# SNOW COLLEGE

Government Auditing Standards Report
and
Management Letter
For the Year Ended June 30, 2013

Report No. 13-38

**OFFICE OF THE**

# UTAH STATE AUDITOR

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and
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AUDIT TEAM:
Van Christensen, CPA, Audit Director
Nancy Watson, CPA, Audit Supervisor

# SNOW COLLEGE

FOR THE YEAR ENDED JUNE 30, 2013

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OFFICE OF THE
UTAH STATE AUDITOR

# INDEPENDENT STATE AUDITOR'S 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
Scott L. Wyatt, President
Snow College

We have audited, in accordance with the 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, the financial statements of Snow College (the College), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 20, 2013.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, 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.

A *deficiency in internal control* 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 to detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.  A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.  We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations that we consider to be a significant deficiency (see Finding No. 1).

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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 audit, 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 noted certain other findings resulting from the College's portion of our statewide federal compliance audit for the year ended June 30, 2013 that are included in the accompanying schedule of findings and recommendations.

**College's Responses to Findings**

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor

Office of the Utah State Auditor
December 20, 2013

**OFFICE OF THE**
**UTAH STATE AUDITOR**

## MANAGEMENT LETTER

January 10, 2014

To the Board of Trustees, Audit Committee,
and
Scott L. Wyatt, President
Snow College

This management letter is issued as a result of our audit of the basic financial statements of Snow College (the College) as of and for the year ended June 30, 2013 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 report thereon, dated December 20, 2013, is issued under separate cover. This management letter is also issued as a result of the College's portion of the statewide federal compliance audit for the year ended June 30, 2013. Our report on the statewide federal compliance audit for the year ended June 30, 2013 is issued under separate cover.

The following federal programs were tested as major programs at the College:

- Student Financial Assistance Programs
- Career and Technical Education – Basic Grants to States

In planning and performing our audit of the financial statements of the College, we considered the College's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Additionally, in planning and performing our audit of the federal programs listed above, we considered the College's compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2013. We also considered the College's internal control over compliance with the requirements previously described that could have a direct and material effect on the federal programs in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting or compliance.

Our consideration of internal control over financial reporting or compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting or compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting or compliance that we consider to be significant deficiencies.

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A deficiency in internal control over financial reporting or compliance exists when the design or operation of a control over financial reporting or compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct on a timely basis misstatements of the entity's financial statements or noncompliance with a type of compliance requirement of a federal program. A material weakness over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control over financial reporting or compliance, such that there is a reasonable possibility that a material misstatement of the entity's financial statements or material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency in internal control over financial reporting or compliance is a deficiency, or a combination of deficiencies, in internal control over financial reporting or compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control that we consider to be significant deficiencies. These significant deficiencies are identified in the accompanying table of contents and are described in the accompanying schedule of findings and recommendations.

In addition, we noted another instance of noncompliance which we are submitting for your consideration. This matter is described in the accompanying schedule of findings and recommendations.

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

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the College's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

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 contact me.

Sincerely,

Van H Christensen

Van Christensen, CPA
Audit Director
801-538-1394
vchristensen@utah.gov

cc: Marvin Dodge, Vice President for Administrative Services
Karl Kovac, Controller
Jack Dalene, Financial Aid Director

# <u>SNOW COLLEGE</u>

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013

## 1. NONCOMPLIANCE WITH MONEY MANAGEMENT COUNCIL RULE 17

During our testwork of the investments held by Snow College (the College), we noted that the College did not comply with Rule 17 of the Money Management Council which limits non-endowment fund investments in a single issuer of corporate obligations to 5% of the total dollar amount held in the portfolio for portfolios of $20,000,000 or more. The College, which has a portfolio of more than $20,000,000, has investments in corporate obligations with one single issuer that exceed this 5% limit. This noncompliance with Rule 17 of the Money Management Council occurred because of inadequate internal control over investment purchases. Failure to comply with the Money Management Council rules could result in the purchase of investments that are not prudent for the College.

**<u>Recommendation</u>:**

**We recommend that the College consult with the Money Management Council to determine what should be done with the investment the College owns that is not in compliance with the Council rules. We also recommend that the College implement internal controls to ensure that future purchases of investments are in compliance with these requirements.**

*<u>College's Response</u>:*

*The College agrees with the finding and has contacted the Money Management Council to determine what should be done regarding the investment not in compliance with the Money Management Act. The College contacted the Money Management Council on January 10, 2014, to explain the non-compliant investment and to inquire of the Council's desires concerning that investment. After discussing the non-compliant investment with Council's representative, she indicated that since the investment matures on February 7, 2014, the Council would prefer the College to hold it until maturity.*

*The College had also implemented controls to prevent future purchases of investments not in compliance with the Money Management Act as a result of the previous year's audit finding. The investment in question was purchased in August of 2012, which was prior to the previous year's audit report. The College created a checklist based on the Money Management Act to ensure that the compliance requirements are met prior to the purchase of each investment. The Checklist must be reviewed and signed by the Assistant Controller, the Controller, and the V.P. of Finance and Administrative Services prior to the purchase of the investment. The signed checklist is attached to the trade confirmation for the investment and then kept on file with the investment reports. As the control has been in place for over a year, and no findings of non-compliant investment purchases have been found since the control was implemented, Management believes the control is functioning properly to prevent future purchases of non-compliant investments.*

*Contact Person: Jake Dettinger, Assistant Controller, (435) 283-7255.*
*Correction Date: December 2012*

## 2. INCOMPLETE RECONCILIATION OF FEDERAL DIRECT STUDENT LOANS

Federal Agency: **Department of Education**
CFDA Number and Title: **84.268 Federal Direct Student Loans**
Federal Award Number: **N/A**
Questioned Costs: **N/A**
Pass-through Entity: N/A

The College is performing a partial reconciliation of the Federal Direct Student Loans by reconciling direct loans between the Common Origination and Disbursement (COD) system and the College's financial aid system and identifying causes for any differences between these two systems. However, the College does not reconcile this information in total to Banner (the College's financial accounting system) on a monthly basis as required by federal regulations (34 CFR 685) and the Direct Loan School Guide. An incomplete reconciliation could result in errors occurring without detection.

**Recommendation:**

**We recommend that the College implement internal controls to ensure that Federal Direct Student Loans are adequately reconciled to Banner as required by 34 CFR 685.**

*College's Response:*

*The College agrees. The College has already begun to address this issue. The Financial Aid Office will send its monthly report to the Business Office for reconciliation to the College's financial accounting system in Banner. The Business Office will send its monthly reconciliation back to the Financial Aid Director for his review.*

*Contact Person: Jack Dalene, Financial Aid Director, (435) 283-7130*
*Anticipated Correction Date: September 1, 2013*

## 3. ENROLLMENT REPORTING ERRORS

Federal Agency: **Department of Education**
CFDA Number and Title: **84.268 Federal Direct Student Loans**
Federal Award Numbers: **N/A**
Questioned Costs: **$-0-**
Pass-through Entity: N/A

We selected a sample of 10 students, out of a statewide sample of 40, who either withdrew (officially or unofficially) or graduated from the College to determine whether enrollment changes were being properly reported to the National Student Loan Data System (NSLDS).

We noted the following errors:

- In four instances, the students graduated from the College but were reported to the NSLDS as withdrawn rather than graduated. The NSLDS Enrollment Reporting Guide states that schools must correctly report students who have completed a program as “graduated” and not as “withdrawn.” This assists the NSLDS in identifying individual student completion of programs of study. Further, an accurate anticipated completion date aids in correct servicing of a student’s loans, avoiding unnecessary early or late conversion to repayment status which could cause technical defaults.

- In two instances, the students officially withdrew from the College but their status change was not reported to NSLDS within the required time. Per the NSLDS Enrollment Reporting Guide the College must report attendance changes for students within 30 days, unless a roster will be submitted within 60 days.

An incorrect enrollment status reported to NSLDS could cause a student’s loan to be inappropriately delayed in being converted to repayment status. These errors occurred because the College did not ensure that its third-party servicer submitted data to NSLDS by the required due date.

**Recommendation:**

**We recommend that the College ensure that its third-party servicer submits the proper data to NSLDS in a timely manner as required.**

*College’s Response:*

*The College agrees. The responsibility to report enrollment changes has recently been transferred to the Registrar’s Office to provide more accurate and timely reporting. The Financial Aid Office will coordinate with the Registrar’s Office to ensure that this reporting function is performed satisfactorily.*

*Contact Person: Jack Dalene, Financial Aid Director, (435) 283-7130*
*Anticipated Correction Date: September 1, 2013*

## 4. NONCOMPLIANCE WITH FEDERAL EQUIPMENT MANAGEMENT REQUIREMENTS

Federal Agency: **Department of Education**
CFDA Number and Title: **84.048 Career and Technical Education Program – Carl Perkins**
Federal Award Number: **V048A120044-12A**
Questioned Costs: N/A
Pass-through Entity: N/A

During our review of equipment purchased with federal award money, we noted that Snow College is not properly classifying equipment on their capital asset listing as either equipment acquired using federal awards or equipment otherwise acquired, as required by OMB Circular A-110, Part A, Section .34.

This error occurred due to a misunderstanding of the grant requirements related to equipment acquired with federal awards. Noncompliance with federal equipment management requirements can result in questioned costs.

**Recommendation:**

**We recommend that the College properly classify equipment purchased using federal awards on their capital asset listing in accordance with federal equipment management requirements.**

*College's Response:*

*We agree with the recommendation. We will address this shortcoming by:*

- *Carrying out our process for identifying such equipment quarterly (instead of yearly) during the next year. This will boost our familiarity and skill with this process, allowing us to identify and address any inadequacies in it, well before the crucial time at year end. We will then readjust this frequency based on the outcome of this experience.*

- *Implementing an additional final step of having the compliance officer review the final equipment listing as prepared by the accountants for accuracy.*

*We think it worthwhile mentioning some other important relevant details that are obscured by the simple stark finding as outlined. During FY13, the College purchased 327 items of equipment, of which only 22 involved restricted federal award money. The latter's total value was $140,000, being approximately 14% of the value of our total equipment purchases. The number and value of the items mistakenly overlooked under this equipment management requirement were four and $9,000, respectively. We feel confident, therefore, that despite the finding, our coverage of this requirement is well in hand. Only a few more adjustments will be necessary, as noted above.*

*Contact Persons: Karl Kovac, Controller, 435-283-7257*
*Robin Gore, Compliance Officer, 435-893-2257*

*Anticipated Correction Date: March 31, 2014*

## 5. WEAKNESSES IN REPORTING PERFORMANCE DATA

Federal Agency: **Department of Education**
CFDA Number and Title: **84.048 Career and Technical Education Program – Carl Perkins**
Federal Award Number: **V048A110044-11A**
Questioned Costs: $-0-
Pass-through Entity: N/A

This finding was identified during our testwork for the fiscal year ended June 30, 2012. The finding has not been fully implemented by Snow College and is presented here to show the updated corrective action plan.

Snow College must annually report to the State its progress in achieving its target levels of performance on the core indicators of performance set by the Perkins IV grant. We noted the following weaknesses related to the reporting of this information:

a. Inaccurate Data Reported

Some of the student data reported by the College for the 2011 Reporting Year was incomplete, inaccurate, and inconsistent (the fiscal year 2012 reports were not yet available at the time of our testwork). The inaccurate data was the result of the following:

- Inaccurate coding in the Banner system. The College had outdated Classification of Instructional Program (CIP) codes in their system (these codes are used by the Board of Regents to identify CTE students and are used to compile the report).
- Inaccurate information input by the students relating to declared majors.
- Turnover in grant administration.

Use of incomplete, inaccurate, and inconsistent student data results in meaningless comparisons of the data submitted to target data as well as noncompliance with reporting requirements.

b. Failure to Provide Performance Data to the General Public

The College is not providing performance data to the general public as required by the Perkins IV grant. Per 20 USC 2323(b)(4)(C)(v), data for the core indicators of performance described in Section 113 (b)(4) of Perkins IV must be available to the general public through a variety of formats, including electronically through the Internet. Failure to report the required information in the proper format as described above results in noncompliance with grant requirements. This error occurred because Snow College was unaware of the requirement.

**Recommendation:**

**We recommend that the College:**

**a. Implement adequate internal controls and processes to better ensure accurate and consistent reporting of student data.**

**b. Make its performance data available to the general public using the required formats.**

*College's Response:*

*This particular finding touches on challenges related to the reporting of Perkins/CTE data statewide. Recent years have seen a number of changes in the process of data collection, CIP codes, and review. While the College strives to ensure the integrity of its data, ongoing discussions at the state level will be necessary for full resolution of these items.*

*The issue of CIP Codes particular to Perkins has been an ongoing discussion item between Snow College, the Board of Regent's Office (Regents), and the State Office of Education for the past two years. Perkins reporting is a multi-step process. Snow College provides the first step through the regular submission of End of Term reports (fall, spring and summer) and a Graduation Extract (due each August). Each student in the End of Term report is associated with a current major reported by CIP Code. The next step occurs at the Regents where via CIP Code from all submitted files, students are identified as Perkins participants and/or concentrators. A Perkins file is returned to the College (mid-August) to gather DWS, Single Parent, Displaced Homemaker, Pell, BIA, and LEP information. Once the Perkins file is returned to the Regents, the information is given to the State Office of Education who processes the report.*

*As an open institution with a self-declare major process, the process of gathering accurate data for CIP coding remains problematic. The College is in the unique situation of offering general education coursework preparatory to job placement or transfer; resulting in majors that are essentially not more than " general education." However, the College is required by the Regents and Perkins to report majors (outside of GNED). Several steps have been implemented to better assess and assign students to appropriate majors when they do not declare:*

1. *A student major survey required at the beginning of each registration period (fall/spring/summer). The survey asks students to identify a major/area of emphasis*

*and to declare if their choice should be considered their official major. "General Education" and "Other" are not options for selection on this survey. Data from this survey is sent to the Registrar to update student information in Banner.*

2. *Majors attending specific required classes taught by the College (e.g. LPN vs. CNA) are required to submit major cards in class at the beginning of the semester. These cards are used to determine a student's major based on their enrollment in the class. For example, a student who self-declares "nursing" as his or her major on the registration survey would be coded with a default RN (nursing) CIP code. At the on-set of his or her first required LPN class, the major card completed would change the CIP code from RN to the more appropriate LPN.*

*Changes have been made to the Banner system (the STVMAJR) table in order to update outdated CIP codes as well as better align intended majors with those self-declared by students. For the 2012 year (namely the graduation file), 11 CIP codes were changed to (1) better match programs offered by the College and (2) match general updates/changes in CIP codes (i.e. nursing CIP codes changed across the board). Such changes were also applied to the SQL scripts that extract the End of Term information. In addition, internal reports as to students and their declared major (related to Perkins) can be provided to the College's Perkins administrator after the submission to each End of Term file.*

*Due to circumstances surrounding the change in Snow's Perkins grant administrator, the new director received no training, assistance, or transition advice from the incumbent. While the College followed the format of previous reports and documentation, it appears that the general public reporting requirement was not being met. Snow College Institutional Research does have a specific page for public reporting on the Snow College web site, and is working on a suitable format for reporting the required Perkins data on the College's web site and in other publicly accessible media as required.*

*Contact Persons: Dr. Beckie Hermansen, Director, Institutional Research, (435) 283-7346*
*Michael Medley, Dean, Division of CTE, (435) 893-2264*
*Robin Gore, Compliance Officer, (435) 893-2257*
*Anticipated Correction Date: March 31, 2014*

## 6. RETURN OF TITLE IV FUNDS NOT PROPERLY CALCULATED FOR STUDENTS WHO HAD WITHDRAWN

We selected a sample of 10 students, out of a statewide sample of 60, who officially or unofficially withdrew from the College during Summer 2012, Fall 2012, and Spring 2013 semesters to determine whether the College properly determined, calculated, and returned federal student aid (Title IV) funds in accordance with federal regulations (34 CFR 668.22). Title IV funds were required to be returned for 6 of the 10 students sampled; however, the funds were not properly returned for 3 of the 6 students as follows:

- For one student, the Financial Aid Office determined that the student unofficially withdrew during Fall 2012 and indicated that a return of Title IV funds would be required; however, for an unknown reason the calculation and return of funds did not occur for this student. The College should have returned $287 for this student.

- For two students, the Financial Aid Office incorrectly calculated the institutional charges for the applicable semester, which caused the Return of Title IV funds to be less than what was calculated by the Financial Aid Office. The net of the funds the College should have returned for these students was $113.

These errors likely occurred because of the manual process the Financial Aid Office goes through to determine the institutional charges for each student. Improper determination, calculation, and return of Title IV funds result in noncompliance with federal regulations.

**Recommendation:**

**We recommend that the Financial Aid Office implement internal controls to 1) identify all students subject to the requirements to return Title IV funds and 2) ensure that the funds are properly calculated and returned in a timely manner.**

*College's Response:*

*The College agrees. The Financial Aid Director has consulted with colleagues at Utah State University and Dixie State University to determine how to use Banner reporting screens and functions to automate the return of funds process. The new automated process has recently been tested and will be run on a regular periodic basis. A Financial Aid Office staff member different from the staff member assigned to process the return of funds will perform periodic checks to verify accuracy.*

*Contact Person: Jack Dalene, Financial Aid Director, (435) 283-7130*
*Anticipated Correction Date: September 1, 2013*