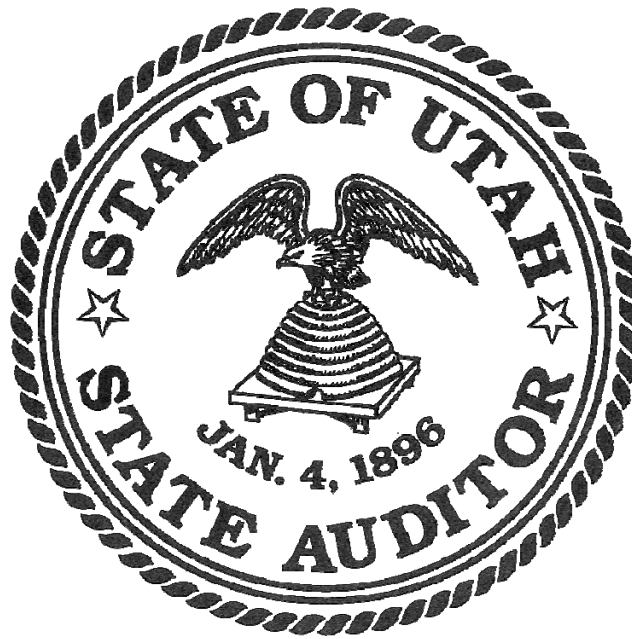


UNIVERSITY OF UTAH

Government Auditing Standards Report
For the Year Ended June 30, 2017

Report No. 17-12



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, 2017

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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
David W. Pershing, 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, 2017, 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 20, 2017. 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), and the University of Utah Research Foundation (UURF), as described in our report on the University's financial statements. This report includes our consideration of the results of the UUHC and UURF 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 and UURF 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 and UURF 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*.

University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying finding and recommendation. 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.



Office of the State Auditor
October 20, 2017

FINDING AND RECOMMENDATION

INADEQUATE INTERNAL CONTROLS OVER CAPITAL ASSET ACTIVITY

The University of Utah (University) does not have adequate internal controls to ensure that the capital assets, particularly those involving construction projects, and related capital gifts/donations are appropriately recognized and reported in the financial statements. As a result, the following discrepancies were identified:

- a. \$171,222,601 for three buildings substantially completed during fiscal year 2017 had not been removed from Construction in Progress, recognized as Buildings, and depreciated during the fiscal year.
- b. \$56,380,449 of capital construction costs expensed in prior years were removed from current year Repairs & Maintenance expenses rather than adjusting beginning net position. The University, through a “clean up” review of construction projects and the associated costs, identified these costs as capital construction expenses.
- c. \$16,927,008 of capital expenses had not been recognized as Construction in Progress for the University-funded portion of a building whose construction is funded by both the University and the State of Utah’s Division of Facilities Construction and Management.
- d. \$78,000,000 of gifts for capital purposes were improperly recognized and/or recorded as Gift revenues rather than Capital Grants and Gift revenues. Included in the \$78,000,000 were:
 - A \$42,500,000 promise to give (pledge) that was improperly recognized as Gift revenue and as a Pledge Receivable. The University had not met donor contingencies as of June 30, 2017 as required by generally accepted accounting principles in order to recognize donations as revenue.
 - A \$14,000,000 Pledge for capital purposes that should have been recognized as revenue in fiscal year 2016 but was not recognized until fiscal year 2017. When recorded in fiscal year 2017, this donation was improperly recognized as Gift revenue and not as Capital Grants and Gift revenues.
 - \$21,500,000 from several other donations that was recognized as Gift revenue instead of Capital Grants and Gift revenues.

These errors occurred due to: 1) miscommunications between the University’s Campus Planning Design and Construction (Campus Design) and the Financial & Business Services (FBS) offices; and 2) a misunderstanding of revenue recognition requirements and set up of accounts by the Development Office. The University should have adequate internal controls over capital asset activity to ensure the financial statements 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 communication between Campus Design and FBS; and 2) improve its understanding of revenue recognition requirements to ensure that capital asset activity is properly captured and reported in accordance with generally accepted accounting principles.

University's Response:

We agree with the recommendation. We are committed to improving the quantity and quality of communications between Planning Design & Construction and Financial & Business Services. We will schedule semi-annual meetings with all appropriate personnel to review all accounting entries associated with capital construction.

In regards to proper recognition of gift revenue, we will work with the Development Office to revise internal control procedures related to conditional pledges to ensure due diligence in accounting and reporting of such gifts. Development staff will receive additional training to ensure pledges are appropriately recorded in the proper fund type, such as capital or non-capital.

*Responsible Person: Laura Howat, University Controller, 801-581-5077
Completion Date: June 30, 2018*