SNOW COLLEGE

Government Auditing Standards Report
For the Year Ended June 30, 2016

Report No. 16-40

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
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SNOW COLLEGE
FOR THE YEAR ENDED JUNE 30, 2016

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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, 2016, 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 20, 2017.

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 preceding paragraph 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as Finding No. 1, that we consider to be a material weakness. We also identified a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as Finding No. 2, that we consider 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*.

Other Finding

We noted an additional deficiency resulting from the College's portion of our statewide federal compliance audit for the year ended June 30, 2016, that we have reported to management of the College in a separate letter. (See Management Letter No. 16-25, dated November 10, 2016.)

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 State Auditor

Office of the State Auditor
January 20, 2017

SNOW COLLEGE

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

1. INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING

Snow College (College) and its blended component unit, the Snow College Foundation (Foundation), do not have adequate internal controls in place to ensure that Foundation activity is accurately recorded and properly reflected in the College's financial statements.

Snow College Foundation: Because the Foundation is a blended component unit, the College includes the Foundation's activity in its annual financial statements. The Foundation uses a general ledger system to record all cash gifts and pledges. This system is separate from the College's general ledger system. Foundation staff are also responsible for reporting all gifts-in-kind to the College's Business Office where College staff record the transaction for the Foundation. During our review of Snow College Foundation fiscal year (FY) 2016 activity, we found the following issues:

1) In FY 2015, the Foundation received a $1.5 million pledge and did not record it in accordance with generally accepted accounting principles. These principles require the Foundation to recognize the pledge when certain time or restriction requirements are met. The Foundation's Policy 17 also states that the Foundation has the responsibility to record gift and pledge transactions. The error resulted in a $1.5 million adjustment to FY 2016 beginning net position.

2) In FY 2015, the Foundation did not record its donation of the Deseret School and surrounding property to a third-party. Generally accepted accounting principles require the Foundation to record the transaction when it occurred. The error resulted in a $205,000 adjustment to FY 2016 beginning net position.

3) In fiscal years 2015 and 2016, the Foundation consistently valued both donated real property received and real estate disposals at values provided by parties with vested interests rather than obtaining independent appraisals of the properties' value. The Foundation should obtain independent appraisals. This practice resulted in losses to the Foundation and material adjustments to its financial records.

These errors occurred because the Foundation: 1) was not familiar with generally accepted accounting principles regarding pledges; 2) did not report the disposal of the Deseret School to the College's Business Office, as required; and, 3) has not established written policies regarding obtaining independent appraisals for valuation and acceptance of donated real property. Unrecorded transactions could result in misappropriation of Foundation assets. Also, insufficient policies and procedures over valuation and acceptance of donated property could expose the Foundation and subsequently, the College to significant losses.

Snow College: Snow College management is responsible for the preparation and fair presentation of the College's financial statements, which include the Foundation's activity. Since College management is responsible for the combined College and Foundation (group) financial statements, management should design, implement, and maintain internal controls over the group's financial reporting. The Foundation's errors noted above went undetected because

College management had not established internal controls to ensure Foundation activity is properly included in the group financial statements. Inadequate internal controls could result in materially misstated financial statements.

Recommendation:

We recommend the Foundation:
- **obtain a better understanding of generally accepted accounting principles;**
- **report all real property transactions to the Business Office; and**
- **establish written policies regarding independent appraisals of real property donations and disposals.**

We recommend the College:
- **establish internal controls to ensure Foundation activity is fairly presented in the audited financial statements.**

College's Response:

Foundation: Snow College Foundation (Foundation) is in the process of developing policies and procedures in order to ensure that the Business office receives notification of donations and disposals of real property. These policies will also address the valuation of donated real property. The Foundation will work closely with Snow College Administration to make sure these policies address the findings noted by the auditors. We plan to have these policies and procedures in place by September 2017.

Snow College Administration has determined that the Foundation is not responsible for understanding generally accepted accounting principles. This is rather, a responsibility of the Snow College Business office. When the above mentioned policies and procedures are approved and put into place, the Snow College Business office has the expertise to make sure the recording of the transactions are in line with generally accepted account principles.

College: The Snow College Foundation is in the process of developing policies and procedures to better value real property donations. These policies and procedures will be key in the transaction recording process within the Snow College Business office. In addition, the Snow College Business office has implemented better procedures to verify all donations, not just gift in kind donations, are properly recorded in the financial statements.

2. PROCUREMENT INTERNAL CONTROL WEAKNESSES

The College does not require or document appropriate department level review and approval of purchase requisitions. In addition, the College does not maintain adequate documentation of administrative procurement approvals. Documented department level approvals for requisitions provide the necessary oversight closest to expenditures and budget monitoring. Adequately documented procurement approvals provide sufficient evidence of all administrative reviews and approvals. An appropriate control environment allows department heads to prevent unauthorized purchases, improper disbursement of funds, and other misappropriation of assets. It also allows department heads to carry out their responsibility to prudently monitor and authorize the expenditure of appropriated budgets.

Recommendation:

We recommend the College require appropriate department level review and approval of purchase requisitions. We also recommend the College maintain adequate documentation of administrative procurement approvals.

College's Response:

The Snow College Business and Procurement Offices are working closely with the Information Technology (IT) Office to set up an approval queue workflow in Banner. The implementation and use of approval ques would document appropriate departmental review and approval of purchase requisitions. We plan to have this implemented and in place by September 2017.