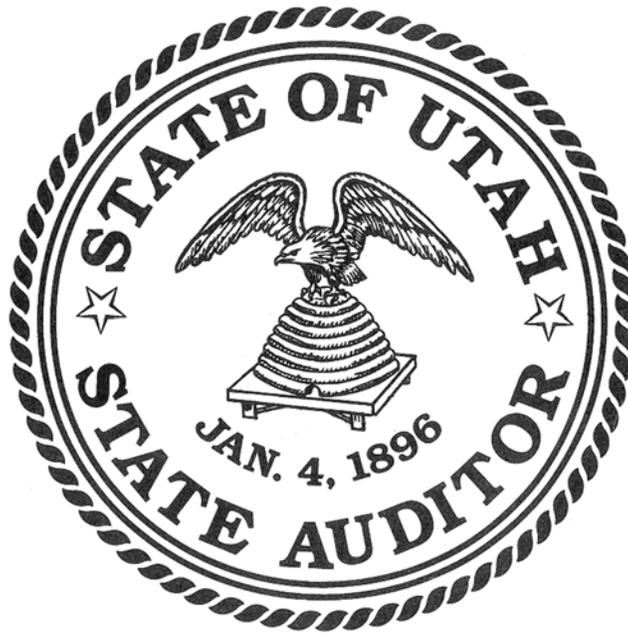


SOUTHERN UTAH UNIVERSITY

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

Report No. 17-19



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Gregg Hastings, CPA, Audit Supervisor

SOUTHERN UTAH UNIVERSITY
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
Scott L. Wyatt, President
Southern Utah 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 Southern Utah University (the 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 December 22, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as Finding No. 1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as Finding No. 2 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 Responses to Findings

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
December 22, 2017

FINDINGS AND RECOMMENDATIONS

1. INADEQUATE INTERNAL CONTROLS OVER UNIVERSITY INVESTMENTS

Southern Utah University (University) lacks adequate internal controls over its investment activity, as follows:

a. Inadequate Separation of Duties related to the Purchase and Sale of Investments

The University's Public Treasurer purchased investments without obtaining approval from a second University official, as required by policy. For investment purchases (barring a few exceptions), the University's Investment Policy, Section *VI.B Approval of Investment Decision*, requires two approvals from the President of the University, the Chairman of the Investment Advisory Committee, and/or the Public Treasurer. As the Public Treasurer currently serves as the Chairman of the Investment Advisory Committee, the University does not have enough personnel authorized to comply with its policy requiring two separate approvals.

In addition, the University's Public Treasurer both initiated and approved investment purchases and sales. To properly safeguard the University's investments, a University employee should not possess the ability to both initiate and approve transactions.

b. Lack of Internal Controls to Ensure Compliance with the State Money Management Act

The University has not established adequate internal controls or maintained appropriate documentation to ensure compliance with the Money Management Act and Rules of the Money Management Council. Instead, the University relied on its investment broker to ensure compliance. For proper internal controls, the University should monitor its investment activity and compliance with state laws and rules. Monitoring for compliance by an external party is not a control internal to the University.

The above errors occurred due to both an inadequate Investment Policy and lack of adherence to the Investment Policy and the State Money Management Act. Not establishing and following the University's Investment Policy and the State Money Management Act can result in noncompliance with policies designed to protect University investments.

Recommendation:

We recommend the University:

- **Modify its investment policies to authorize additional appropriate employees to approve investment transactions;**
- **Separate the Public Treasurer's abilities to initiate and approve investment transactions;**

- **Establish controls internal to the University to ensure compliance with those policies, the State Money Management Act, and the Rules of the Money Management Council.**

University's Response:

The University is currently exploring options for hiring a professional investment manager. Through this process of identifying a course for our investment activities, we will modify our investment policy to designate additional appropriate individuals to approve investment transactions, separate duties to ensure the Public Treasurer does not have the ability to initiate and approve investment transactions, and establish controls to ensure compliance with policy, the State Money Management Act, and the Rules of the Money Management Council.

2. INADEQUATE INTERNAL CONTROLS OVER GIFTS IN KIND

The University does not have adequate internal controls to ensure that gifts in kind are recorded in accordance with generally accepted accounting principles. During fiscal year 2017, the University was gifted the Windsor Court Apartments and a large collection of library books. The University recorded the apartments at historic or book value and the library collection at a value estimated by the donor and the Library Dean. According to *Government Accounting Standards Statement 72, Paragraph 79*, donated capital assets and historical treasures must be recorded at acquisition value, which approximates fair value at the time of donation. An additional donation of library books had not been included in the University's capital assets because the Advancement Office did not notify the Controller's Office of the donation.

These errors occurred because 1) the University has not established written policies regarding the recording of gifts in kind at acquisition value, 2) the library staff was unable to complete the valuation by fiscal year end due to the volume of the gift and lack of staffing, and 3) the Advancement Office does not directly notify the Controller's Office of gifts in kind since they rely on the Controller's Office to identify these gifts in Banner. Insufficient policies and procedures over valuation of gifts in kind and inadequate communication between the Advancement Office and Controller's Office could result in gift revenue and capital assets not being reported in accordance with generally accepted accounting principles.

Recommendation:

We recommend the University establish written policies regarding valuation of gifts in kind, including policies to ensure the Advancement Office reports all gifts in kind to the Controller's Office.

University's Response:

The University will establish written policies regarding valuation of gifts in kind to ensure compliance with GASB Statement No. 72, with procedures to include how this will be done and how these transactions will be communicated from the Advancement Office to the Controller's Office to ensure proper valuation and recording of donated assets.