



OFFICE OF THE
STATE AUDITOR



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University of Utah

Government Auditing Standards Report

Report No. 23-08

For the year ended June 30, 2023

December 5, 2023

Office of the State Auditor

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OFFICE OF THE
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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
Dr. Taylor R. Randall, President
University of Utah

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 the business-type activities and fiduciary activities of the University of Utah (the University), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 7, 2023.

Our report includes a reference to other auditors who audited the financial statements of the University of Utah Health (Hospitals & Clinics) (UUHC), ARUP Laboratories, Inc. (ARUP), University of Utah Research Foundation (UURF), University of Utah Health Insurance Plans (UUHIP), the Community Nursing Service (CNS), and George S. and Dolores Doré Eccles Endowment for Medical School Excellence (EMSE), as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of ARUP and EMSE 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 and EMSE.

Report on 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 opinions 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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items as Finding 1 that we consider to be a significant deficiency.

Report on 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the University's response to the findings identified in our audit and 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

Salt Lake City, Utah

November 7, 2023

Findings & Recommendations

Finding 1. Errors in Financial Report Preparation Process

(Finding Type: Significant Deficiency)

The University did not properly recognize and report the prepaid assets, right-to-use subscription assets, and “construction in progress”, particularly construction in progress related to the University of Utah Health system, in the financial statements. As a result, the following adjustments to the statements were needed:

- a. A \$27,194,405 prior period adjustment was made to properly account for the pre-paid contracts that were entered into by the Utah Education and Telehealth Network (UETN) in prior years and that included terms extended to future years. These pre-paid contracts were improperly recorded as expenses in prior years.

With the implementation of Governmental Accounting Standards Board Statement 96, *Subscription-Based Information Technology Arrangements (SBITA)*, effective in the fiscal year 2023, some of these pre-paid contracts met the definition of SBITA. Accordingly, an \$11,592,736 adjustment was made to properly record the UETN’s right-to-use subscription assets, along with a \$3,864,245 adjustment to amortization expense for the year.

The net effect of those noted above was an adjustment of \$18,923,215 to properly account for the remaining non-SBITA pre-paid contracts as prepaid assets at yearend.

- b. A \$29,489,939 adjustment was made to remove the duplication on “Construction in Progress” that was recorded in both the University system and the University of Utah Health system.

The University’s financial reporting preparation process required significant manual adjustments, which can lead to errors. In addition, the University was unable to obtain its components’ financial statements timely to allow sufficient time to perform adequate review and analysis, or to gain enough understanding of recorded transactions to detect errors.

To ensure the financial statements materially reflect the University’s financial position, the University should obtain components’ financial information timely, perform sufficient reviews and analyses, and gain an adequate understanding of information prepared for financial statement reporting. Inadequate controls over the preparation process may result in undetected material misstatements in the financial statements.

Recommendation

We recommend the University evaluate its process, obtain components' financial information timely, perform reviews and analyses, and obtain understanding sufficient to ensure information presented in the financial statements materially reflects the University's financial position.

University's Response

The university agrees that portions of our financial reporting preparation process are manually intensive. We are currently reviewing this process to identify, and if possible, implement changes that would reduce work effort as well as the chance for error. The university also agrees that due to timing of information received from component units and other outside sources we were unable to perform all necessary analytical reviews and analyses prior to the start of the audit. We will work with our component units and other sources of information, as well as the Office of the State Auditor, to set due dates that will allow us the time needed to perform the necessary reviews prior to the start of the audit work.