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McMahan, Sipp, and Olsen, Inc.

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...audit of the funds of Colorado Mount



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Donald J. McMahan, CPA
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Kenneth L. Olsen, CPA
Members of American Institute
of Certified Public Accountants

August 25, 1980

The Governing Committee
Colorado Mountain Junior College
Glenwood Springs, Colorado

Committee Members:

We have completed the audit of the funds of Colorado Mountain Junior College District for the fiscal year ended June 30, 1980. Having regard to the test character of our examination, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We noted certain matters relating to system of internal control and accounting procedures which we are presenting for your review.

Plant Fund

The District has compiled an inventory of fixed assets, which are inventoried on an annual basis to comply with the State of Colorado Statutes. The inventory does not have dollar amounts assigned and has not been reconciled to the District's total dollar investment in fixed assets. We have established a reserve in the amount of \$300,000 for replaced and obsolete fixed assets. The investment by the District in fixed assets represents a large dollar amount and includes many small valuable items. We suggest that the District begin to establish dollar and local control over all fixed assets so that proper safeguard over the fixed assets be established.

Sponsored Programs

- 1) Files on sponsored programs should be consolidated and kept in one location.
- 2) Breakdown of revenue by funds on the general ledger would facilitate accounting for sponsored programs.
- 3) Program expenditures should be compared to budgeted shares for government agencies on a periodic basis in order to control possible overexpenditures.
- 4) Journal entries are needed monthly or at year-end to transfer fringe benefit expenditures from the general fund to sponsored programs expenditure accounts.

Scholarship Funds

Unused funds should be closed out or the status thereof researched. Scholarship funds numbered 01 through 10 were noted to be inactive during the FYE 1980.

Invoice Review

Invoices should be cancelled as "PAID" when payment is made in order to reduce the possibility of duplicate payments. Indication should be made on invoices that they have been reviewed for pricing and extension. We noted that date of receipt of the goods is not always indicated on the receiving report. The receiving date should be shown, as it is particularly important in determining accounts payable at the end of a financial reporting period.

Security Deposits

Old security deposits should be reviewed and refunds obtained where applicable.

Student Accounts Receivable

- 1) A large number of apparent earnest fee credit balances were noted on accounts receivable listings for the campuses. These balances should be reviewed and reclassified to revenue where applicable.
- 2) Many receivables over ten months old were noted. These amounts should be written off or turned over to the collection agency.
- 3) Aging schedules of receivables would be helpful in determining accounts that should be turned over to collection agencies.
- 4) Only one billing of non-third party student receivables was made in FYE 1980 due to computer conversion problems. Billings should be made monthly or bimonthly where possible.

Cash

Old outstanding checks on the operating account, totaling approximately \$300, should be written off.

Student Aid Programs

SEOG initial awards were overspent by \$490, which had to be covered by CMC funds. SEOG ceilings on initial awards should not be exceeded as overexpenditures are not reimbursable from the federal government.

Special Audits

We have suggested to the administration that two special audits be done during the fiscal year ending June 30, 1981.

1) Food Service:

We have suggested that the charges, revenue attributable and procedures be reviewed and audited at the East Campus location. This audit would be performed internally by college accounting personnel.

The Governing Committee
Colorado Mountain College
August 25, 1980
Page Three

2) Community Education Centers:

We have suggested that a performance auditing program be developed for review of the Community Education Centers on a rotating basis. Because of the distance and the growing size of the community education operations of the College, we feel that the Centers should be reviewed in detail. We are suggesting that three centers be reviewed in FYE 1981.

Copies of the reports on food service and Community Education Center audits performed in FYE 1980 are attached to this letter.

We will be pleased to discuss with you the above matters.

Yours very truly,

McMahan, Sipp, & Olsen, Inc.

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May 4, 1980

Mr. Tim Erlandsen
Business Manager
Colorado Mountain College
P. O. Box 1367
Glenwood Springs, Colorado 80461

Dear Tim,

In accordance with our engagement letter we have completed the audit of the West Campus Cafeteria location operated by D. M. Premier Management, Inc. We audited the operation for the month of February 1980, and performed the following procedures:

1. Reviewed internal control over cash, inventories, meal tickets and meal coupons, payroll and purchasing
2. Obtained and reviewed copies of vendor invoices for purchases and deliveries of goods.
3. Proved and tested daily cash receipts and reconciled to cash remitted to the college.
4. Reconciled payroll and payroll hours charged.
5. Observed inventories of goods, noting condition of goods and quantities.
6. Proved the monthly billing by the management company to the college.

Our findings and recommendations are presented below.

General Comments:

The manager of the West Campus location appeared to be managing the operation in an effective manner. The operation appeared to be clean and efficient; and he was able to obtain support and clarification of all questions that were raised in the course of the examination.

Weaknesses Noted:

1. Accounting Documentation

The accounting documentation, including the invoices for payment of vendors and the actual payroll summaries, are not kept at the location. All of D. M. Premier Management, Inc.'s accounting data is kept by Richard D. Gorman, Certified Public Accountant, Sterling, Colorado. We suggest that a copy of each invoice submitted for payment and copies of the actual payroll register be kept on location for review and support of the charges made to the College.

Mr. Tim Erlandsen
Business Manager
Colorado Mountain College
Page Two

2. Payroll

- a. The test of employees' time worked disclosed three errors in time paid to employees. The college was charged for, and employees were paid for approximately 14 unworked hours for the pay period 1/27/80 through 2/9/80. We suggest that the daily time sheet for each employee be redesigned to show the starting time and ending time and number of hours worked each day. The manager should initial the daily time reports and all employees should be shown on the daily reports, even if they work a standard eight-hour day.
- b. The actual payroll journals showing time, rate, gross pay and check numbers should be sent with the payroll checks to the manager for review before paychecks are distributed to the employees.
- c. The College is being billed for an estimated pay on the monthly billings so that the management company can increase its cash flow. The estimated is adjusted in the following month to an accrued pay for the month. We suggest that the College be billed for the actual payroll paid during the month and that all accruals for pay be omitted.

3. Inventory and Advance Deposit

When the college changed management companies a \$14,000 advance was given to the present management company; and the previous management company was paid in full for all inventory. The inventory purchased should be recorded on the records of the college and adjusted to the actual inventory at June 30, 1980. The \$14,000 advance should be recorded as a deposit on the records of the College.

The billings from the prior management company should be researched to ascertain that a deposit was not made to them at the inception of their contract which should be refunded to the College.

4. Meal Tickets

Meal tickets are issued by the business office at West Campus to the boarding students. The meal tickets are not prenumbered and could be issued to an unauthorized person. We suggest that the meal tickets be prenumbered and issued at the time of registration by the Central Business Office.

5. Payment Vouchers

The vouchers for the monthly payment of the costs of operations of the cafeteria are presently being done by hand and submitted to the Central Business Office for payment. We suggest that the detail computer statement prepared by the management company's accountant be used as the basis for payment to the management company.

Mr. Tim Erlandsen
Business Manager
Colorado Mountain College
Page Three

6. Security

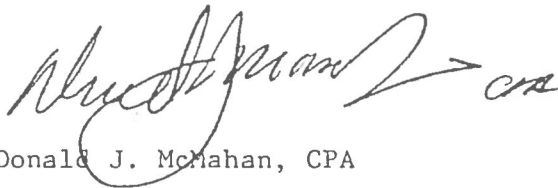
We noted that the walk-in freezers and coolers are not kept locked. This should be done to avoid unauthorized personnel having access to the meats and other inventory items.

Conclusions:

The operation of the West Campus Food Service is adequately controlled. The suggestions presented will assist the College in over-all reliance on the data supplied by the management company.

The Central Business Office should conduct surprise audits on an annual basis to assure that the operations are in conformance with College policies and procedures.

Yours very truly,

A handwritten signature in dark ink, appearing to read "Donald J. McMahon", followed by a stylized flourish and the letters "CRA".

Donald J. McMahon, CPA

DJM/rmt

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Mr. Tim Erlandsen
Business Manager
Colorado Mountain College
P. O. Box 1367
Glenwood Springs, Colorado 81601

Dear Tim:

We conducted a surprise examination of the Spring Quarter 1980 Community Education Registration at the Breckenridge, Eagle, Vail, and Minturn locations on April 2, 1980. A summary of our findings follows:

Breckenridge Location

At the Breckenridge location, we noted that significant improvements had been made in internal control since the time of our last visit in January; and that weaknesses noted at that point in time were corrected. Control over cash appeared strong and "problem" registrations were reasonable in number. No significant time lags were noted to be prevalent in the processing of registrations and cash.

Vail, Minturn, and Eagle Locations

The Vail, Minturn, and Eagle locations also appeared to have good controls over the registration process and the safekeeping of cash. We would suggest that checks received at these locations be stamped with a CMC endorsement when the check is received at registration. At the Vail/Minturn locations, residency status should be more closely reviewed. Holding of cash for fees for instructors could develop into a safekeeping problem if the amount involved is large.

General

The one item that was maintained by all locations was that the central administrative office is not providing training or uniform procedures for operations of the centers. The centers appear to develop their own operating procedures and then borrow the "good ideas" from each other. The College should consider developing a training program for the personnel at the centers.

Mr. Tim Erlandsen
Colorado Mountain College
April 18, 1980
Page Two

General - Continued

A review and observation of the actual registrations as they were taking place at the various locations we visited would indicate that the College personnel in the centers are very lax in determining residency status. This could cause the College a problem with State F.T.E. reimbursement unless the overall procedure for determination of residency status is not more strictly adhered to by the individual centers.

In general, it appears that the Community Education Centers visited are following college procedures and policies and have adequate systems of controls for processing and handling of registrations, and the safekeeping of cash.

Vail, Colorado
April 18, 1980

McMahan and Sipp, Inc.

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Kenneth L. Olsen, CPA

Leadville, Colorado
Vail, Colorado

Mr. Tim Erlandsen
Business Manager
Colorado Mountain College
Glenwood Springs, Colorado

Dear Mr. Erlandsen:

We conducted a surprise examination of the Winter Quarter 1980 Community Education Registration at the Breckenridge location on January 18, 1980. The purpose of the examination was to ascertain the magnitude of any disappearance of funds, to pinpoint responsibility if possible, and to review the internal controls in effect.

A shortage of approximately \$2,025 in funds received from winter registrations was found at the time of the examination. It appeared that the shortage was due to missing cash receipts - checks seemed to be accounted for. Responsibility for the disappearance could not be established.

Basic internal controls were found to be completely lacking. A summary of specific findings follows:

1. Totally inadequate safeguards over cash. Access to cash was not limited after it had been received during registration. A common practice was to stuff money into an envelope and store it overnight in a file in an unlocked file cabinet. Knowledge of this was not limited, presenting the opportunity of absconding with funds to almost everyone. Money stored in the cash box was locked in a drawer, but control over the key to the drawer was nonexistent. The amount of money stored overnight appeared to range over \$2,000 and possibly much more.
2. Lengthy time lags in preparing revenue summaries appeared to exist. Thirty-two registration forms for the Fall Quarter were noted not to have been processed at the date of examination.
3. Cash received was not being deposited daily. No deposits of cash were noted for Winter Quarter Registration, causing cash on hand to be quite excessive.
4. Extremely long delays in making deposits were noted. Checks dated as old as April, 1979 were found to be undeposited. Approximately 106 checks on hand were dated over one month old.

Mr. Tim Erlandsen
Colorado Mountain College
January 23, 1980

5. Some checks being held were not stamped with a Colorado Mountain College endorsement. Ideally, this should be done as soon as the check is received.
6. Cash is not being reconciled as the money is turned in from outside registration locations.
7. Cash on hand was not being reconciled to unprocessed cash assessment forms.
8. Many Fall Quarter waivers were not processed at the date of examination.
9. Checks received from students for items generally classified as miscellaneous revenue were not being processed.
10. Change fund cash was not segregated from cash received for registration assessments.
11. The revenue summary for a deposit made on December 14, 1979 had not been sent to the CBO for processing as of the date of the examination.
12. Two checks, dated August, 1979 and November, 1979, which were cashed for the location's Director, had not been deposited as of the date of examination.
13. There are not set policies or procedures for the inclusion of cash registrations in revenue summaries, as the lack of cash registration deposits for the Winter Quarter demonstrated.

During the course of our examination, one of the clerks, Cyd Cowles, brought in two deposits, one dated July, 1979, and one dated August, 1979, which she said she found in the glove box of her car. No other such unrecorded deposits were located. Prior to our departure, Tom Ryan of CMC prepared revenue summaries and deposit tickets for outstanding registrations and a deposit of excess cash.

Our suggestions, for your consideration, for the improvement of internal controls are as follows:

1. Daily deposits of cash.
2. Maintenance of a change fund of \$100, with one employee made responsible for it.
3. Timely preparation of revenue summaries and depositing of registration receipts.
4. Weekly deposits of checks on "problem" registrations.
5. Immediate endorsement with CMC stamp when checks are received.
6. Limited access to cash after it has been received.
7. Storage of any cash overnight in a locked file or safe, with access to keys limited.

Mr. Tim Erlandsen
Colorado Mountain College
January 23, 1980

8. Reconcile cash and checks to registration forms as money is turned in from outside registration forms.
9. Prompt submission of tuition waiver registrations for processing.
10. Timely deposit of any checks cashed for employees.
11. Cash on hand at the end of the day should be reconciled to unprocessed registration forms.
12. Miscellaneous revenue items should be recorded and deposited promptly after receipt.
13. Periodic audits of class attendance.

A copy of our letter concerning the January, 1978 examination of Community Education Registration at Breckenridge is attached. If you have any questions, please do not hesitate to contact me.

Sincerely,

McMahan and Sipp, Inc.

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Enc.