

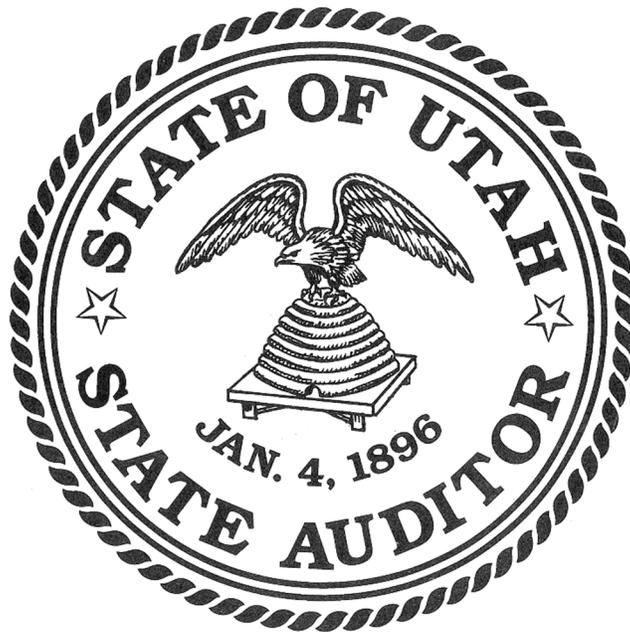
# Dixie State University

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## Government Auditing Standards Report *For the Year Ended June 30, 2021*

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Report No. 21-05



## Office of the State Auditor

**AUDIT LEADERSHIP:**

John Dougall, State Auditor

Hollie Andrus, CPA, Deputy State Auditor

Andrew Driggs, CPA, Audit Supervisor

# Dixie State University

For the Year Ended June 30, 2021

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## Entity's Response

### Finding Type:

MW Material Internal Control Weakness  
SD Significant Deficiency of Internal Control  
MN Material Noncompliance  
RN Reportable Noncompliance or Illegal Acts

### Applicable To:

e Entity's Financial Statements  
f Federal Program



Office of the  
**State Auditor**

## Independent 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  
Richard B. Williams, President  
Dixie State University

We have audited, in accordance with the 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, the financial statements of Dixie State University (the University), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated September 29, 2021.

### **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 have not been 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, described in the accompanying schedule of findings and questioned costs as Finding 1 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 1.

### **University's Response to Findings**

The University's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the 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  
September 29, 2021

## Finding 1. Dixie Foundation’s Endowments Inadequately Documented and Improperly Invested

The Dixie Foundation (Foundation) has not documented identified endowment agreements or complied with investment portfolio allocations applicable to its endowment funds.

### Endowment Agreements

After governance changes in fiscal year 2020, the Foundation became subject to Dixie State University’s (University) policies and procedures. The University’s Internal Audit reviewed the Foundation’s endowment activity and issued a report in October 2020 identifying 50 of 91 endowments and gifts without any formal agreement or contract with donors. The Foundation’s management agreed to Internal Audit’s finding and responded with a plan to create agreements with living donors and to create new paperwork related to the endowment or gift with donors who had passed, the latter being sufficient under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) Section 501.

We selected 5 endowments or gifts from the Internal Audit report. Nearly a year after providing its corrective plan, the Foundation’s management could neither provide documentation nor demonstrate progress of documentation for any of the selected endowments or gifts. Current University policies prescribe documentation of charitable giving including the purpose, use, or other restriction of endowment funds. Inadequate documentation of the endowment and gift agreements could expose those funds to improper use.

### Endowment Investment Portfolio Allocation

The Foundation did not comply with endowment investment portfolio allocation ranges as shown below, resulting in noncompliance for the University as a whole. The Board of Higher Education’s Rule 541 6.2.2 (Rule) governs the overall allocation ranges for institutions of higher education, such as the University, that do not have an approved internal policy.

Investment Type	Allowable Minimum	Allowable Maximum	Actual Percentage	Over/ (Under)	Dollar Impact
<i>Foundation Allocation Only</i>					
Fixed Income & Cash Equivalents	25%	100%	3.7%	(21.3%)	\$(3,949,349)
Equity Investments	0%	75%	76.7%	1.7%	\$308,313
Alternative Investments	0%	15%	19.6%	4.6%	\$854,624
<i>University Allocation Total</i>					
Fixed Income & Cash Equivalents	25%	100%	5.8%	(19.2%)	\$(4,160,807)
Equity Investments	0%	75%	77.4%	2.4%	\$519,771
Alternative Investments	0%	15%	16.8%	1.8%	\$384,677

The Dixie Foundation was not subject to the Rule prior to governance changes in fiscal year 2020. After the governance changes, it became subject to the Rule allocations above. The Foundation relied on its financial advisors to ensure compliance with the Rule; however, it did not internally monitor for allocation compliance. The Rule helps institutions of higher education limit exposure of endowment corpus to market risk while providing prudent investment returns.

**Recommendation:**

**We recommend that the Foundation formally document endowment agreements according to its corrective action plan, follow Rule 541 6.2.2, and monitor its compliance with allocation percentages.**

*University's Response:*

*We agree with the finding. Foundation personnel will work over the next three years to formally document existing endowments as outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As milestones to show progress 17 endowments will be formalized and documented as appropriate each year. The Foundation leadership will report the progress each year to the Executive Director of Business Services and the Utah Office of the State Auditor during the annual financial audit. Additionally, a thorough review of Utah Board of Higher Education policy R541 will be conducted to ensure that investment allocations are in accordance with the policy. Adjustments will be made to the monthly investment reports to show a comparison of the policy allocations compared to actual allocations to allow for more timely investment rebalancing strategies to maintain compliance.*