

STATE OF UTAH
OFFICE OF THE UTAH STATE AUDITOR



TINA M. CANNON
UTAH STATE AUDITOR

Southern Utah University

Management Letter

For the year ended June 30, 2025

Report No. 25-27

Office of the Utah State Auditor

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UTAH STATE AUDITOR

Management Letter No. 25-27

January 23, 2026

Mindy Benson, President
Southern Utah University
351 W University Blvd Cedar City, UT, 84720

Dear Ms. Benson:

This management letter is issued as a result of our audit of Southern Utah University's basic financial statements as of and for the year ended June 30, 2025. Our audit was conducted 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 final reports on internal controls and on compliance required under *Government Auditing Standards* will be issued under separate cover. This report will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance at the financial statement level, and the limited purposes of those considerations. The purpose of this letter is to communicate with University management concerns identified during the course of our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

Based on the audit procedures performed, we identified deficiencies in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Findings 1 and 2). In addition, during our audit, we also became aware of a certain deficiency in internal control (Finding 3) that is an opportunity for strengthening internal controls and operating efficiencies.

The University's written responses to and Corrective Action Plans for Findings 1 and 2 will be included in the final *Government Auditing Standards* report identified in the second paragraph above.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the University's internal control over financial reporting 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.

We appreciate the courtesy and assistance University personnel extended to us during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Doug Seager, CPA

Audit Director

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dseager@utah.gov

cc: Ben Joslin, Controller
Mary Jo Anderson, Assistant Vice President, Budget and Accounting Services
Mary Pearson, Vice President of Finance and Administration
Tessa Anderson, Internal Audit Director
Stuart Jones, Vice President University Relations & Strategic Enrollment
Staci Carson, Associate Vice President for University Advancement

Findings & Recommendations

Finding 1. Inadequate Processes and Controls Related to Capital Asset Reporting

(Significant Deficiency)

The University had inadequate processes and controls over capital asset recording and reporting that resulted in multiple significant adjusting journal entries to the fiscal year financial statements. Issues resulting in adjustments included the misclassification of funding received related to the purchase of a new building that was reimbursed by the Division of Facilities Construction and Management (DFCM); misclassification of gains/losses on disposal of capital assets; improperly recording routine repairs and maintenance re-roof projects as capital assets; and improperly reporting Subscription-Based Information Technology Arrangements (SBITA) contracts as prepaid expenses.

In addition to the issues that required adjusting journal entries discussed above, we also noted the University does not calculate its SBITA assets according to GASB 96 guidelines by using its current incremental borrowing rate for each contract; the University used the same historical average rate for all contracts instead. GASB 96 defines and outlines the accounting standards for SBITA contracts and requires that an imputed interest rate approximate the current incremental borrowing rate and that each contract be evaluated separately for contract conditions.

These errors resulted from the lack of a formal internal control process for authorizing, recording, and reviewing capital asset transactions. Appropriate internal control procedures will help ensure that the University's capital asset transactions are properly recorded in the general ledger and reported in their financial statements. The lack of appropriate internal control procedures could lead to additional errors in the recording and reporting of capital assets and related accounts.

Recommendation

We recommend the University review its processes and procedures for recording and reporting capital assets and implement stronger controls for authorizing, recording, and reviewing capital asset transactions.

University's Response

Management Response: Southern Utah University agrees with this finding. Accounting Services will implement greater review of capital asset recording and reporting. To address these concerns, the accounting team has trained on the proper classification of capital versus non-capital assets, prepaid expenses, and SBITAs. Going forward, an Accounting Manager will review capital asset

additions to determine whether funding sources are appropriately classified. The Controller will review Prepaid Expenses and SBITAs to ensure classifications are accurate. These controls will be integrated into year-end processes.

Additionally, the University will calculate the value of SBITA assets by using a current incremental borrowing rate for each contract.

Finding 2. Inadequate Processes and Controls Related to Gift Revenue Reporting

(Significant Deficiency)

The University had inadequate processes and controls over gift revenue recording and reporting resulting in multiple significant adjusting journal entries to the fiscal year financial statements. We identified multiple instances in which gifts were misclassified, including gifts restricted for capital purposes that were recorded as private gifts and unrestricted gifts recorded and reported as restricted gift revenue.

These errors resulted from the lack of a formal internal control process for reviewing gift agreements and insufficient communication between the Advancement Office and Accounting Services. The University's Advancement employees did not consistently communicate the nature and stipulations of gifts or provide supporting documentation to Accounting Services. Accounting Services did not consistently review gift agreements or have direct visibility into donor restrictions and intended use of gifts; instead, they relied on Advancement to identify and communicate gift types prior to assigning or creating new fund codes within the financial system. As a result, gifts were not always recorded in accordance with applicable accounting standards, increasing the risk of revenue misclassification and financial statement misstatement. Without proper review of gift agreements and classification, funds could be expended for purposes not authorized by the donor, resulting in violation of gift agreements, which could impact future donations.

Recommendation

We recommend the University establish a formalized internal control process requiring documented review of gift agreements and regular coordination between Advancement and Accounting Services to ensure gifts are accurately identified, coded, and classified at the time of recording.

University's Response

Southern Utah University agrees with this finding. Accounting Services has strengthened the review of gifts received by the University. Accounting Services is working in conjunction with the

Advancement Office to obtain necessary documentation (such as gift agreements) to confirm gifts are appropriately classified. The Assistant Controller performs a review of gift agreements to verify proper classification of new gifts. For this purpose, greater use of an interdepartmental shared drive will occur to facilitate improved communication.

Finding 3. Inadequate Disclosure of Donation Fees

(Other Finding)

The University assesses a 5% administrative fee on all cash gifts and payments on pledges to maintain the Institutional Enhancement Fund for the purposes of expanding the University's outreach and development efforts. However, the University was unable to provide evidence of consistent pre-donation disclosure of the fee or their approval of donor opt-out requests. We were also unable to locate any formally adopted policy regarding this fee and the related Institutional Enhancement Fund on their website. Disclosure of the fee was instead identified on donation receipts issued after payment was received. This could allow donations, restricted for a specific purpose, to be utilized for this outreach effort without the donor being fully aware or giving their consent at the time of donation.

The lack of a formal policy, processes, and controls, related to the disclosure of the administrative fee, led to the inadequate disclosure and documentation issues discussed above. This fee should be disclosed to all donors prior to their remittance of any gift subject to the administrative fee. By not first obtaining and then maintaining documentation of appropriate donor consent, there is an increased risk of donor disputes, noncompliance with donor intent, and reputational impairment.

Recommendation

We recommend the University adopt a formal administrative fee policy for gifts and post it on their website. We also recommend the University implement appropriate processes and controls to ensure disclosure of the administrative fee to donors prior to accepting donations, and to ensure consistent evidence documenting donor acknowledgment of the fee or opt-out decisions.

University's Response

Management Response: Southern Utah University agrees with this finding. The Advancement Office will update marketing communications where needed to disclose the collection of the administrative fee. Additionally, the Institutional Enhancement Fund guidelines will be revised and published on the University's website for public access. In instances where the administrative fee is waived, the Advancement Office will maintain documentation to support the exception.