BUSINESS AFFAIRS SUB-COUNCIL

January 15, 2013

MINUTES

The meeting began at 9:00 a.m. in the TBR Board Room. Present were Ms. Cynthia Brooks (TSU); Mr. Steve Campbell (NeSCC); Mr. Horace Chase (JSCC); Dr. David Collins (ETSU); Ms. Beth Cooksey (VSCC); Mr. John Cothern (MTSU); Ms. Mary Cross (NaSCC); Mr. Danny Gibbs (RSCC); Mr. Mike Gower (MTSU); Mr. Lowell Hoffman (DSCC); Mr. Ken Horner (CoSCC); Mr. Tim Hurst (APSU); Dr. Rosemary Jackson (WSCC); Mr. Ron Kesterson (PSCC); Ms. B.J. King (ETSU); Mr. Ron Parr (STCC); Mr. Mitch Robinson (APSU); Ms. Jeannie Smith (UOM); Dr. Claire Stinson (TTU); Ms. Tammy Swenson (ChSCC); Ms. Hilda Tunstill (MSCC); Dr. Tommy Wright (ClSCC); Mr. Jeff Young (TTU); Mr. David Zettergren (UOM); Chancellor John Morgan, Ms. Tammy Birchett, Ms. Alicia Gillespie, Ms. Lisa Hall, Ms. Pat Massey, Ms. April Preston, Ms. Brooke Shelton, Mr. Dale Sims, Ms. Renee Stewart, and Mr. Bob Wallace (TBR).

1. **Chancellor's Remarks**

   Chancellor Morgan discussed the upcoming release of the governor's budget on January 28th. He feels it is likely that THEC's operating recommendation of $35 million will be funded. If so, there will be an expectation to hold tuition increases within the recommended THEC ranges.

   It is also likely that there will be funding for some capital projects. THEC's recommendation included two UT and six TBR projects, but it is still unknown which ones will be approved. The Chancellor stressed to the committee that there is an expectation that institutions work to find private funding for matching programs.

2. **Report of the Committees**

   A. Finance Committee

   Dr. Collins highlighted the following issues from the January 8, 2013 Finance Committee meeting:

   - Guideline B-070 Deferred Payment Plan

     The committee discussed the Deferred Payment guideline. Two institutions had requested to offer the deferred payment during the summer term. It was not expressly stated in the guideline that the Chancellor had authority to grant this exception. Language was added that states that the Chancellor or designee has the authority to permit exceptions.

     The committee approved of this revision, but suggested some clarification between the president's authority and the Chancellor's authority. Language will be added to clarify that the president or designee has the authority to permit exceptions for individuals with unusual circumstances whereas the Chancellor has the authority to permit policy-related exceptions for broad groups. (Attachment A)

- Travel Policy 4:03:03:00

  The committee discussed concerns with airline fares and fees due to the changing fee structure of airlines. Employers may not always be able to determine if the employee purchased the least expensive airfare available.

  It was suggested that there be procedures on how reimbursement should be handled when airfare is involved and which related fees are reimbursable. Because the issue is so broad, language was recently added to state that employees must conduct travel with integrity and exercise good judgment.

  The committee proposed no changes to the current travel policy but that campuses can make their own policy more restrictive regarding which airline fees are reimbursable and under what conditions.

- SciQuest Contract

  The committee discussed two issues related to the SciQuest contract. The first issue was whether SciQuest meets our capitalization criteria for software. The committee was reminded that the threshold for capitalization is $100,000 and that some institutions may meet this threshold and others may not. The second issue was that payments made by TBR require on-behalf recognition by the campuses. Campuses were reminded not to overlook on-behalf payments and that both the revenue and expenditure should be recorded. TBR staff will eliminate the on-behalf payments as part of the year-end consolidation.

- Findings and Weaknesses

  The committee was given all findings and weaknesses published since the last quarterly Finance Committee meeting. There were five audit reports released in the last quarter, with a total of six findings. The findings stated that the college or foundation did not ensure that amounts were properly reported in the financial statements and accompanying notes to the financial statements. (Attachments B & C)

  Ms. Birchett, TBR Internal Audit, expressed concern that more findings are being classified as material weaknesses. These material weaknesses are findings that are included in the Internal Control letter in the audit report. Not all findings that address financial statement errors should be classified as material weaknesses. Campuses were reminded to discuss with the auditors findings that are determined to be material weaknesses and present opposing arguments when necessary.

  The committee also discussed the increase in findings over the last few years concerning errors in the financial statements. It was a concern of the members that sometimes the value of findings was decreased due to the increase in the volume. They were concerned that some findings that represent real problems may be overlooked when so many problems noted appear immaterial.

- Year-End Journal Entries

  The committee discussed potential problems with year-end journal entries and approvals. One institution that uses approvals in Banner, as well as on paper, was cited for not printing out the approval for a signature. Another problem was that on form FOIAPHT, the originator and approver was the same person. State Audit declined to take a finding this year, but stated that they would closely review this area next year at all TBR institutions.

The Finance Committee minutes, with the guideline change, was approved.

B. Human Resources

Ms. Preston highlighted the following issues from the January 9, 2013 Human Resource Officers meeting:

- Adjuncts and Temporary Employees

  Beginning in January 2014, the Affordable Care Act requires employers to offer health insurance to employees working an average of 30 hours per week. All TBR institutions will need to identify adjunct faculty, temporary employees and/or seasonal workers that are potentially eligible for insurance.

  A sub-committee will meet to discuss the proposed measurement period of 3 months up to 12 months to determine eligibility. It appears that a calendar year measurement period would be the most advantageous. However, less than 12 months may be used the first year in order to allow for more administrative time. The measurement period may be changed, but not in the middle of an evaluation period. It is also permissible to use a different measurement period for hourly employees, but not for different classes of employees (i.e. faculty vs. administrative, etc.).

  In order to determine if insurance is "affordable", the recommendation is that the cost of employee-only coverage not exceed 9.5% of box 1 on Form W-2. Therefore, wages would have to increase to approximately $9/hour, or the insurance administration would have to come up with an "affordable" plan in order to meet the threshold.

  The difficulty of tracking adjuncts working at multiple institutions was also discussed. Ms. Preston informed the committee that General Counsel was looking into whether TBR is considered one employer, or 45 different employers. It appears that the IRS will determine the employment status, not the Department of Labor.

The Human Resource Officers minutes were approved.

C. Internal Audit

Ms. Birchett highlighted the following issues from the January 9, 2013 Internal Auditors meeting.

- Draft Template for President's Quarterly Expenses

  The draft template for reporting presidents' expenses has been revised and will be distributed soon for comment to the internal auditor group, and subsequently to the business officers and report preparers. Once the template is finalized, the first schedules due to TBR will include the period from July1, 2012 – December 31, 2012. A separate quarterly report will not be necessary for the first quarter.

- 2013 Funding Formula Audits

  THEC has not yet published the final data dictionary; the latest draft was distributed on December 10, 2012 and comments were due by January 7, 2013. The group discussed the audit and sampling approach, as well as a general timeline. Because there are numerous elements in the formula that could be tested, the first round of audits may be limited to those elements with the highest weight assigned by each campus. Systemwide Internal Audit will continue to meet with TBR Research staff to gather and provide information to the group and the audit program subcommittee regarding data and sampling. At this time, training for the formula and data dictionary is planned for March 19, 2013. The goal is to have the audit program completed and samples selected by approximately the same date. Test work and reports are planned for completion by fiscal year-end. These dates are subject to change as additional information is gathered for these audits.

- Quality Assurance Review Update

  The tools from the periodic internal assessment completed in 2012 have been updated and will be used in lieu of the tools in the IIA QAR manual. Each internal audit office will complete a periodic internal review using the revised checklists. Each office will evaluate and assess whether their office generally conforms, partially conforms, or does not conform to the IIA *Standards, Definition of Internal Auditing and Code of Ethics*. For any office where it is determined that an area less than generally conforms, the Audit Director will develop a corrective action plan, detailing specific actions and dates by which that audit office will come into compliance. The checklist, summary, and any corrective action plans are due to Systemwide Internal Audit by March 1, 2013.

Systemwide Internal Audit will compile the results of the self-assessments into a draft QAR report. This report and its conclusions will be subject to an external validation by a review team. The current plan is for a contracted review coordinator to oversee a team of volunteer reviewers from non-TBR institutions. It is anticipated that each internal audit office will receive a site visit from a review team member. While the planning for the QAR is still in progress and the method of validation may change because of unforeseen circumstances, the methodology for the internal assessment will remain the same.

The Internal Audit minutes were approved.

5. <u>Proposed Amendment to TCA 49-9-108</u>

TCA 49-9-108 currently prohibits students from viewing grade reports or enrolling in subsequent semesters if they have an outstanding debt of $25 or more. A request has been made to amend TCA 49-9-108 to allow students who owe a de minimus amount to go ahead view their grades or enroll for the next semester, providing that the previous balance will be paid before the next semester begins.

A request was also made that there be flexibility written in to allow the systems to control the amount by policy, and not by state statute.

6. <u>Learning Support Fees</u>

The committee discussed the Pearson contract and the different permutations across the system for various classes. For example, some only require the e-book, while others include a workbook or organizer. The Board has approved a fee tied to this contract. However, we may need to go back to the Board with a proposal that institutions using the system contract use the negotiated fee and those institutions that are not using the contract need to submit a fee proposal.

The committee also discussed how this could possibly affect bookstore contracts and their commissions on the sale of textbooks and materials.

7. <u>School Bond Authority Legislation</u>

TSSBA is considering legislation that would alter the current intercept program. Under current legislation, each institution is considered separately when comparing the debt service payment to the appropriation amount available for intercept. Moody’s requires 1.25x coverage for both the November interest payment and the May interest plus principal payment. Some institutions could have trouble meeting the May payment requirement since only the May and June appropriation draws are available for intercept in May. To alleviate this problem, TSSBA may introduce legislation that allows all institutions to be considered jointly as a system. If passed, the financing agreement with the Bond Authority would be amended and TBR would adopt a policy detailing the steps that would be followed if a payment default occurred.

8. Cyber Liability Survey and Insurance

Tom Danford will send out a survey to all computer center directors, which will evaluate existing policies, past data breaches, etc. The State Treasurer is very concerned with the potential liability related to a data breach. Mr. Sims informed the committee that the CBO's should be involved in completing the survey.

9. Other Items

- Mr. Sims asked the group to develop proposals for training plans, which may be funded by withholding a portion of the Discover money. His hope is to have a definitive plan by next quarter.
- The Elucian contract has been extended through December 2017.
- Capital Guidance – The governor has asked for discussion of each project. Some of the pertinent questions are below:
  - How does the project tie to CCA?
  - How does the project tie to workforce development?
  - Who ensures that we are not building more than needed?

  TBR will outline a protocol for the matching program. It was emphasized that student fees should be a last resort for the match.
- The preliminary dates for the Finance Committee are February 7 and February 28 for the telephonic meeting and March 12 for the committee chairs meeting.

The meeting was adjourned at 11:15 a.m.

SUBJECT: Deferred Payment Plan

The purpose of the following guideline is to outline significant provisions for consistent administration of the deferred fee payment program at the four-year and two-year institutions governed by the Tennessee Board of Regents. The guideline is intended to serve as a reference document for institutional staff responsible for implementing and communicating deferred fee payment matters.

I. General Provisions

Each four-year and two-year institution is authorized to offer a deferred payment plan as provided in the Tennessee Board of Regents Policy on Payment of Student Fees and Enrollment of Students (No. 4:01:03:00). The deferred payment plan is available for regular academic terms, but not for summer or other short terms.

II. Eligibility

All students in good financial standing and with no outstanding account balances from previous terms are eligible to participate in the deferred payment program. Students that have failed to make timely payments in previous terms may be denied the right to participate in the deferred payment program in additional enrollment periods. Institutions may set minimum balances due for students to be eligible for deferred payment.

III. Payment Terms

All financial aid awarded by the institution, including student loans, must be applied toward payment of total fee balances before the deferred payment plan may be utilized. At least 50% of the remaining balance after financial aid and discounts are applied must be paid at the beginning of the term. The remaining balance may be paid in a minimum of two equal installments. Due dates for these payments will be set by the institution with approximately 30 days between due dates. All installments should be scheduled so that the entire balance due is paid by the end of the semester.

IV. Service Charges and Fines

Institutions may charge a service fee of $10 to $50 to help defray administrative costs associated with the deferment program. An additional late payment charge not to exceed $25 will be assessed on each installment which is not paid on or before the due date and each 30 day period past the 2nd installment up to a maximum of $100. Withdrawals from classes will not alter any remaining balance due except to the extent that any refund may be applied in accordance with Guideline B-060.

V. Approval of Exceptions

In accordance with these guidelines, the president of an institution or designee has the authority to determine the applicability of the provisions of the deferred payment program and to approve exceptions in instances of unusual circumstances **for individuals**. **The Chancellor or designee has the authority to permit policy-related exceptions.** All such actions must be properly documented for auditing purposes.

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Source: May 14, 1996 Presidents Meeting; May 9, 2000 Presidents Meeting; November 6, 2002 Presidents Meeting.

NASHVILLE STATE COMMUNITY COLLEGE
ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

Cash

- Foundation current cash was overstated $13,363.01 and noncurrent cash was understated by the same amount at June 30, 2011 and foundation current cash was overstated by $23,363.01 and noncurrent cash was understated by the same amount at June 30, 2010, on the Unaudited Statements of Net Assets. The foundation held cash in these amounts for each year that was classified as endowments (fund type 61) in its general ledger and was included in current cash on the Unaudited Statements of Net Assets. Cash representing endowment funds is not available for current operations, and therefore, should be classified as noncurrent. An adjustment was made to the audited statements for each year.
  - Management's comment:
    Adjustments were made to the Foundation's audited statements for each year end. Cash representing endowment funds is now classified as noncurrent. Additional finance staff will review the statements.

- Nashville State Community College current cash was understated by $63,873.98 and noncurrent cash was overstated by the same amount at June 30, 2011, on the Unaudited Statement of Net Assets. All fund type 91, 93, 95, and 97 cash is considered noncurrent except as needed to pay current liabilities. There was a fund type 95 (Retirement of Indebtedness) current payable for accrued interest (Acct. #24301) of $4,590. In fund 97 (Investment in Plant), the current portion of bonds payable (Acct. #26200) was $59,283.98. Current cash did not reflect the amount needed to pay these current liabilities. An adjustment was made to the audited financial statements.
  - Management's comment:
    An adjustment was made to the audited financial statements. The spreadsheet used for the NSCC cash flow statement was updated to reflect amounts needed to pay the current liabilities listed. Additional finance staff will review the statements.

NASHVILLE STATE COMMUNITY COLLEGE
ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

Accounts Payable

- A June 30, 2010, adjusting entry intending to reclassify $96,263.10 of Accounts Payable as Other Liabilities mistakenly reduced Accrued Liabilities instead of Accounts Payable. The specific account that was to be reclassified was 21001 – Payroll ZBA Balance. This caused Accounts Payable to be overstated and Accrued Liabilities to be understated by $96,263.10 at June 30, 2010. And adjustment was made to the audited financial statements.
    - Management's comment:
      An adjustment was made to the audited financial statements. This was a one-time occurrence due to an account coding error. Additional finance staff will review journal entries specifically insuring correct accounts are used.

Expenses

- Scholarship expense and governmental grants and contracts revenue were overstated by $16,157,589.00 for the year ended June 30, 2010, in the college's Statement of Revenues, Expenses, and Changes in Net Assets. This was due to a difference in recognition requirements between student loans from a bank versus direct loans from the federal government. Because the misstatement affected both an expense and revenue, there was no net misstatement in net assets. The issue was corrected in the college's Jun' 30, 2011, annual report.
    - Management's comment:
      The issue was corrected in the College's June 30, 2011 annual report. Staff is aware of the recognition requirement between student loans from a bank versus direct loans from the federal government and is being deducted as required.

NASHVILLE STATE COMMUNITY COLLEGE
ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

Revenues

- Private grants and contracts for the year ended June 30, 2010, were incorrectly recorded as governmental grants and contracts on the statement of revenues, expenses, and changes in net assets. As a result, governmental grants and contracts were overstated and private grants and contracts were understated by $414,080.70. An audit adjustment was made to the audited statements.
    - Management's comment:
      An adjustment was made to the audited financial statements. Additional finance staff will review statements to ensure correct coding of grants and contracts.

Financial Statements

- Unrealized gains on investments were not shown on the schedule of cash flows for the foundation. Unrealized gains on investments of $26,901.50 for the year ended June 30, 2011, and $63,971.61 for the year ended June 30, 2010, were added to the audited schedule.
    - Management's comment:
      A worksheet to calculate unrealized gains on investments has been added to the schedule of cash flows for the foundation.

- Several errors were noted in the college's Statement of Cash Flows for the year ended June 30, 2011.
    1. The change in other post-employment benefits (OPEB) was incorrectly included in payments to employees, causing payments to employees to be overstated and payments for benefits to be understated by $319,316.45.
        - Management's comment:
          A change has been made to the SCF worksheets correctly categorizing OPEB to Benefits.

2. Negative accounts receivable balances were reclassified in the Statement of Net Assets as accounts payable. However, this change was not reflected in the reconciliation section of the Statement of Cash Flows, causing the increase in accounts receivable and the increase in accounts payable to be understated by $70,553.11.
   - Management's comment:
     Negative accounts receivable balances are now reflected in the reconciliation section of the SCF.

- Several errors were noted in the college's Statement of Cash Flows for the year ended June 30, 2010.

  1. Negative accounts receivable balances were reclassified in the Statement of Net Assets as accounts payable. However, this change was not reflected in the reconciliation section of the Statement of Cash Flows, causing the increase in accounts receivable and the increase in accounts payable to be overstated by $89,498.61.
     - Management's comment:
       Negative accounts receivable balances are now reflected in the reconciliation section of the SCF.

  2. The change in accrued liabilities incorrectly included bonds payable and excluded the other post-employment benefits liability, causing the increase in accrued liabilities to be overstated by $5,793.10.
     - Management's comment:
       Bonds payable are no longer included in accrued liabilities. Post-employment benefits are now included in accrued liabilities.

  3. Prior year-end adjustments made by the accounting staff for compensated absences were not reflected in the reconciliation causing the increase in compensated absences to be understated by $34,616.95.
     - Management's comment:
       Prior year-end adjustments made to compensated balances are now reflected in the reconciliation.

Northeast State Community College
List of Items discussed at the Field Audit Exit Conference
Not addressed in the Audit Report
For the years ended June 30, 2011, and June 30, 2010

Reporting Error – Note to the Financial Statements

1. In Note 5 of the College's 2010 *Financial Report,* on the schedule of capital asset activity, the reported amount of the buildings at June 20, 2010 was overstated by $163,507.58, and the accumulated depreciation was overstated by the same amount. The reported amount of library holdings and accumulated depreciation for library holdings were also overstated by $155,599.96. The audited note was corrected.

Management Response

We concur.

In June 2010, Northeast State Community College began a reorganization of the college's organizational structure within the business affairs division that included hiring two additional positions. During this implementation, a Business Manager was hired in October 2010 along with other staff reassignments. For the two years included in this audit period, a different staff member prepared the financial statements for each. These changes in staff, along with the other employee reassignments, resulted in reporting errors.

In May 2012, all staff responsible for development of the financial statements attended the year-end training sessions provided by the Tennessee Board of Regents. The Business Manager and the Assistant Vice President for Business Affairs have implemented development and review procedures provided at this training, as well as other processes to detect misstatements in current and future reporting periods.

Internal Control Weaknesses

2. The Business Manager was unable to locate the original signed approved June 30, 2011 payroll bank account reconciliation. According to the Business Manager and the Accountant, who reviews the reconciliations, the payroll bank account reconciliation should have been attached to the operating bank reconciliation. The Accountant subsequently reprinted the payroll reconciliation, with the outstanding

payroll check report attached, and provided it to the auditors. An electronic copy was available. As a result of the missing bank reconciliation, we expanded our review of payroll reconciliations. During this expanded review, we found seven reconciliations that were not approved for the year ended June 30, 2011. For the year ended June 30, 2010, we found three payroll reconciliations that were not approved in a timely manner. Management should ensure that all reconciliations are approved in a timely manner.

3. The June 30, 2010, and the June 30, 2011, general operating account bank reconciliations were done incorrectly. On the June 30, 2010, reconciliation, the Account Clerk who performs the reconciliations used the incorrect ending bank balance. On the June 30, 2011, bank reconciliation, the Account Clerk used the incorrect ending ledger balance. Management should make sure the staff member doing the reconciliation is properly trained, and the staff member reviewing the reconciliations (currently the business manager) should verify that they are done properly.

4. Five of the twenty-five journal vouchers tested (20%) for the year ended June 30, 2010, were not approved timely. Approvals that were more than two months after the activity date or transaction date were considered not to be approved in a timely manner. Per the Assistant Vice President for Business Affairs, journal vouchers are often collected for several months before being taken to the approver for their signature.

5. Five of the twenty-five journal vouchers tested (20%) for the year ended June 30, 2011, were not approved timely. Approvals that were more than two months after the activity date or transaction date were determined not to be approved in a timely manner. Per the Assistant Vice President for Business Affairs, journal vouchers are often collected for several months before being taken to the approver for their signature.

6. For the year ended June 30, 2010, for additions to foundation endowments, there was documentation missing for one out of four of the endowments tested. The Secretary for the foundation was unable to locate a copy of the check or other backup that supported a $5,000.00 gift to the Speropulous Endowment. The auditor verified that this is a valid endowment by reviewing the endowment agreement, but there was no documentation supporting this addition.

Management Response

We concur.

In June 2010, Northeast State Community College began a reorganization of the college's organizational structure within the business affairs division that included hiring two additional positions. During this implementation, a Business Manager was hired in October 2010 along with other staff reassignments. For the two years included in this audit period, a different staff member prepared the financial statements for each. These changes in staff, along with the other employee reassignments, resulted in some internal control weaknesses.

Duties have been reviewed and reassigned to ensure accurate completion of the bank reconciliation; additionally a final reconciliation by the Business Manager has been established as part of the year end closing to verify operating bank account balances. The Business Manager has established procedures for timely completion of reconciliations and approvals of journal vouchers for the business affairs staff.

A staff reorganization also occurred in the foundation office during the fiscal year 2010, resulting in some misplacement of documents. The office has implemented scanning of documents in addition to originals to prevent this weakness in the future.

WALTERS STATE COMMUNITY COLLEGE

Responses to Items Discussed at the Audit Field Exit Conference
Relative to the Audit for Years Ended June 30, 2010, and June 30, 2011

1. In note 7 in the college's 2010 Financial Report, the Director of Accounting Services failed to include the 18% allowance for benefits in additions and reductions of compensated absences. As a result, additions were understated by $192,003.93, and reductions were understated by the same amount. The cost of benefits should be included in compensated absence calculations. The audited note was corrected.

   Management's Response:

   We have noted this error and corrected for subsequent years. Specifically, the Director of Accounting Services will review the notes prepared by the Director of Accounting Services with the Vice President for Business Affairs in conjunction with source documents. Additionally, the college's internal auditor will review for accuracy and consistency.

2. In note 17 in the college's 2011 Financial Report, four of the foundation's bond mutual fund investments totaling $483,355.83 were incorrectly reported as having maturities from one to five years, when their maturities indicated they should have been reported in the six to ten year category. The audited note was corrected.

   Management's Response:

   The weighted average maturities of the four bond mutual fund investments were greater than five years and also less than six years. The investment worksheet has been modified to reflect any bond maturity greater than five years and less than six years be categorized in the six to ten year category. Additionally, the college's internal auditor will review foundation investment documentation to check for accuracy in the college's Financial Report.

Roane State Community College Foundation
List of Audit Exceptions Not Addressed in Findings
Audit Period: July 1, 2009 through June 30, 2011

1. On the Statement of Financial Position and the Statement of Net Assets for the year ended June 30, 2010, the Foundation Coordinator classified permanently restricted cash of $15,715.30 as current; however, permanently restricted cash should be shown as noncurrent. The statements will be corrected for the audit reports.

2. In preparing the promises to give note to the financial statements (FASB and GASB) for fiscal years 2011 and 2010, the Foundation Coordinator used amounts that did not agree with the general ledger. The notes also do not agree with either the Statement of Financial Position or the Statement of Net Assets for fiscal year 2010. An attempt was made by management to correct the fiscal 2010 note that appears in the fiscal year 2011 notes to the financial statements, but the pledges due in one to five years amount was incorrect. In the fiscal year 2010 note that appears in the fiscal year 2010 notes to the financial statements, only the amount for the discount to net present value is correct. The note for both years was corrected for the audited financial statements.

For FASB, in the fiscal year 2011 notes to the financial statements, the amounts for receivables for year ended June 30, 2010 due in less than one year and discounts to net present value were all correct for each fund. However, for receivables due in one to five years, unrestricted promises to give was overstated by $3,693.43, temporarily restricted was understated by $3,723.43, and permanently restricted was understated by $259.91.

In the fiscal year 2010 notes to the financial statements, discounts to net present value were the only correct amounts. Receivables due in less than one year was understated by $1,579.95 for unrestricted, $224,697.25 for temporarily restricted, and $4,520 for permanently restricted. Receivable due in one to five years was overstated by $5,273.38 for unrestricted pledges, $220,973.82 for temporarily restricted, and $4,050 for permanently restricted. The permanently restricted receivable for pledges due after five years was overstated by $500. Neither of the other funds had pledges due after five years.

For GASB, in fiscal year 2010 notes to the financial statements current pledges were understated by $230,797.20, pledges due in one to five years was overstated by $230,297.20, and pledges due after five years was overstated by $500.

3. In the FY 2011 Fair Value Measurements note 7, the Foundation Coordinator did not include the lines stating "All gains and losses, both realized and unrealized, have been reported on the Statement of Activity. Of this total, $1,008,180.92 is attributable to the unrealized gains or losses relating to those assets and liabilities held at June 30, 2011." These lines will be included in the audit report. FASB codification 820-10-50-2(d) requires that the foundation should report "[t]he amount of the total gains or losses for the period . . . included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities)".

Roane State Community College Foundation
List of Audit Exceptions Not Addressed in Findings
Audit Period: July 1, 2009 through June 30, 2011

4. In the fiscal year 2010 Promises to Give note, the Foundation Coordinator neglected to move the temporarily restricted portion of the "areas of greatest need" project from unrestricted to temporarily restricted. Unrestricted promises to give was overstated and temporarily restricted pledges to give were understated by $3,580.08 in the statement of financial position and also in the notes to the financial statements. This will be corrected for the audit report.

5. In preparing the Statement of Activities, the Foundation Coordinator did not categorize administrative expenses and distributions to trustees as service expenses under management and general expenses, instead the expenses were included with the program expenses. FASB Accounting Standards Codification 958-720-45 states that expenses should be reported by functional classification. Management and general expenses should have been $31,162.30 for fiscal year 2011 and $58,287.70 for fiscal year 2010. The expenses have been reclassified for the audit report.

6. According to Note 1 under Donated Services in the Notes to the Financial Statements for both fiscal years ended June 30, 2011, and June 30, 2010, "specialized services (legal, accounting, and advertising) which would otherwise need to be purchased are recognized as income and an expense at their fair value." However, the value of the college employees providing specialized services for the foundation is not recorded in the Statements of Activity as income (unrestricted donated services) or as expense (unrestricted support services - management and general activities). The amount of income and expense that should have been recognized was $186,780.20 for fiscal year June 30, 2011, and $177,431.23 for fiscal year ended June 30, 2010.

In addition, according to Note 1 under Donated Assets in the Notes to the Financial Statements for both fiscal years ended June 30, 2011, and June 30, 2010, noncash donations equal to or greater than $500 are recorded. However, the value of materials and equipment donated by the college was also not included in the Statements of Activity as income (unrestricted donated materials and equipment) or as expense (unrestricted program expenses - materials and equipment). The amount of income and expense that should have been recognized was $13,121.66 for fiscal year ended June 30, 2011, and $6,060.78 for fiscal year ended June 30, 2010. Included in these amounts are individual items less than $500; however, since the aggregate total was greater than $500, auditor interpreted that the full amounts should have been included for each year. This will be corrected for the audit report.

7. The foundation has incorrectly classified appreciation of the William Manly Faculty Development of $31,669.00 as permanently restricted. The William Manly Faculty Development agreement does not discuss the appreciation of the corpus as a requirement to be added to the corpus; therefore, that amount should also be classified as temporarily restricted. Prior period audit adjustments included this change.

Roane State Community College
List of Audit Exceptions Not Addressed in Findings
Audit Period: July 1, 2009 through June 30, 2011

1. For both fiscal years ended June, 30, 2011 and June 30, 2010, the Director of Accounting did not include the current liability for retirement of indebtedness when calculating the allocation for current and noncurrent cash. As a result on Statements of Net Assets at June 30, 2011, and at June 30, 2010, current cash was understated and noncurrent cash was overstated by $8,896.56 and $9,568.65, respectively.

2. In the calculation of certain cash flows from operating activities for both fiscal years, the change in net accounts receivable was not allocated among the different types of operating activities as had been in previous years. Instead the entire amount was reflected only in the calculation of payments to suppliers. This caused the following errors:

   Fiscal Year 2011:
   - Tuition and Fees - Unaudited - $9,442,893.15, Audited - $9,809,521.69, Difference - $366,628.54
   - Payments to Suppliers and Vendors - Unaudited - $8,435,656.08, Audited - $8,797,372.41, Difference - $361,716.33
   - Payments to Employees - Unaudited - $19,853,667.92, Audited - $19,845,805.87, Difference - $7,862.05
   - Payments for Benefits - Unaudited - $6,546,249.01, Audited - $6,546,911.78, Difference - $662.77
   - Payments for Scholarships and Fellowships - Unaudited - $10,613,188.46, Audited - $10,625,422.46, Difference - $12,234.00
   - Other Receipts - Unaudited - $514,306.17, Audited - $514,428.68, Difference - $122.51

   Fiscal Year 2010:
   - Tuition and Fees - Unaudited - $9,190,291.74, Audited - $9,489,755.54, Difference - $299,463.80
   - Payments to Suppliers and Vendors - Unaudited - $7,481,873.61, Audited - $7,727,303.74, Difference - $245,430.13 ($14,404.80 of the difference was attributable to the removal of the prior period adjustment)
   - Payments to Employees - Unaudited - $19,994,734.07, Audited - $19,993,111.90, Difference - $1,622.17
   - Payments for Benefits - Unaudited - $5,896,732.50, Audited - $5,919,154.65, Difference - $22,422.15
   - Payments for Scholarships and Fellowships - Unaudited - $9,236,471.56, Audited - $9,255,779.45, Difference - $19,307.89
   - Other Receipts - Unaudited - $552,757.31, Audited - $553,236.31, Difference - $479.00

3. As of June 30, 2011, it appears that there is approximately $27,206.58 in unclaimed property with a dormancy period greater than one year in account 110001-29201

"unclaimed property". In order for the school to be in compliance with the Rules of the Tennessee Department of Treasury - Division of Unclaimed Property, Chapter 1700-02-01 "Organizations and Individuals Required to Report," paragraph .01, "Every holder of property belonging to another person who has not claimed such property or with whom no correspondence has been had for the statutory period is required to file an annual report to the State Treasurer of Tennessee. Organizations and individuals which are required to report to the State Treasurer include but are not limited to... (g) educational units, including, but not limited to colleges, universities, and private schools..." Per discussion with John Gabriel, Director of Unclaimed Property, Tennessee Board of Regents schools would be subject to *Tennessee Code Annotated* 66-29-110 (Uniform Disposition of Unclaimed Personal Property Act) and should turn over unclaimed property after one year of dormancy. The Director of Accounting has been researching the unclaimed property account which includes unidentified owners of property prior to fiscal year 2008. The Director of Accounting should continue to perform this research in order for the school to be in compliance with the rules and *Tennessee Code Annotated.*

In addition, Roane State Community College is also holding $129,202.09 in account 110001-29202 "Unrestricted - Unemployment Compensation," which is for the Job Training Partnership Act (JTPA) program. The amount dates back prior to at least fiscal year June 30, 2008; however, the amount has been classified in the current audit as current other liabilities on the financial statements. Management should inquire of the grantor of the proper usage of these funds.

Tennessee Board of Regents
Audit Committee
November 20, 2012
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Nashville State Community College	June 30, 2011 and June 30, 2010	Unqualified Opinion	Two findings identified as material weaknesses	No instances of noncompliance required to be reported	2

Finding 1 – As noted in the prior two audits, the college needs to improve its system of internal controls for the preparation of the college's financial statements

Nashville State - Statement of Net Assets and Statement of Cash Flows

- Pell expenses were improperly deferred at year-end resulting in overstatements of prepaid expenses by $1,630,489 at June 30, 2011 and $892,183 at June 30, 2011, and understatements of scholarships and fellowships by $738,405 for the year ended June 30, 2011 and $474,518 for the year ended June 30, 2010.
- Several errors were made in the calculation of other post-employment benefits resulting in overstatements of payments to suppliers and vendors of $1,443,809; understatements of payments to employees of $1,898,103; and overstatements of payments for benefits of $454,294.

Foundation - Statement of Assets

- Certain endowments were incorrectly classified resulting in overstatements of current short-term investments of $261,832 at June 30, 2011 and $225,997 at June 30, 2010; and understatements of noncurrent assets of the same amounts in the same periods.
- Certain accounts were accounted for twice during the year-end closing process resulting in overstatements of restricted nonexpendable net assets by $43,465 and understatements of restricted expendable net assets by the same amount.

Management's Comment – Management concurred and provided additional training to key staff. Additionally, all accounting staff members have online access to the National Association of College and University Business officers' *Financial Accounting and Reporting Manual for Higher Education* (FARM.)

Finding 2 – The college did not ensure endowment amounts were adequately supported or properly reported in the foundation's financial statements and accompanying notes to the financial statements

- For seven of the 14 endowments listed as donor-restricted funds (50%), the Executive Director of the foundation was unable to provide gift instruments or other records indicating donor intent.
- Several reporting errors were discovered related to endowments in the financial statements and in the related notes to the financial statements.

Management's Comment - Management concurred and hired a new Foundation Director, who immediately started addressing this issue. At the time the report was published, supporting documentation of donor intent had been obtained for 7 of 15 endowments. Documentation was pending for 3 endowments and one will be moved to the general endowment fund with the approval of the donor. Donors were unresponsive for the remaining four and management was awaiting a response from the Attorney General as to how to proceed.

Internal Audit Follow-Up: *An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.*

FINDINGS AND RECOMMENDATIONS

1. <u>As noted in the prior two audits, the college needs to improve its system of internal control for the preparation of the college's financial statements</u>

Finding

The previous two audit reports contained an audit finding concerning inadequate controls that resulted in errors in the financial statements of Nashville State Community College (NSCC). Although improvements have been made, we again found that controls were not adequate to ensure that the financial statements were prepared in accordance with generally accepted accounting principles.

The Controller, with assistance from various Business Office staff, is responsible for the preparation of the financial statements. The Vice President of Finance and Administrative Services is responsible for the oversight and review of the reporting process and the financial statements.

<u>Errors on the Statements of Net Assets</u>

Our review of NSCC's Statements of Net Assets for the years ended June 30, 2011, and June 30, 2010, revealed errors affecting investments, prepaid expenses, and net assets.

- Current short-term investments for the foundation were overstated by $261,831.94 at June 30, 2011, and $225,976.79 at June 30, 2010, and noncurrent investments were understated by the same amount. These errors occurred because investments relating to endowments were classified as current rather than noncurrent. Investments representing endowment funds are not available for current operations and therefore should be classified as noncurrent in accordance with *Emerging Issues Update 02-4*, in the National Association of College and University Business Officers' *Financial Accounting and Reporting Manual for Higher Education*. These errors were corrected in the audited financial statements.

- Because Pell expenses were improperly deferred at year-end, prepaid expenses for the college were overstated by $1,630,488.54 at June 30, 2011, and $892,083.06 at June 30, 2010, and scholarships and fellowships expense was understated by $738,405.48 for the year ended June 30, 2011, and $474,517.93 for the year ended June 30, 2010. Pell revenues are recognized in the period received, and based on the matching principle, related expenses should be recognized in the same period. These errors were corrected in the audited financial statements.

- Foundation net assets were incorrect at June 30, 2010, due to an error that occurred during the year-end closing process; certain accounts were accounted for twice. As a result, restricted nonexpendable net assets were overstated by $43,465.32, and restricted expendable net assets were understated by the same amount. These errors were corrected in the audited financial statements.

Error on the Statements of Cash Flows

The beginning balance of other post-employment benefits was incorrectly included in the calculation of payments to suppliers and vendors, and the ending balance was incorrectly included in the calculation of payments to employees. As a result, payments to suppliers and vendors were overstated by $1,443,809.04; payments to employees were understated by $1,898,103.37; and payments for benefits were overstated by $454,294.33. These errors were corrected in the audited financial statements.

These reporting errors show the need to improve the preparation and review process to minimize the risk of material misstatements in the college's unaudited financial statements.

Recommendation

Management should evaluate and strengthen controls related to its financial statement preparation process to minimize errors in reporting and to ensure proper classification of amounts in the financial statements.

Management should evaluate risks associated with financial reporting and include them in documented risk assessments. In addition, management should ensure that staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure that staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the finding and recommendation. Management has provided additional training to key staff. Four staff members attended the Tennessee Board of Regents financial statement seminar in May 2012, and six staff members attended the State Audit training in April 2012. Additionally, all accounting staff members have online access to the National Association of College and University Business Officers' *Financial Accounting and Reporting Manual for Higher Education* (FARM). Access to FARM will give staff the best tool for researching accounting and reporting issues. The risk assessment for the instituitional support area was updated in June 2012, and the one for the finance area will be updated in June 2013.

2. **<u>The college did not ensure that endowment amounts were adequately supported or that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements</u>**

Finding

Our audit of the financial statements of Nashville State Community College—including its foundation, which is a discretely presented component unit of the college—discovered reporting errors related to endowments in the financial statements and the notes to the financial statements of the foundation. In addition, the Executive Director of the foundation was unable to provide gift instruments or other records indicating donor intent for some of the endowments.

The college reports under standards of the Governmental Accounting Standards Board (GASB), while the Nashville State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). Certain revenue recognition criteria and presentation formats are different in GASB and FASB reporting.

The errors we found in the foundation reporting were as follows:

- In fiscal years 2011 and 2010 and certain previous fiscal years, all gains, losses, and investment income were improperly recorded as nonexpendable net assets. As a result, restricted nonexpendable net assets were understated by $3,972.81, restricted expendable net assets were overstated by $4,418.46, and unrestricted net assets were understated by $445.65 on the foundation's Statement of Net Assets at June 30, 2011. On the foundation's Statement of Net Assets at June 30, 2010, restricted nonexpendable net assets were understated by $22,706.34, restricted expendable net assets were overstated by $7,517.11, and unrestricted net assets were overstated by $15,189.23. These errors were corrected in the audited financial statements.

- In the college's 2011 and 2010 unaudited financial reports, the note disclosure of changes in endowment net assets for the foundation contained several significant errors. Temporarily restricted net assets were not included in the note, and the board-designated endowment was included as permanently restricted net assets rather than unrestricted net assets. Also, cumulative losses on endowment investments were included in permanently restricted net assets; however, these losses should have reduced temporarily restricted net assets, if available, with any remaining loss included in unrestricted net assets. In addition, contributions to endowments and appropriation of endowment assets for expenditure for 2010 were not included in the note disclosure. As a result, permanently restricted net assets were overstated by $20,428.48, temporarily restricted net assets were understated by $53,806.46, and unrestricted net assets were understated by $445.65 on the foundation's Statement of Net Assets at June 30, 2011. On the foundation's Statement of Net Assets at June 30, 2010, permanently restricted net assets were understated by $182.10, temporarily restricted net assets were understated by $45,368.30, and unrestricted net assets were overstated by $15,189.23. These errors were corrected in the audited note.

- For the fiscal years ended June 30, 2011, and June 30, 2010, the foundation failed to include the required note disclosure describing endowments whose values had fallen below the original principal of the endowment.

- For 7 of 14 endowments listed as donor-restricted funds (50%), the Executive Director of the foundation was unable to provide gift instruments or other records indicating donor intent. Because the unsupported endowments were originally recorded as donor-restricted, management considers them to be donor-restricted, although there is no support. Management is currently trying to obtain support for these endowments from the donors.

The foundation accounts for each endowment's spending and allocates realized and unrealized gains and losses to each of the endowments. Because investments may decrease in value, the overall value of individual endowments may fall below the original principal of the endowment, resulting in an "underwater" endowment. FASB Accounting Standards Codification, paragraph 958-205-45-22, states:

> In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been mêt before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

The disclosure of changes in endowment net assets and description of underwater endowments were new requirements as of June 30, 2009, under FASB standards (FASB ASC 958-205-50), and the staff had difficulties in determining what was required in the new disclosures.

The Uniform Prudent Management of Institutional Funds Act, which prohibits reporting of gains or losses in the endowment's nonexpendable portion of net assets, unless specified by the donor, was also new for fiscal year 2009. Staff did not change the college's method of accounting for gains and losses in the nonexpendable portion of the endowment fund upon enactment of the law. Additionally, staff did not comply with the foundation's endowment policy, which states that 5% of net earnings are to be allocated to the endowment corpus each year, with the remaining to be applied to temporarily restricted net assets. For both fiscal years 2011 and 2010, staff included all net earnings to the endowment corpus.

These reporting errors resulted in significant misclassifications in the college's unaudited component unit note. Management is responsible for the fair presentation of the financial statements. Not following all FASB reporting standards could adversely affect users of the financial statements. In addition, not obtaining gift instruments or other written agreements could result in mismanagement of endowment funds and spending donations in violation of the donor's intent.

Recommendation

The accounting management staff at Nashville State Community College should follow all FASB reporting requirements that pertain to foundation endowments. Under FASB standards, based upon the existence and/or nature of donor-imposed restrictions, endowment interest income and net assets should be classified as permanently restricted, temporarily restricted, or unrestricted, while gains and losses generally should be classified as temporarily restricted or unrestricted. To improve financial reporting, the staff responsible for endowment reporting should, as a part of professional education, attend training that specifically addresses endowment accounting and financial reporting. Foundation statements should be reviewed by knowledgeable supervisory personnel upon completion. In addition, the Executive Director should continue to work with donors in obtaining written agreements for the reported endowments.

Management's Comment

Management concurs with the finding and recommendation. A new NSCC Foundation Director was hired in June 2011, and immediately started the process of documenting the foundation endowments. Of the 15 endowments, seven now have documentation; three have documentation that is pending; one has been moved to the general endowment fund with the approval of the donor; and four will go to the Attorney General for an opinion that would allow the monies to be moved to the general endowment fund given that the donors are non-responsive. The Tennessee Board of Regents financial statement seminar held in May 2012 and attended by four accounting staff members did include endowment reporting information and training. Entries are being made at the end of FY 2012 to correct the endowment funds and other items noted in the audit report.

Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Northeast State Community College	June 30, 2011 and June 30, 2010	Unqualified Opinion	One finding identified as a material weakness	No instances of noncompliance required to be reported	1

Finding 1 – The college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements and related note disclosures

Notes to the Financial Statements

- Cash held for the Tennessee Technology Center at Elizabethton was not properly disclosed on the college's Statement of Net Assets and the related notes to the financial statements for 2011 and 2010; $1,192,224 and $419,978, respectively, were not reported.
- A typographical error resulted in an overstatement of reported unused sick leave by $27,000,000.
- Incorrect interest amounts on the schedule of debt service requirements in 2011 and 2010 resulted in the understatement of interest in both years.
- The insurance coverage amount for building contents was understated by $900,000 in the 2011 notes to the financial statements.

Statement of Assets

- Cash was incorrectly classified in the Statements of Net Assets for both years; cash of $872,697 was misclassified as current at June 30, 2011 and cash of $2,277,000 was misclassified as current at June 30, 2010. Since the cash was designated for construction projects, it should have been classified as non-current.

Statement of Revenues, Expenses, and Change in Net Assets

- State grants received from the college's component unit, totaling $211,458, were shown parenthetically under non-operating grants and contracts instead of under operating governmental grants and contracts.

Management's Comment – Management concurred and stated in June 2010 that they began a reorganization of the college's organizational structure within the business affairs division that included hiring two additional positions to better manage workloads. Management also listed many other specific strategies employed to improve the accuracy in financial statement preparation and review procedures, including, but not limited to, additional training for staff, enhanced review procedures, and the implementation of software replacing various manual processes.

Internal Audit Follow-Up: *An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.*

Finding and Recommendation

The college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements

Finding

Northeast State Community College's procedures for financial statement preparation should be improved to ensure the completeness, accuracy, and proper classification of information presented in its financial statements. The Business Manager prepares the college's financial statements with assistance from other staff members. The statements are reviewed by the college's Assistant Vice President for Business Affairs as well as the Vice President for Business Affairs. This weakness resulted in the following significant reporting errors:

- In Note 2 in the college's 2011 *Financial Report,* $1,192,224.56 of Tennessee Technology Center at Elizabethton cash held by the college was not reported in the note. Amounts in bank accounts were understated by $800,547.30, and Local Government Investment Pool deposits were understated by $391,677.26. In Note 3, Local Government Investment Pool deposits were also similarly understated. The audited note was corrected.

- On the college's statement of net assets at June 30, 2010, $419,978.30 of Tennessee Technology Center at Elizabethton cash held by the college was not reported. The $419,978.30 consisted of $30,826.30 in bank accounts and $389,152.00 in Local Government Investment Pool deposits. These amounts were also omitted from the notes to the financial statements. The audited statement and notes were corrected.

- On the college's statement of net assets at June 30, 2011, $872,697.27 of cash was incorrectly classified as current instead of noncurrent. This cash was designated for construction projects and should have been considered noncurrent cash. *Accounting Research Bulletin* 43, chapter 3A, paragraph 6, states in part that "this concept of the nature of current assets contemplates the exclusion from that classification of such resources as: (a) cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets or are segregated for the liquidation of long-term debts. . . ." The audited statement was corrected.

- On the college's statement of net assets at June 30, 2010, $2,277,000.00 of cash designated for construction projects was incorrectly classified as current instead of noncurrent. According to the Business Manager at that time, the $2,277,000.00 was initially classified in the reporting module, used to generate the school's financial statements, as current cash. He then keyed in a journal voucher in the Banner accounting system that correctly classified the $2,277,000.00 as noncurrent cash.

After the journal voucher was keyed in, he failed to make a reclassification entry in the reporting module to move the $2,277,000.00 into noncurrent cash on the statement of net assets. The audited statement was corrected.

- On the college's 2010 statement of revenues, expenses, and changes in net assets, state grants received from the college's component unit totaling $211,457.82 were shown parenthetically under nonoperating grants and contracts instead of under operating governmental grants and contracts. According to the Assistant Vice President for Business Affairs, the template provided by the Tennessee Board of Regents did not allow changes to this line item, and this change was not made on the final copy as exhibited in the college's 2010 *Financial Report.*

- In Note 13 in the college's 2011 *Financial Report*, management overstated the dollar amount of unused sick leave by $27,000,000.00. The amount reported as sick leave on the Sick Leave Report was $3,897,764.25. The amount reported as sick leave in Note 13 was $30,897,764.25. This was a typographical error. The audited note was corrected.

- In Note 7 in the college's 2011 and 2010 *Financial Reports,* management reported incorrect interest amounts on the schedule of debt service requirements for each period. For the year ended June 30, 2011, total interest was understated by $7,297.15. For the year ended June 30, 2010, total interest was understated by $3,848.95. The audited note was corrected.

- In Note 12 in the college's 2011 *Financial Report,* management understated the scheduled insurance coverage amount for building contents by $900,000. The amount listed in the note is $31,270,900, while the correct amount is $32,170,900. According to the current Business Manager, she must have transposed a number when calculating the total. The audited note was corrected.

The reporting errors described above were oversights by the Business Manager and assisting staff. In addition, the review process was not thorough enough to detect these errors. A reorganization occurred during the audit period with a new Business Manager being hired in October 2010 and the Budget Director being promoted to Assistant Vice President for Business Affairs in June 2010. Several other staffing changes also occurred.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements. With an improved preparation and review process, the college's fiscal staff could have detected and corrected these errors before the financial statements were completed.

Recommendation

Cash held by the college for the Tennessee Technology Center at Elizabethton should be properly included in the college's financial statements and notes. Cash should be correctly reported in the current and noncurrent categories. The Vice President for Business Affairs and the Assistant Vice President for Business Affairs should ensure that the Business Manager and any assisting fiscal staff have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform their duties with appropriate care and attention. The review process should be thorough enough to detect misstatements such as the ones described above.

Management's Comment

We concur with the finding.

In June 2010, Northeast State Community College began a reorganization of the college's organizational structure within the business affairs division that included hiring two additional positions to better manage workloads. Staffs were working many extra hours, which could potentially lead to errors. During the reorganization implementation, a Business Manager was hired in October 2010, along with other staff reassignments. For the two years included in this audit period, a different staff member prepared the financial statements for each. These changes in staff, along with the other employee reassignments, resulted in reporting errors..

These specific strategies were implemented in May 2012, to improve accuracy in financial statement preparation and review procedures:

- All staff responsible for development of the financial statements attended the year-end training sessions provided by the Tennessee Board of Regents.
- The Business Manager and the Assistant Vice President for Business Affairs have implemented development and review procedures provided at this training, as well as other processes to detect misstatements in current and future reporting periods.
- ARGOS Enterprise Reporting Solution has been implemented and will replace manual processes with automated reporting directly from the Banner Finance data.
    - Many of the errors noted were due to manual changes between Excel and Word formats to address varying reporting formats required.
    - ARGOS will be used to eliminate the potential for errors and report in various required formats.

- Paperless workflow has been implemented, including Banner Document Imaging Solutions (BDMS), as well as desktop scanners, and will provide backup documents to the financial statement reviewer to reduce time and increase accuracy during the verification process.

Tennessee Board of Regents
Audit Committee
November 20, 2012
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Walters State Community College	June 30, 2011 and June 30, 2010	Unqualified Opinion	One finding identified as a material weakness	No instances of noncompliance required to be reported	1

Finding 1 – As reported in the previous two audits, the college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements and related note disclosures

College Financial Statements

- Depreciation expense for the College Center for the years ended June 30, 2011 and June 30, 2010 was understated by $156,797 each year. Depreciation was also understated in the two previous years, resulting in the understatement of accumulated depreciation and the overstatement of capital assets by $627,191 at June 30, 2011, and $470,393 at June 30, 2010.
- Due to a typing error, on the 2010 statement of cash flows, certain payments to suppliers and vendors totaling $13,173,081, were misclassified as payments for scholarships and fellowships; additionally, certain payments of scholarships and fellowships totaling $9,715,838, were classified as payments to suppliers and vendors.

Foundation Financial Statements

- In both the 2011 and 2010 statements, certain restricted expendable net assets related to scholarships and fellowships and certain unrestricted net assets were misclassified as restricted expendable net assets – other; misstatements for 2011 totaled $1,266,897 and misstatements for 2010 totaled $574,427.
- In both 2011 and 2010, net assets related to three charitable remainder trusts were classified as restricted nonexpendable instead of restricted expendable; for 2011, the misstatement was $1,563,656 and for 2010, the misstatement was $1,542,690.
- In the notes to the 2011 and 2010 financial statements, management did not disclose the proper ratings for certain investments.
- Unrealized gains on investments were materially misstated on the 2011 and 2010 statement of cash flows. For 2011, under noncash investing transactions, unrealized gains were reported at $774,964 rather than $480,772; and in 2010, unrealized gains were reported at $36,656 rather than $412,555.

Management's Comment – Management concurred and revised year end checklists and review processes, as well as, requested the internal auditor to review financial statements and the related notes in an effort to increase the accuracy of reporting. Foundation staff involved in financial statement creation have attended the training provided by the TBR system office in May 2012, as well as additional training from an outside source specifically on the issues noted in this audit.

Internal Audit Follow-Up: *An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.*

Finding and Recommendation

As reported in the previous two audits, the college needs to improve financial statement preparation and review procedures to prevent errors in its financial statements

Finding

Walters State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Similar findings were reported in the previous two audits. The current weakness resulted in the following significant reporting errors:

College Financial Statements

- In preparing the depreciation schedules for capital assets for the college, the Director of Accounting Services understated depreciation expense for the College Center by $156,797.75 for the years ended June 30, 2010, and June 30, 2011. Further investigation revealed that management had also understated depreciation expense by the same amounts in the years ended June 30, 2008, and June 30, 2009. Therefore, accumulated depreciation was understated and capital assets were overstated by $470,393.25 at June 30, 2010, and by $627,191.00 at June 30, 2011. The audited financial statements and the related note to the financial statements were corrected.

- On the college's 2010 statement of cash flows, the Director of Accounting Services misclassified $13,173,081.02 of payments to suppliers and vendors as payments for scholarships and fellowships and misclassified $9,715,838.53 of payments for scholarships and fellowships as payments to suppliers and vendors. This was a typing error. A detailed review of this statement was not performed by another employee. The audited statement was corrected.

The method that the Director of Accounting Services used in preparing the depreciation schedules was proper; however, depreciation for a major College Center addition in 2008 was not included in total depreciation for 2008 through 2011. Adequate review would have shown that a large residual amount would have remained at the end of the useful life of the building and alerted financial staff to the error.

In a similar manner, the statement of cash flows for the college was prepared correctly, except that a typographical error resulted in the transposition of the "Payments to suppliers and vendors" line item and the "Payments for scholarships and fellowships" line item. Adequate review should have prevented this material misclassification on the statement of cash flows for 2010.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements. As stated in the previous audit, with an improved review process, the college's fiscal staff could have detected and corrected these errors before the financial statements were completed.

Foundation Financial Statements

- On the foundation's statement of net assets at June 30, 2011, the Associate Vice President for College Advancement misclassified $1,125,703.46 of restricted expendable net assets - scholarships and fellowships and $141,193.47 of unrestricted net assets as restricted expendable net assets - other. In addition, on the foundation's statement of net assets at June 30, 2010, he misclassified $509,022.93 of restricted expendable net assets - scholarships and fellowships and $65,404.52 of unrestricted net assets as restricted expendable net assets - other. The Associate Vice President for College Advancement reported cumulative unrealized investment gains as restricted expendable net assets - other. He did not properly allocate the gains among all applicable net asset categories at year-end. The audited statements were corrected.

- The Associate Vice President for College Advancement misclassified net assets associated with three charitable remainder trusts. Restricted nonexpendable net assets - other at June 30, 2011, were overstated in the amount of $1,563,656.22, and restricted expendable net assets - other were understated by the same amount. Restricted nonexpendable net assets - other at June 30, 2010, were overstated in the amount of $1,542,689.98, and restricted expendable net assets - other were understated by the same amount. Assets of all three of the foundation's charitable remainder trusts should be classified as restricted expendable net assets, since there is no stipulation that the principal be held in perpetuity. The audited statements were corrected.

- In note 17 in the college's 2011 *Financial Report*, the Associate Vice President for College Advancement did not disclose the proper rating for four foundation investments totaling $208,081. In note 16 in the college's 2010 *Financial Report*, the Associate Vice President for College Advancement did not disclose the proper rating for three foundation investments totaling $86,873.08. For 2011, the proper rating for all four investments was an A. However, these investments were improperly disclosed in the notes to the financial statements as having a rating of AAA. None of the three major rating services rated these investments at this level. For 2010, the lowest rating for all three investments was an A. However, these investments were disclosed as having a rating of AA. According to question 1.9.1 in the GASB *Comprehensive Implementation Guide*, "When multiple ratings exist and the government is aware of the different ratings, the rating indicative of the greatest degree of risk should be presented." The audited note was corrected.

- On the foundation's 2011 and 2010 statements of cash flows, included as supplementary information in the college's 2011 and 2010 *Financial Reports*, unrealized gains on investments were materially misstated. For 2011, under noncash investing transactions, unrealized gains were reported at $774,963.75, rather than $480,771.78. For 2010, under noncash investing transactions, unrealized gains were reported at $36,656.25, rather than $412,554.62. The Associate Vice President for

College Advancement did not have documentation showing how he calculated these amounts. The statements were corrected.

Based on our discussions with the Associate Vice President for College Advancement, he knew that cumulative unrealized gains should be allocated to applicable net asset categories, but he had not developed a methodology that he considered acceptable. In the other three instances, the Associate Vice President apparently was not aware of, or did not fully understand, the reporting requirements.

The results of our current audit of the financial statements have indicated that, despite management's assurances in prior audits, the controls over financial reporting have not operated effectively.

Recommendation

The Vice President for Business Affairs should ensure that the Director of Accounting Services, the Associate Vice President for College Advancement, and any assisting fiscal staff have adequate knowledge of reporting requirements to perform their responsibilities, and that they perform the following duties with appropriate care and attention:

- depreciation schedules should be adequately reviewed each year for accuracy,
- the final financial statements should be carefully compared to supporting worksheets and properly reviewed to ensure accurate reporting,
- year-end entries and classifications should be recorded and reported properly, and
- the notes to the financial statements should contain accurate disclosures.

As to the foundation, the Associate Vice President for College Advancement should continue to improve his knowledge of accounting and reporting principles for endowments and split interest agreements (e.g., charitable remainder trusts). He should develop a better understanding of proper net asset classification through additional training and interaction with peer institutions.

Management's Comment

College Financial Statements

We concur with the finding and recommendation. The issues noted relate to the financial presentation but not the amounts extracted from the accounting system. Action has been taken to address each of the issues noted in the presentation of the financial data.

The Assistant Vice President for Business Affairs, the Director of Accounting Services, the Associate Vice President for College Advancement, and other appropriate Business Office staff will review all areas of the financial statements, notes, and other financial reports prior to publication of the college's annual financial statements. Management has also requested a review by the Internal Auditor at Walters State for the note disclosures to help increase accuracy prior to financial statement submission to the Tennessee Board of Regents. Specific actions already taken include the following:

- The Director of Accounting Services and other appropriate Business Office staff will review current year depreciation amounts by performing calculations through the remaining life of the capital asset to ensure full depreciation by the end of the asset's useful life. In addition, the summary sheet of the depreciation Excel workbook will be modified to allow future years' depreciation to be calculated to prove that the individual sheet calculations are correct. Further, the Assistant Vice President for Business Affairs will review the depreciation calculations using the trace precedents/dependents function within Excel.

- As stated in the previous audit finding for the years ended June 30, 2008, and June 30, 2009, new checklists and review sheets were developed to aid in the preparation of fiscal year 2011 and future financial statements. Based on review sheets and working statements for the year ended June 30, 2011, final financial statements were compared to supporting documentation. Additional items and language will be added to the current checklists and review sheets to ensure these review practices are enhanced and continue.

The college is continually reviewing and evaluating its internal controls through risk assessments. Financial statement reporting related risks and controls are evaluated annually. Staff is responsible for monitoring internal processes for identifying risks, putting controls in place to mitigate these risks, and taking prompt action when exceptions occur. Documented risk assessments are submitted to the Tennessee Board of Regents annually.

Foundation Financial Statements

Management concurs with the finding and recommendation. Training has already been initiated by the Associate Vice President for College Advancement by completing the Tennessee Board of Regents' Financial Statement Preparation Training class at Tennessee Technological University in early May 2012, which assisted in a better understanding of financial statement preparation and presentation, as well as providing a beneficial interaction with peer institution staff. Additional training materials developed by Campus Strategies, LLC, have been requested and received. These materials were used at a State Audit training session in late May 2012 and relate to reporting for split interest trusts and endowment reporting. Management has also requested a review by the Internal Auditor at Walters State for the note disclosures to help increase accuracy prior to financial statement submission to the Tennessee Board of Regents.

Tennessee Board of Regents
Audit Committee
November 20, 2012
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Roane State Community College Foundation	June 30, 2011 and June 30, 2010	Unqualified Opinion	One finding identified as a material weakness	No instances of noncompliance required to be reported	1

Finding 1 –The foundation did not properly classify net assets and did not include all required disclosures

The foundation, the college's component unit, reports financial statements under the standards of the Financial Accounting Standards Board (FASB). The Roane State Community College Foundation's financial statements and related notes contained the following material departures from FASB reporting standards:

- A term endowment, with a balance of $148,074, was improperly classified.
- Certain endowments ranging from $20 to $37,933, and totaling $156,330, were improperly netted with other endowments in calculating the temporarily restricted net assets and unrestricted net assets.
- Non-endowment projects with negative balances ranging from $20,078 to $65,594 were improperly netted against temporarily restricted net assets instead of unrestricted net assets.
- Because investments may decrease in value, the overall value of individual endowments may fall below the original principal endowment, resulting in an "underwater" endowment. These "underwater" endowments are required to be disclosed in the notes to the financial statements. This disclosure was omitted.

Management's Comment – Management concurred and stated accounting staff had attended the TBR training in May 2012 and will be required to attend training opportunities annually to ensure accuracy in the financial statements.

Internal Audit Follow-Up: *An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.*

FINDING AND RECOMMENDATION

The foundation did not properly classify net assets and did not include all required disclosures

Finding

The Roane State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). The financial statements and notes prepared by the foundation contained material departures from those standards so corrections were made to the audited financial statements.

Most of the foundation's net assets are associated with donor-restricted endowment funds. These funds are either true endowments, which must be invested in perpetuity for the purpose of generating income; or term endowments, which must be invested for a specified term and then may be spent.

Per the FASB accounting standards codification (FASB ASC), the foundation must allocate its net assets between unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Our audit found the following specific problems with this allocation:

- a term endowment was improperly classified,
- underwater endowments were improperly netted with other endowments to arrive at temporarily restricted net assets and unrestricted net assets,
- there was improper netting of other non-endowment project balances, and
- the foundation omitted a disclosure describing underwater endowments.

Term Endowment Improperly Classified

The foundation had one term endowment totaling $148,074.44 that was classified as permanently restricted net assets but should have been classified as temporarily restricted net assets.

Improper Netting of Underwater Endowments With Other Endowments

The foundation accounts for each endowment's spending and allocates realized and unrealized gains and losses to each of the endowments. Because investments may decrease in value, the overall value of individual endowments may fall below the original principal of the endowment, resulting in an "underwater" endowment.

At June 30, 2011, there were 7 individual underwater endowments, ranging from $610.98 to $2,242.22 and totaling $6,829.39; at June 30, 2010, there were over 40 underwater endowments ranging from $20.78 to $37,933.37 and totaling $149,500.35; and at June 30, 2009, there were over 50 underwater endowments ranging from $21.37 to $18,467.34 and totaling

$242,980.68. These underwater endowments were improperly netted against other endowments to arrive at temporarily restricted net assets and unrestricted net assets.

FASB ASC, paragraph 958-205-45-22, states:

> . . . losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

Such guidance is illustrated in FASB ASC, paragraph 958-205-55, example 3.

When we asked management about the netting, they explained that they were not aware of the requirement to determine temporarily restricted net assets on an individual endowment basis.

Improper Netting of Non-Endowment Project Balances

The foundation also receives donations where the donor specifies that the donation should be used for a specific purpose, but unlike endowments, the foundation can spend the entire amount of the contribution on the donor's specified purpose. The unspent contributions should be classified as temporarily restricted net assets.

In the foundation's accounting system, projects are used to track activity for donor-restricted contributions. Each project in the system is tied to a specific purpose. When the cumulative outflows of a project exceed the cumulative inflows, a negative project balance results that should be deducted from unrestricted net assets. However, the foundation netted the negative balances against temporarily restricted net assets instead of unrestricted net assets. At June 30, 2011, 2010, and 2009, these negative project balances totaled $20,077.75, $26,715.56, and $65,593.63, respectively.

Disclosure Omitted

Because the underwater endowments were netted with other endowments, resulting in total endowments not being underwater, the foundation did not include a required disclosure. FASB ASC, paragraph 958-205-50-2, states:

> For each period for which a statement of financial position is presented, an NFP [not for profit] shall disclose the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at the reporting date is less than the level required by donor stipulations or law.

Recommendation

The Foundation Coordinator should not net underwater endowments with other endowments or other negative project balances with other projects in calculating temporarily restricted net assets and unrestricted net assets. The coordinator should review all endowment agreements and ensure that term endowment principal net assets are reported as temporarily restricted net assets. When underwater endowment balances exist, the coordinator should disclose the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at the reporting date is less than the level required by donor stipulations or law. To improve financial reporting, the foundation coordinator should as a part of continuing professional education attend training that specifically addresses endowment accounting and financial reporting.

Management's Comment

We concur. Each individual endowment fund and project account balance will be reviewed as of June 30 of each year to determine which funds, if any, are underwater or if any individual project's account balance is negative. If so, the net assets will be reported in the proper net asset category and properly disclosed. Also, a spreadsheet with the requirements of each endowment will be maintained and reviewed to ensure that all endowments are properly classified.

The Foundation accounting staff attended the accounting and financial reporting training sponsored by the TBR in May 2012. We will require our Foundation accounting staff to attend this annual training, assuming the training continues to be offered. Should this training not be available in the future, other training opportunities will be considered.

These corrective actions will be in place for the fiscal year ended June 30, 2012, financial statement preparation.

Tennessee Board of Regents
Audit Committee
November 20, 2012
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Roane State Community College	June 30, 2011 and June 30, 2010	Unqualified Opinion	One finding identified as a material weakness	No instances of noncompliance required to be reported	1

Finding 1 –The college did not ensure the foundation properly classified net assets and included all required disclosures

The college reports financial statements under the standards of the Governmental Accounting Standards Board (GASB), which requires the college to include its component unit's financial statements. The foundation, the college's component unit, reports financial statements under the standards of the Financial Accounting Standards Board (FASB). Due to the absence of adequate knowledge of endowment accounting and financial reporting, the Roane State Community College Foundation's financial statements contained the following material departures from FASB reporting standards:

- Net assets were improperly allocated between unrestricted net assets, temporarily restricted assets, and permanently restricted net assets.
- Certain term endowments and non-endowment project balances were improperly netted against other endowments when disclosed in the financial statements.
- Because certain underwater endowments were netted with other endowments, resulting in total endowments not being underwater, the foundation's financial statements did not include a required note disclosure.

Management's Comment – Management concurred and stated accounting staff had attended the TBR training in May 2012 and will be required to attend training opportunities annually to ensure accuracy in the financial statements.

Internal Audit Follow-Up: *An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.*

FINDING AND RECOMMENDATION

The college did not ensure the foundation properly classified net assets and included all required disclosures

Finding

Roane State Community College reports under the standards of the Governmental Accounting Standards Board (GASB). Those standards require that as a part of the college's basic financial statements, the college include its component unit's financial statements. The college's business office prepares the college's statements, and the Roane State Community College's foundation coordinator, who is also an employee of the college, prepares the foundation's statements that are to be included in the college's financial statements. As described in note 17, the foundation uses Financial Accounting Standards Board (FASB) reporting standards. Except for necessary presentation reformatting, no changes are made to the foundation's financial information in the college's financial statements.

The Roane State Community College Foundation's financial statements contained material departures from FASB reporting standards. Because there were material departures, the same departures were contained in the college's presentation of the foundation's financial statements. The absence of an adequate knowledge of endowment accounting and financial reporting allowed this misstatement to occur.

Departures Discovered in the Foundation's Statements

Most of the foundation's net assets are associated with donor-restricted endowment funds. These funds are either true endowments, which must be invested in perpetuity for the purpose of generating income; or term endowments, which must be invested for a specified term and then may be spent.

Per the FASB accounting standards codification (FASB ASC), the foundation must allocate its net assets between unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Our audit found the following specific problems with this allocation:

- a term endowment was improperly classified,
- underwater endowments were improperly netted with other endowments to arrive at temporarily restricted net assets and unrestricted net assets,
- there was improper netting of other non-endowment project balances, and
- the foundation omitted a disclosure describing underwater endowments.

Term Endowment Improperly Classified

The foundation had one term endowment totaling $148,074.44 that was classified as permanently restricted net assets but should have been classified as temporarily restricted net assets.

Improper Netting of Underwater Endowments With Other Endowments

The foundation accounts for each endowment's spending and allocates realized and unrealized gains and losses to each of the endowments. Because investments may decrease in value, the overall value of individual endowments may fall below the original principal of the endowment, resulting in an "underwater" endowment.

At June 30, 2011, there were 7 individual underwater endowments, ranging from $610.98 to $2,242.22 and totaling $6,829.39; at June 30, 2010, there were over 40 underwater endowments ranging from $20.78 to $37,933.37 and totaling $149,500.35; and at June 30, 2009, there were over 50 underwater endowments ranging from $21.37 to $18,467.34 and totaling $242,980.68. These underwater endowments were improperly netted against other endowments to arrive at temporarily restricted net assets and unrestricted net assets.

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Such guidance is illustrated in FASB ASC, paragraph 958-205-55, example 3.

When we asked management about the netting, they explained that they were not aware of the requirement to determine temporarily restricted net assets on an individual endowment basis.

Improper Netting of Non-Endowment Project Balances

The foundation also receives donations where the donor specifies that the donation should be used for a specific purpose, but unlike endowments, the foundation can spend the entire amount of the contribution on the donor's specified purpose. The unspent contributions should be classified as temporarily restricted net assets.

In the foundation's accounting system, projects are used to track activity for donor-restricted contributions. Each project in the system is tied to a specific purpose. When the cumulative outflows of a project exceed the cumulative inflows, a negative project balance results that should be deducted from unrestricted net assets. However, the foundation netted the negative balances against temporarily restricted net assets instead of unrestricted net assets. At

June 30, 2011, 2010, and 2009, these negative project balances totaled $20,077.75, $26,715.56, and $65,593.63, respectively.

Disclosure Omitted

Because the underwater endowments were netted with other endowments, resulting in total endowments not being underwater, the foundation did not include a required disclosure. FASB ASC, paragraph 958-205-50-2, states:

> For each period for which a statement of financial position is presented, an NFP [not for profit] shall disclose the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at the reporting date is less than the level required by donor stipulations or law.

Recommendation

The President should ensure that the foundation coordinator as well as other fiscal staff responsible for review of the foundation's financial statements attend, as a part of continuing professional education, training that specifically addresses endowment accounting and financial reporting.

Management's Comment

We concur. The College will ensure that the Foundation reviews each individual endowment fund and project account balance as of June 30 of each year to determine which funds, if any, are underwater or if any individual project account balance is negative. If so, the net assets will be reported in the proper net asset category and properly disclosed. In addition, a spreadsheet with the requirements of each endowment will be maintained by the Foundation and reviewed to ensure that all endowments are properly classified.

The Foundation accounting staff and key members of the College accounting staff attended the accounting and financial reporting training sponsored by the TBR in May 2012. We will require our Foundation accounting staff and key members of the College accounting staff to attend this training annually, assuming the training continues to be offered. Should this training not be available in the future, other training opportunities will be considered.

These corrective actions will be in place for the fiscal year ended June 30, 2012, financial statement preparation.