



Ad Hoc Report
Recommendation 2

Dawson Community College
Glendive, Montana

Prepared for Northwest Commission on Colleges and Universities

March 1, 2019

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Introduction

On August 3, 2018, the College received a letter stating the Commission determined that its expectations regarding Recommendation 2 of the Spring 2015 Year Seven Peer-Evaluation Report that the College was substantially in compliance but in need of improvement. The Commission requested the College to again address Recommendation 2 of the Spring 2015 Year Seven Peer-Evaluation Report in an Ad Hoc Report without a visit in Spring 2019.

Response to Recommendation 2

The evaluation committee recommends that Dawson Community College take immediate steps necessary to address a material weakness of internal controls related to account reconciliation that has been cited in biannual financial audits since 2011 and an annual audit in 2014 (Eligibility Requirement 19 and Standard 2.F.4)

2.F.4 The institution ensures timely and accurate financial information through its use of an appropriate accounting system that follows generally accepted accounting principles and through its reliance on an effective system of internal controls.

Eligibility Requirement 19

Financial Accountability: For each year of operation, the institution undergoes an annual external financial audit by professionally qualified personnel in accordance with generally accepted auditing standards. The audit is to be completed no later than nine months after the end of the fiscal year. Results from the audit, including findings and management letter recommendations are considered annually in an appropriate and comprehensive manner by the administration and the governing board.

In order to be in further compliance and accomplish this standard, the College should:

1. Develop financial statements in accordance with generally accepted accounting principles.
2. Contract with professionally qualified personnel to audit the financial statements.
3. The College's administration and board must review and consider the results of the financial statement audit in a timely, appropriate and comprehensive manner.

1. Develop financial statements in accordance with generally accepted accounting principles.

Three material weaknesses and one significant deficiency were noted on the FY2017 audit, and have been addressed. The College has accepted and implemented all recommendations from Eide Bailly mentioned in the audit report. Appendix A includes a summarized form of the Audit Finding, and the accepted recommendations as well as corrective actions completed in FY2018.

Audit fieldwork for FY2018 was conducted in November 2018 and completed in December 2018, a significant improvement over the previous audit cycle (where fieldwork was conducted in October 2017 and completed in February 2018). Most of the closing entries were completed, and reconciliations and supporting documentation was provided for all balances. A draft of the audit report has been completed. The auditors expect to present the draft to the Montana Legislative Audit Committee at their regularly scheduled meeting in March 2019.

2. Contract with professionally qualified personnel to audit the financial statements.

Per state statute, the Montana Legislative Audit Division selects independent auditors for the community colleges based on the results of a competitive bid process. Once the audit draft is completed by this independent accounting firm, it is reviewed and approved by the State Legislative Audit Division. Following the initial review, it is forwarded to the Montana Legislative Audit

Committee for additional review and approval. Once approved, the audit is presented to the DCC Board of Trustees for acceptance.

3. The College's administration and board must review and consider the results of the financial statement audit in a timely, appropriate and comprehensive manner.

The FY2017 and FY2018 audits were both completed within nine months following the end of the fiscal year. Once the Montana Legislative Audit Committee reviews and approves an audit, it is presented to the DCC Board of Trustees for final review and acceptance.

The independent auditors of Eide Bailly presented the FY2017 audit to the Board of Trustees at the May 2018 regularly scheduled meeting. Following the review and questions presented to the auditor, the Board accepted the FY2017 audit. See Appendix B.

In addition to the annual review, and in response to the previous audit findings, the Board's Finance Committee now receives monthly reconciliation reports from the Controller. Summarized reports are then provided to the Board and administration at monthly board meetings. Updates are also given to the Committee and Board when the audit is being conducted.

Conclusion

Modifications have been made to the policies, procedures, internal controls, timelines and methods of communication to ensure compliance with timely completion of financial statements and annual audit. The FY2018 audit fieldwork was completed in a timely manner and cash reconciliations are being performed on a monthly basis and reported to the Finance Committee. The Accounts Payable register is also in balance with the issue noted being corrected. Dawson Community College has made improvements and taken the necessary steps to fully address Recommendation 2.

Appendix A

2017-A Timeliness of Audited Financial Statements – Material Weakness in Internal Control

Criteria:

The College is responsible for establishing and implementing a system of internal control designed to provide for the preparation of the financial statements being audited, including footnote disclosures required by GASB, within a timeframe soon enough after the fiscal year-end, to provide for a timely year-end audit and meet the deadlines set by the State of Montana.

Cause:

The internal controls that were to be performed by the third party accounting firm were not performed in a manner sufficient enough to identify and record all adjusting and closing entries necessary for the preparation of the final trial balance and the financial statements in a timely manner. The Controller was new to her position effective July 1, 2017, and thus was not present during the fiscal year under audit. The Controller was relying on the third party accounting firm that was hired to perform reconciliations during the fiscal year as well as perform the year-end closing entries and the preparation of the financial statements.

Effect:

The audit was not performed in the most efficient and effective manner as procedures were postponed for weeks at a time and the trial balance changed significantly over the course of the months between the start of fieldwork and the finalization of the audit procedures. In addition, the State deadline and the extended deadlines were not met.

Recommendation:

Procedures should be implemented which include the review and reconciliation of significant account balances, the financial close processes, and audit preparation to ensure that accurate financial information is ready at the start of audit fieldwork and the audited financial statements are submitted to the State timely.

Views of Responsible Officials:

Dawson Community College agrees with the auditor's finding. The majority of closing entries were completed in time for audit fieldwork, however due to personnel changes several entries and reconciliations were not finalized for some time after fieldwork was conducted. In an effort to address FY2016 reconciliation concerns, the College continued to recruit for a full time Controller throughout FY2017, with the intent this position will oversee all monthly and year-end reconciliations. In April of last year after recognizing the results of not having a full time Controller, the College engaged a third party accounting firm to assist in performing monthly reconciliations and year-end closeout for FY2017. The third party accounting firm's designee, due to personal issues, was not able to respond and complete prescribed duties in a timely manner. To add to the challenge, the Vice President of Administration transitioned into a different role at year-end creating a void where some review processes and reconciliations were not completed as timely as intended. The College filled the Controller position as of

July 2017 and has addressed the situation with the third party firm. In addition, as a result of the challenges in the audit, the prior Vice President of Administration has recently agreed to return for general oversight of the business office functions until processes are brought up to date and the position is permanently filled. The College will continue to use the oversight of the prior Vice President of Administration, the third party accounting firm and the Controller for monthly reconciliation support until processes are firmly in place.

Corrective Action for FY2018:

The engagement with our third party accounting firm is still in place with a new CPA being assigned to the College. The new CPA is qualified, responsive and timely in completing the monthly reconciliations, based upon negotiated contract due dates. The Controller now provides monthly reconciliation reports to the Board of Trustees Finance Committee with follow-up to the Board at regularly scheduled monthly meetings.

2017-B Audit Adjustments and Year-End Closing Procedures – Material Weakness in Internal Control

Criteria:

The College is responsible for establishing and implementing a system of internal control designed to record all year-end adjusting entries necessary to close the fiscal year in a timely and efficient manner to allow those charged with governance the ability to evaluate the financial condition of the College.

Cause:

The internal controls and procedures currently in place were not sufficient to identify and record all adjusting and closing entries necessary for the preparation of the financial statements and to close the fiscal year in a timely manner.

Effect:

Misstatements to the financial statements were undetected by the College and not corrected in a timely manner which may result in the use by management of inaccurate financial information. In addition, the College does not have procedures or controls in place to ensure year-end close procedures are performed timely. As a result, the financial information reported to the Board of Trustees had the potential for misstatements that went undetected for several months after year end.

Recommendation:

Procedures should be implemented which include the review of significant account balances and financial close processes to ensure that accurate financial information is included in the financial statements of the College and reported to governance timely.

Views of Responsible Officials:

Dawson Community College agrees with the auditor's finding. This finding relates to the first in that the combination of the timing and vacancies in the Business Department positions added to the challenges faced by the third party accounting firm created a situation where missteps occurred in the closeout of the fiscal year. Again, the issues with the third party accounting firm have been resolved, oversight of the department has been adjusted and the Controller is in a better position to understand the monthly processes of the College.

Corrective Action for FY2018:

During FY2018, DCC renegotiated the contract with the third party accounting firm, which resulted in a new CPA taking over the duties with specific due dates for monthly reconciliations. Regular journal entries, receipting and reconciliations are now completed on a monthly basis, easing the stress of year end entries. This process proved to reduce the corrections and corresponding entries required to be made at year end in the past. These updated processes allowed the FY2018 fieldwork and audit review to be completed in less time than prior years.

2017-C Bank Reconciliation – Material Weakness in Internal Control

Criteria:

The College is responsible for establishing and implementing a system of internal control designed to reconcile the bank accounts on a monthly basis.

Cause:

The College's Controller was new to the position effective July 1, 2017, and did not take over responsibility of performing the bank reconciliation until the new fiscal year. The third party accounting firm hired to prepare the reconciliation did not perform it timely and was unable to identify all the reconciling items.

Effect:

If the bank accounts are not reconciled or are not reconciled timely, a material misstatement of the financial statements or material misappropriation of College assets could go undetected and uncorrected.

Recommendation:

Procedures should be implemented to require the reconciliation of all bank accounts monthly and timely and all reconciling items should be identified and corrected if necessary.

Views of Responsible Officials:

Dawson Community College agrees with the auditor's finding. Again, this finding relates to the first two in that the combination of challenges produced accounts not completely reconciled at year end close out. The issue with the third party accounting firm has been resolved, general oversight of the department has been adjusted and the Controller is currently moving forward with this year's reconciliations. Currently FY2018 cash reconciliations are complete as of January 2018 with other balance sheet reconciliations expected to be up to date by the end of April.

Corrective Action for FY2018:

During FY2018 bank reconciliations were brought up-to-date in January 2018. These same reconciliations were completed monthly and continue to be done on a monthly basis. This ensured bank reconciliations were completed and correct at year end for FY2018.

2017-D Accounts Payable Listing – Significant Deficiency in Internal Control

Criteria:

The College is responsible for establishing and implementing a system of internal control designed to ensure each asset and liability account has sufficient documentation and/or a subsidiary ledger supporting the ending balance each month.

Effect:

If the balances in assets and liabilities are not reviewed and reconciled with subsidiary ledgers on a regular monthly basis, the balances in these accounts can grow to an amount that materially misstates the financial statements of the College.

Recommendation:

Procedures should be implemented to require that material account balances be confirmed or reconciled with subsidiary ledgers as part of the month-end close.

Views of Responsible Officials:

Dawson Community College agrees with the auditor's finding. Again, this finding relates to the others in that the combination of challenges produced accounts and some amounts not completely reconciled at year end close out. The discrepancy in the Accounts Payable control account has been identified, will be corrected in FY2018 journal entries, and reviewed on a regular basis going forward.

Corrective Action for FY2018:

After the finding, the accounts payable listing error was corrected, bringing the ledger back in balance. The control account remained in balance at year end FY2018.

Appendix B – Minutes of the DCC Board of Trustees Meeting, May 21, 2018

Dawson Community College Board of Trustees
Minutes of the Regular Board Meeting
DCC Board Room
Monday, May 21, 2018–5:30 p.m.
Recorded by Randi Johnson

The meeting was called to order by Chairman Knudson at 5:30 p.m.

Correspondence

- President Mickelsen reviewed letters received from President Emeritus Don Kettner and Mr. Bob Carr regarding graduation ceremonies.

Minutes

- Trustees Handran/Vester moved/seconded to approve the minutes of the April 23, 2018 meeting. There was no discussion.
 - **Motion carried unanimously.**

Presentation of FY2017 Audit

The FY2017 Audit was reviewed by Ms. Jodi Daugherty, audit partner at Eide Bailly. On behalf of Eide Bailly, she thanked the Board for the opportunity to provide audit services. The audit and its findings were reviewed. Lengthy discussion followed regarding the findings and the processes the College has implemented to correct the deficiency and material weaknesses in internal controls. Chairman Knudson called for public comment. There was none. The Board thanked Ms. Daugherty for her presentation.

Reports:

President

President Mickelsen reviewed his report. He announced the 2018 Gala fundraising event will be held June 8 at the Toepke Center. President Mickelsen reviewed the NWCCU Mid-Cycle Report much of which regarded program review and student assessment. Several Trustees expressed their concerns about the report. President Mickelsen noted there is work to be done in the next three years. Discussion followed.

Finance Committee

Minutes of the last meeting were reviewed. The Committee expressed its disappointment in the audit and requested greater transparency and improved communication from administration. Going forward, a reconciliations report will be provided to the Committee each month. Discussion followed.

Chairman Knudson asked for clarification regarding meal cards. At this time, no changes will be made to the meal plan; however, students will have the option of purchasing a separate auxiliary card

The Trustees reviewed the list of vouchers.

HR Committee

Chairman Knudson reviewed the minutes of the last meeting. Ms. Weldon stated a Financial Aid Director has been hired and will be on campus June 18. Chairman Knudson asked about the search for an IT Director. Ms. Weldon noted the search continues. Geographic location, salaries, and finding people with the right skill sets are some of the challenges that factor into filling open positions. Discussion followed.

Chairman Knudson called for public comment. There was none.

Consent Items

- Trustees Handran/Rowe moved/seconded to approve the vouchers and the HR report. There was no discussion.
 - **Motion carried unanimously.**

New Business

Oath of Office

- Chairman Knudson administered the Oath of Office to Darla Handran, Rich Rowe and MaryAnn Vester.

Board Reorganization

- Trustees Wilondek/Rowe moved/seconded to nominate Chad Knudson for the position of Board Chair. Chairman Knudson stated he is pleased to serve another term as Chair; however, he strongly urged other Trustees to consider serving in this position in the future.
 - **Motion carried unanimously.**
- Trustees Rowe/Knudson moved/seconded to nominate Darla Handran for the position of Board Vice Chair. There was no discussion.
 - **Motion carried unanimously.**
- Trustees Rowe/Vester moved/seconded to nominate Darla Handran, Bob Stanhope and Mike Wilondek as members of the Finance Committee. There was no discussion.
 - **Motion carried unanimously.**
- Trustees Handran/Wilondek moved/seconded to nominate Kathleen Fritsch and Chad Knudson as members of the Policy Committee. There was no discussion.
 - **Motion carried unanimously.**

- Trustees Wilondek/Handran moved/seconded to nominate Rich Rowe and MaryAnn Vester as members of the HR Committee. There was no discussion.
 - **Motion carried unanimously.**

FY2017 Audit

- Trustees Wilondek/Vester moved/seconded to accept the FY2017 audit. There was no discussion.
 - **Motion carried unanimously.**

Certificate of Technical Studies

- Trustees Handran/Rowe moved/seconded to approve the Certificate of Technical Studies. Trustee Vester asked how many credits are needed to earn the certificate. Ms. Masau stated a minimum of 15 credits are required to earn the certificate.
 - **Motion carried unanimously.**

President's Evaluation/Summer Board Retreat

The Board Clerk will schedule a half-day Board Retreat in mid-July. The President's evaluation will be scheduled at that same time.

Information

Staff Presentation – Olivia Vester

Ms. Vester, Assistant Director of Recruiting, reviewed the general duties of her position and her recruiting efforts and strategies. Discussion followed. The Board thanked Ms. Vester for her presentation.

Open Forum for Public Input

- Chairman Knudson called for public input. There were no comments.

The meeting adjourned at 7:00 p.m.