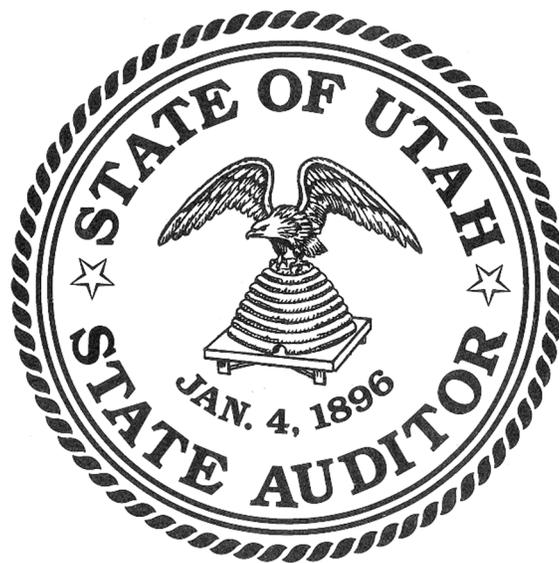


UNIVERSITY OF UTAH

Government Auditing Standards Report
For the Year Ended June 30, 2018

Report No. 18-14



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Jason Allen, CPA, CFE, Senior Audit Manager

UNIVERSITY OF UTAH
FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
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 <i>GOVERNMENT AUDITING STANDARDS</i>	1
FINDING AND RECOMMENDATION:	
Inadequate Internal Controls Over Financial Reporting (Significant Deficiency)	3



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, 2018, 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 15, 2018. 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 includes our consideration of 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. However, this report, insofar as it relates to the results of the UUHC, UURF, and UUHIP auditors, is based solely on the reports of the 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 and the other auditors of UUHC, UURF, and UUHIP did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying finding and recommendation, 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, 2018, that we have reported to management of the University in a separate letter. (See Single Audit Management Letter No. 18-23, dated December 11, 2018.

University's Response to Finding

The University's response to the finding identified in our audit 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.

Office of the State Auditor

Office of the State Auditor
October 15, 2018

FINDING AND RECOMMENDATION

INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING

The University of Utah (University) does not have adequate internal controls to ensure that transactions are appropriately recorded in PeopleSoft (the University's general ledger) and subsequently reported in its financial statements (statements). As a result, the following adjustments to the statements were required:

- a. The removal of \$124,503,364 in construction expenses, originally coded to "Other Non-operating Expenses," was reclassified to "Other Operating Expenses" to offset the initial expensing of construction costs later capitalized.
- b. \$28,696,060 in inter-agency activity between the University and the University of Utah Hospitals & Clinics (UUHC) for UUHC's portion of a construction project was eliminated.
- c. A \$24,468,988 bond interest payment, originally recorded as an increase in "Other Non-operating Expenses," was reclassified to "Interest Expense."
- d. A \$9,300,000 promised donation was eliminated from "Gift Revenue" and "Pledges Receivable" as the University had not met donor-stipulated contingencies, the fulfilling of which is required by generally accepted accounting principles before the University can recognize the promised donation as revenue.

University personnel used incorrect account codes in the initial recording of the transactions corrected in Items "a" through "c." For Item "d," the Development Office misunderstood the application of generally accepted revenue recognition requirements. The University should have adequate internal controls over financial reporting to ensure the financial statements are free from significant errors and are prepared 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: 1) improve its internal controls to ensure proper account codes are used when recording transactions in PeopleSoft; and 2) improve its understanding of revenue recognition requirements to ensure that pledges are properly reported in accordance with generally accepted accounting principles.

University's Response:

Internal Controls

- a. *A General Accounting employee inadvertently used an "other non-operating" expense account code in a year-end entry to close out construction-in-progress projects. General Accounting added additional steps to review all entries prepared by staff and management to mitigate these types of errors in the future.*
- b. *Management agrees that better communication and coordination needs to occur among Campus Planning & Design, General Accounting and Hospital Property Accounting. General Accounting will coordinate the overall year-end due-to/due-from journal entry that records inter-unit payments among the group and will ensure proper entries and eliminations.*
- c. *A new employee unfamiliar with how bond payments are processed caused an error between account codes. General Accounting added additional steps to review all entries prepared by staff and management to mitigate these types of errors in the future.*

Revenue Recognition

The Development Office historically relied upon applicable campus entities to make requests for funding after a donor committed to a substantial gift. We agree with the audit findings and will implement new procedures to accommodate for situations where the donor's gift agreement or letter of intent outlines specific requirements for funding. The Development Office will manage this process internally to ensure compliance with the donor's agreed-upon terms. We will either draft and submit specific requests directly to the donor, or we will require campus entities to provide the Development Office with copies of the specific requests that they submitted directly to the donor.