UTAH STATE UNIVERSITY

Single Audit Management Letter
For the Year Ended June 30, 2018

Report No. 18-24

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:
John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Sean Clayton, Audit Senior

UTAH STATE UNIVERSITY
FOR THE YEAR ENDED JUNE 30, 2018

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OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER

December 11, 2018

To the Board of Trustees, Audit Committee
and
Noelle E. Cockett, President
Utah State University

This management letter is issued as a result of Utah State University's (the University's) portion of the statewide single audit for the year ended June 30, 2018. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover.

In planning and performing our statewide compliance audit of the Research & Development Cluster of programs, we considered the University's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2018. We also considered the University's internal control over compliance with the types of requirements described above that could have a direct and material effect on the programs tested in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, we did not identify any deficiencies in the University's internal control that we consider to be material weaknesses.

We identified an instance of noncompliance which we are required to report under Uniform Guidance. This matter is described in the accompanying schedule of findings and recommendations as Finding Number 1.

During our audit, we also became aware of a deficiency in internal control that is reported as an opportunity for strengthening internal controls and operating efficiencies. This other finding is also included in the accompanying schedule of findings and recommendations as Finding Number 2.

The University's written responses to and Corrective Action Plans for the findings identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by University personnel during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

Hollie Andrus

Hollie Andrus, CPA
Audit Director
801-808-0467
handrus@utah.gov

cc: David T. Cowley, Vice President for Business and Finance
Dan Christensen, Controller

1. WORKING CAPITAL RESERVES IN EXCESS OF FEDERAL GUIDELINES

Federal Agency: **Various**
CFDA Numbers and Titles: **Various**
Federal Award Numbers: **Various**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

At June 30, 2018, Utah State University (University) held working capital reserves in excess of federal guidelines in its Facilities Maintenance Fund. Uniform Guidance (2 CFR part 200) generally allows a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes in each internal service fund. As of June 30, 2018, the University had an excess of working capital reserves of 35 days, amounting to $532,247. The excess reserves are due to an error of expenses being charged to the Brigham City building Facilities Maintenance (FM) index instead of the FM service center. Excess reserves could result in a federal liability since federal programs share an interest in the reserves.

Recommendation:

We recommend that the University reduce excess working capital reserves to comply with federal guidelines.

University's Response:

Utah State University requires service centers to liquidate working capital reserve surplus/deficit balances into future year rate calculations. This internal control procedure resolves any over/under billings during the next rate cycle as required by the federal government.

Corrective Action Plan:

Regarding the accounting error in the Facilities Maintenance service center: the error was discovered during the calculation of the FY19 rate and corrected via a journal entry. The correction of the accounting error will be included in the FY18 Facilities and Administration incurred cost settlement negotiated with the federal government, thereby eliminating any potential federal liability associated with the accounting error.

Contact Person: Gina Hooten, Financial Analysis Manager, 435-797-1072
Anticipated Correction Date: June 30, 2019

2. INADEQUATE INTERNAL CONTROLS OVER INDIRECT COST RATES

The University used an incorrect indirect cost rate for Grant 100690 Fund 121515. When the University set up the grant in its general ledger, it entered a Facilities and Administrative (F&A) Rate of 41.60% instead of the appropriate 43.11% rate. The error was corrected in April

2016, but the University did not correct the F&A charges recorded before April 2016. Because the F&A Rate used was less than the approved rate, we have not questioned any costs. Using incorrect indirect cost rates could result in inaccurately charging the Federal Government for indirect costs.

Recommendation:

We recommend the Sponsored Programs Accounting Office establish adequate internal controls to ensure that the appropriate F&A Rates are applied to grants.

University's Response and Corrective Action Plan:

The Sponsored Programs Accounting (SPA) Office will create a monthly exception report that will compare actual IDC [indirect cost] charges posted to a calculation of what should have been charged. Discrepancies will be analyzed by the SPA Manager or Supervisors who will ensure any necessary corrections are submitted timely and training needs are addressed.

In addition, a report will be created to compare the IDC rates in the pre-award system against the posted IDC rates in the accounting system (Banner). Discrepancies will be reviewed by the SPA Manager/Supervisors who will ensure both systems agree and training needs are addressed.

Contact Person: Jennifer Jenkins, Sponsored Programs Accounting Manager, 435-797-1070
Anticipated Correction Date: February 28, 2019