SNOW COLLEGE

Government Auditing Standards Report
For the Year Ended June 30, 2018

Report No. 18-21

OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:
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SNOW COLLEGE

FOR THE YEAR ENDED JUNE 30, 2018

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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, Finance and Facilities Committee
and
Gary L. Carlston, 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 (College), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 31, 2019.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as Finding 1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as Finding 2 to be a significant deficiency.

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*.

College's Responses to Findings

The College's responses to the findings identified in our audit are included with the accompanying 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 State Auditor

Office of the State Auditor
January 31, 2019

FINDINGS AND RECOMMENDATIONS

1. LACK OF COMPLETED MONTHLY BANK RECONCILIATIONS

Snow College did not complete an accurate and balanced bank reconciliation for each month of fiscal year 2018. The June 2018 bank reconciliation was not completed until 6 months after year end and resulted in a $245,941 manual adjustment to the book balance. This adjustment corrected $22,498 in errors for fiscal year 2018 and $223,453 in errors for previous fiscal years. Adequate internal controls over cash receipts, cash disbursements, payroll, and financial reporting rely upon the performance of a monthly bank reconciliation. Improper posting of both student tuition credit card payments and student account adjustments to the College's accounting system contributed to the irreconcilable balances. Over the years, these differences continued to grow, making it increasingly difficult to reconcile the College's general ledger activity to bank balances. Unreconciled balances can result in fraudulent transactions occurring without detection.

Recommendation:

We recommend the College:

- **Properly record student tuition credit card payments and student account adjustments; and,**
- **Accurately complete, within 30 days of a bank statement's availability, the monthly bank reconciliation.**

College's Response:

At the end of the 2017 fiscal year audit, the Utah State Auditors recommended that the Controller's Office simplify its bank reconciliation process, specifically creating a simplified presentation of the bank reconciliation. As the Controller's Office revamped its bank reconciliation process, they discovered weaknesses were created as a result of the way Banner was originally implemented in 2003 when the College converted to the Banner system. Unfortunately, that implementation created a need for a significant amount of the College's bank rec and financial statement preparation processes to be manually reconciled. A former Controller of the College automated much of the College's bank reconciliation process in 2014 using SQL scripts and Excel. As the Controller's Office revamped its bank reconciliation process this past summer, they discovered that the automation process created by the previous Controller did not properly reconcile the weaknesses created when Banner was originally implemented in 2003. The discovery of these amounts not previously reconciled by the automated process, resulted in a manual adjustment of $22,498 for fiscal year 2018, and a manual adjustment of $223,453 for the accumulated unreconciled amounts from previous years. As a result of this discovery of unreconciled items caused by errors in Banner, the Controller's Office was not able to completely reconcile its bank balances during 2018.

After discovering this issue in the summer of 2018, the Controller's Office took several steps to try and resolve the errors in Banner including, but not limited to, the following:

- *Visited other higher educational institutions in the State to review their bank reconciliation processes and identify possible solutions*
- *Reperformed all bank reconciliations from 2014 to 2018 looking for ways to resolve unreconciling items*
- *Worked with IT to review detail codes believed to be causing the errors and to review all of the automated SQL scripts.*

While these steps were able to resolve some unreconciling items, unfortunately not all of the weaknesses created by the original implementation of Banner were resolved prior to the completion of the College's annual financial statement audit.

The College recognizes that the remaining reconciliation issues within Banner pose a control weakness and must be resolved. We are committed to taking the necessary steps to resolve this issue in a timely manner and to eliminate the control weakness. The following next steps are or will be performed in order to resolve the Banner reconciliation issues:

- *The Controller's Office has contracted with Ellucian (Banner) to bring an expert on site to help resolve the unreconciled issues and to assist with correctly re-implementing Banner. This work is scheduled to begin on March 11th.*
- *The Controller's Office has reached out to the Utah System of Higher Education for any retired or other Banner experts that we could contract with to help resolve these issues. We were able to have one former Controller in the system come and spend a day looking through our Banner system and try to identify solutions to our implementation errors.*
- *The Controller's Office has and will continue to inquire of other USHE institutions using Banner as to how they process certain transactions in Banner believed to be causing the reconciliation issues.*
- *The Controller's Office is in the process of hiring a new part-time employee to assist in the preparation of bank reconciliations to help ensure a more timely reconciliation and to help resolve unreconciling items.*

We do note that we are already nine months into the 2019 fiscal year and a complete solution has not yet been found. This will result in unreconciled items for fiscal year 2019. Our hope is to completely resolve the Banner implementation errors in the next couple of months with the aid of the Banner consultants, in order to have an accurate bank reconciliation for fiscal year 2020.

The College again expresses our understanding of the seriousness of the matter and our strong resolve to get this matter resolved correctly. This control weakness must and will be resolved.

2. INSUFFICIENT RESOURCES ALLOTTED TO CONTROL ENVIRONMENT

The College has not allotted sufficient resources to promote effective controls over financial reporting and accounting activities. This lack of controls hinders the College's ability to provide timely and accurate financial reporting and to perform daily accounting activities, including completing an accurate and balanced bank reconciliation. Financial statement preparation and implementation of new accounting standards fall largely upon the Controller. For a sound control environment, the COSO internal control model indicates that "with governing body oversight, management [should] establish structures, reporting lines, and appropriate authorities and responsibilities to achieve financial reporting objectives." A principal reliance on one individual to manage and perform the various activities required for financial reporting and accounting activities introduces risks of error and delay. As such, these duties should be delegated to other competent and trained individuals, with general oversight by the Controller.

Recommendation:

We recommend the College provide the resources and training necessary for its accounting and financial reporting processes.

College's Response:

The College acknowledges that additional resources could be used in the Controller's Office to assist with the various activities for which the Controller's Office is responsible. The Controller's Office is down 1.5 FTE's from its FTE level in 2012. These decreases resulted from the creation of budget efficiencies in order to help the College address economic downturns and flattening enrollments.

The Controller's Office is in the process of hiring a new part-time employee to assist in the preparation of bank reconciliations to help ensure a more timely reconciliation. On March 5th, the Controller's Office presented a proposal to the College's Budget Task Force to promote a senior accountant to an assistant controller, and to fund an additional full-time accounting position. This proposal is to request funding for the 2020 legislative session. If this proposal is funded, the Controller position at the College will be able to transition into more of an oversight role and cross-training would be more feasible as the current workload on all members of the Controller's office could be redistributed.

The College also acknowledges that the College did rely greatly on the Controller to manage and perform various processes for financial reporting and accounting activities. The V.P. of Finance and Administrative Services and the Controller have reviewed a listing of all financial reporting and accounting activities. A plan was developed on February 25th which outlined who would perform each function, who would be a back-up preparer, who would be a reviewer, and who would be a back-up reviewer for each function. This plan was developed to adequately segregate duties and to provide cross-training in the event someone was unable to perform a certain function. A timeline of when each function was to be performed was also created to ensure a timely reporting process. In addition, a training schedule has been developed to properly train and cross-train all accountants within the Controller's office over the next six months on the year-end financial reporting process.

The College agrees with this finding and is striving to resolve this issue in a reasonable time frame.