UNIVERSITY OF UTAH

Government Auditing Standards Report
For the Year Ended June 30, 2019

Report No. 19-14

OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

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UNIVERSITY OF UTAH
FOR THE YEAR ENDED JUNE 30, 2019

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OFFICE OF THE
STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees, Audit Committee,
and
Ruth V. Watkins, President
University of Utah

We have audited the financial statements of the University of Utah (University), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 31, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the University of Utah Hospitals & Clinics (UUHC), ARUP Laboratories, Inc. (ARUP), University of Utah Research Foundation (UURF), and University of Utah Health Insurance Plans (UUHIP), as described in our report on the University's financial statements. This report does not include the results of the UUHC, UURF, and UUHIP auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. ARUP's financial statements were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with ARUP.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Finding

In addition, we noted a certain other finding as a result of performing the University's portion of our statewide single audit for the year ended June 30, 2019, that we have reported to University management in a separate letter (see Single Audit Management Letter No. 19-10). We have also included the finding in the State of Utah Single Audit Report for the fiscal year ended June 30, 2019.

University's Response to Finding

The University's response to the accompanying finding was not subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

Office of the State Auditor

Office of the State Auditor
October 31, 2019

FINDING AND RECOMMENDATION

INADEQUATE INTERNAL CONTROLS OVER PLEDGES AND CAPITAL ASSET RELATED TRANSACTIONS

The University of Utah (University) does not have adequate internal controls to ensure that pledges, construction in progress, particularly construction in progress related to the University of Utah Hospitals and Clinics (UUHC), and transfers between the University and UUHC are appropriately recognized and reported in the financial statements. As a result, the following adjustments to the statements were proposed:

a. A $19,500,000 promised donation was eliminated from "Gift Revenue" and "Pledges Receivable" because the University had not met donor contingencies, the fulfilling of which is required by generally accepted accounting principles before the University can recognize the promised donations as revenue. This adjustment was made as a prior period adjustment.

b. A $46,165,230 adjustment for projects completed in previous years was changed from a current year adjustment to a prior period adjustment. The projects, most of which were UUHC projects, were substantially or fully completed in prior years and should have been removed from "Construction in Progress" in the years they were substantially completed.

c. An $11,000,000 adjustment removed from both "Gift Revenue" and "Supplies Expense" an improper transfer entry made to route a donation initially received and recorded by the University to UUHC. The transfer entry recorded a "Gift Revenue" in the UUHC accounting system but failed to offset the "Gift Revenue" in the University accounting system. Instead, the transfer entry was incorrectly recorded as "Supplies Expense" in the University accounting system.

The error noted in a. above occurred due to a misunderstanding of revenue recognition requirements by the Development Office. The errors noted in b. and c. above were due to 1) inadequate policies and procedures to monitor and account for the transfer of capital assets and revenues between the University and UUHC, and 2) inadequate coordination between UUHC and the University in their accounting processes.

The University should have an effective and centralized system of internal control procedures to monitor and account for all pledges, capital asset-related transactions, and revenues of the University as a whole to ensure proper financial reporting in accordance with generally accepted accounting principles. Inadequate controls over financial reporting may result in undetected errors in the financial statements.

Recommendation:

We recommend the University:

- **Improve its understanding of revenue recognition requirements to ensure pledge activity is properly captured and reported.**
- **Establish an effective centralized system of internal control to ensure capital asset-related transactions, including capital asset and revenue transfers, are properly recorded and reported in accordance with generally accepted accounting principles.**
- **Enhance coordination with UUHC for gift and capital asset activity.**

University's Response:

Internal Controls

a. *The Development Office is committed to ensure compliance with all pledge revenue recognition requirements. Training has been implemented to educate all staff on best practices and is now a standard part of new employee training. This finding highlights a need for more regular reviews. Accordingly, a member of the Development Office will now be dedicated to review pledges and terms on a quarterly basis to ensure all applicable contingencies are satisfied or deadlines have been met.*

b. *Management agrees that better communication and coordination for costs related to capital assets needs to occur between Campus Planning & Design, General Accounting and Hospital Property Accounting. Campus Planning & Design is in the process of improving and updating its Unifier project software to facilitate the separation of costs for hospital projects from those projects that are for main campus. Campus Planning & Design has also added staff to review and close projects, in order to timely and more efficiently reclassify projects' costs from construction-in-progress accounts. These three departments are meeting quarterly to ensure better communication and accurate accounting.*

c. *Management agrees with the audit recommendation and has addressed incorrect reporting of donations from a foundation which were transferred to a different business unit. Management coordinated training sessions with the applicable units to ensure correct accounting going forward.*