal agreement between the College and the District outlining the exact usage of the funds.

The total revenues received from the District were \$15,000 and \$18,000 in State fiscal years 2007 and 2008, respectively. The total expenditures from the District account were \$29,310 and \$36,939 in State fiscal years 2007 and 2008, respectively. None of the District account expenditures in either year were for personal compensation as the District expected; rather the expenditures were mostly for outdoor equipment and supplies for the Summer Experience Program or for items that appeared to be for personal use. We believe the District was unaware of how the funds were actually being used.

Although the College has no formal agreement regarding the use of the District funds, we noted the following issues while reviewing the expenses and activities in the District account that demonstrate the funds were not appropriately used to support the federal program and indicate various internal control weaknesses over and potential abuses of funds intended to benefit the federal program:

- Many purchases in the District account were purchased from San Juan Sports, a company owned and operated by the Talent Search Director, which was a violation of the College’s conflict of interest policy. It did appear that the director was selling outdoor equipment to the College at cost; however, often the items from San Juan Sports were purchased by the CEU San Juan bookstore (bookstore) and then marked up for resale by the bookstore to the College through the District account. See further discussion of the issues related to San Juan Sports in section C2 of this report.

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- In State fiscal year 2007, we noted purchases of a specialty canoe trailer for \$1,897 and nine canoes from San Juan Sports for \$8,451, along with a reimbursement for meals, lodging, mileage, and gas in the amount of \$2,310 paid to the director for the trip to pick up the trailer and canoes. We reviewed documentation for these transactions and noted inconsistencies with the dates on the College purchase orders, the dates the items were received in the bookstore, the dates the equipment was charged to the District account and the Summer Experience account, and the dates of the trip to pick up the trailer and canoes. We were unable to determine the implications of the inconsistent dates, but they indicate weaknesses in the bookstore inventory process and weaknesses in the controls over purchases. In addition, we questioned the director's time for this trip in Section A.1. of this report, since his salary was paid with Talent Search funds.
- The reimbursement for the trip to pick up the canoes discussed in the above point included a gas receipt for \$60 for a separate trip for which there was no documentation to support the purpose of the trip.
- Several items from the District account were purchased in quantities of one or two. Our expectation was that items would be purchased in larger quantities since these items were for students in the Summer Experience program. We inquired of the director who stated that the quantities of one or two represent purchases of replacement items for items previously bought in larger quantities. Purchasing two pairs of high-tech hiking boots (\$108 and \$124), one pair of Thyphoon pants (\$93), two drysuits (\$298 each), etc. as replacement items for students in a summer program did not seem reasonable and appeared to be the types of items that would be for personal use.
- In March 2008, a high-grade Apple laptop computer was purchased for \$1,699. We examined this computer in July 2008 and found no files or any indication that the computer had been used since it was purchased four months earlier. We inquired of the director, who stated that the laptop was purchased so he could check his email while on trips; however, the director was not familiar with Apple computers and had not learned how to use the new laptop. Based on our reviews and observations, this purchase was deemed unreasonable and abusive.
- We noted two purchases recorded in the District account that were approved by the bookstore manager instead of the Talent Search director. The individual responsible for the account should be approving charges to the account to avoid inappropriate charges.

Since it appears San Juan School District revenues were intended to reimburse or benefit the Talent Search Program and most, if not all of the purchases from the District account were either excessive or completely unrelated to the Talent Search Program, we have questioned the total purchases from the District account in the amount of \$29,310 and \$36,939 for State fiscal years 2007 and 2008, respectively.

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Recommendation:

We recommend that the College document in formal agreements or contracts the reasons for accepting funding from local school districts. Such agreements should clarify any restrictions to be placed on the use of the related funding.

We also recommend that the College strengthen internal controls over reviewing and approving disbursement transactions. These internal controls should include reviews and approvals by someone independent of the activity and knowledgeable of the program requirements sufficient to determine whether the disbursements are reasonable, necessary, and appropriate based on the requirements and restrictions of the funding source.

College's Response:

This contract was implemented prior to the arrival of current College Administration. We are committed to ensuring that all contracts have executive level approval and are designed to further the mission of the institution.

C. NONCOMPLIANCE WITH STATE AND COLLEGE POLICIES

1. Noncompliance with Acceptable Use Policy for Computers

Based on the amount of non-Talent Search related items noted in section A.1. of this report, particularly the items related to the director's personal business (San Juan Sports), it appears that the Talent Search director's computer usage has not been in compliance with College and State Acceptable Use Policies. College policy Section 1-7 II.E states that "All services, supplies, and equipment [including computers] should be used only in the operation of the College and should not be used for personal matters." Section 1-18A also states that "Individual users must obey federal, state, and campus policies and regulations which govern computer and telecommunications use." The Utah State Information Technology Resources Acceptable Use Policy states that "incidental and occasional personal" use is permitted as long as such use does not involve "a for profit personal business activity."

Recommendation:

See recommendation for C.2. below.

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2. Noncompliance with Conflict of Interest/Purchasing Policies

We noted a significant number of transactions in the District account which occurred during State fiscal years 2007 and 2008 for purchases from San Juan Sports – a company owned and operated by the Talent Search director. College policy, section 2-2, E, only allows the College to use vendors “in which a College employee has a substantial interest if the employee is not involved in the particular department and does not have control over the particular expenditure.” The policy further states that these types of purchases must have a written bid regardless of amount and the employee must complete a conflict of interest form.

The director was directly involved with the purchases from San Juan Sports and had control over the funds used to make the purchases; therefore, these purchases were in violation of College policy. *Utah Code 67-16-8*, also requires disclosure of a conflict when an employee has substantial interest in a vendor. Although we noted purchases from San Juan Sports at least as far back as August 2006, the director did not complete a conflict of interest form until February 2008. Completing this form helped comply with State Laws, but the purchases were still not in compliance with College policy. Not complying with College policies and State laws could result in the College being involved with purchases that improperly benefit an employee.

We inquired of the director who stated that he started his company to help the College buy outdoor equipment at dealer prices, because a previous finance manager with the College would not set up the College as a dealer of outdoor equipment and that he wanted to make the money go as far as possible, as he did not want to pay retail. He also stated that his primary customer was the College, although he would occasionally sell to family or friends (we noted six San Juan Sports invoices to customers other than the College during State fiscal years 2007 and 2008). It did appear that the director was selling outdoor equipment to the College at cost; however, often the items from San Juan Sports were purchased by the bookstore and then marked up (with rates ranging from 5% – 68%) for resale by the bookstore to the College through the District account. Although we did not perform additional testwork at the bookstore, we did not find any indications that College employees benefited directly or indirectly from processing purchases through the bookstore.

Since all disbursements from the San Juan School District account were questioned in section B above, no further costs have been questioned here.

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Recommendation:

We recommend that the College strengthen internal controls by educating employees about, and requiring compliance with established College policies related to acceptable usage of computers/equipment, conflict of interests, and purchasing requirements.

College's Response:

We believe our controls are sufficient to ensure that all employees understand policies related to acceptable use, conflicts of interest and purchasing requirements. Even so, the College will redouble efforts in training and focus on this issue at training sessions scheduled for the coming year.

3. Potential Abuse of Purchasing and Capitalization Policies

While reviewing the San Juan Sports transactions flowing through the College's San Juan Campus bookstore, we noted that the mark up rates used appeared to be arbitrary and inconsistent. While most items purchased through San Juan Sports were marked up 33%-68%, we noted 9 canoe purchases that were marked up only 5%-6%, which resulted in individual purchases of just below \$1,000. These are the same canoes that were purchased together and were discussed in section A.1 above. It is unclear why the rates used were inconsistent, but it appears that some of these arbitrary rates may have been applied to avoid thresholds related to policies requiring documentation of telephone bids and/or capitalization of equipment. College accounting policies require that equipment purchases over \$1,000 be capitalized and depreciated. As noted above, although we did not perform additional testwork at the bookstore, we did not find any indications that College employees benefited directly or indirectly from processing purchases through the bookstore. We were also able to observe that the canoes were stored on the San Juan Campus.

Recommendation:

We recommend that the College review purchasing and pricing policies and related internal controls at the CEU San Juan Campus bookstore.

College's Response:

We have provided additional training to both bookstore and purchasing staff to ensure they understand the importance of observing capitalization thresholds. We have tasked the College's Controller with randomly checking transactions to provide additional oversight.

**SUMMARIZED FINDING INCLUDED IN THE
STATEWIDE SINGLE AUDIT REPORT**

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** (see Attachment B for detail)

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 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 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.

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)

SUMMARY OF QUESTIONED COSTS

Description	Fiscal Year		Total
	2007	2008	
Director's salary	\$ 5,883	\$ 6,083	\$ 11,966
Cameras and camera equipment		2,832	2,832
Unallowable training and meal costs		431	431
School District account expenditures	29,310	36,939	66,249
Total Minimum Questioned Costs	<u>\$ 35,193</u>	<u>\$ 46,285</u>	<u>\$ 81,478</u>

Description	2007	2008	Total
Payroll costs charged to program	\$ 309,262	\$ 301,649	\$ 610,911
Nonpayroll costs charged to program	58,145	64,692	122,837
School District account expenditures	29,310	36,939	66,249
Total Maximum Potential Questioned Costs	<u>\$ 396,717</u>	<u>\$ 403,280</u>	<u>\$ 799,997</u>