



December 15, 2015

RE: A-133 Audit Report for the Fiscal Year Ended June 30, 2015

To Whom It May Concern:

Enclosed please find our portion of the OMB Circular A-133 Audit Report for the fiscal year ended June 30, 2015. Access a full copy of the audit report and the university's annual financial report at the following web address:

- OMB A-133 Federal Audit Report 2015:
<http://financialreports.utah.gov/saoreports/2015/2015SingleAuditStateofUtah.pdf>
- Annual Financial Report 2015:
<http://fbs.admin.utah.edu/download/finreport/2015fin.pdf>

Audit Findings are detailed on the included attachment.

If you have any further questions, please feel free to contact me at 801.581.5989.

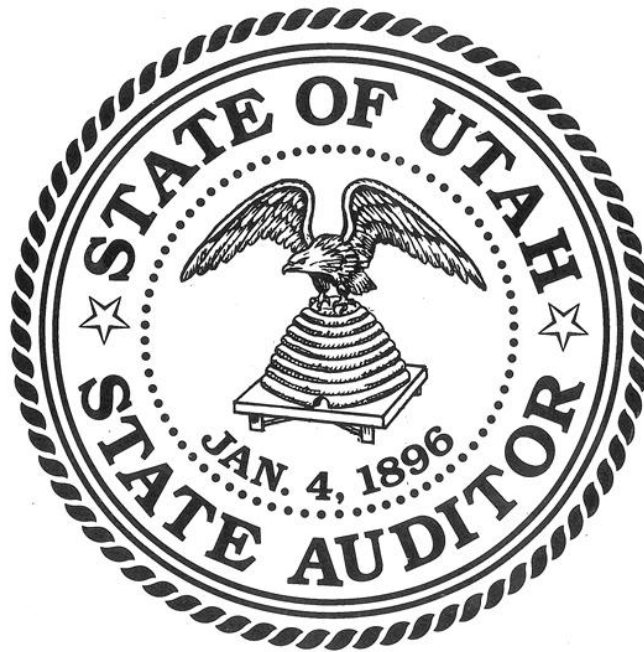
Sincerely,

Craig Merritt
Manager, Compliance Oversight and Reporting

UNIVERSITY OF UTAH

Government Auditing Standards Report
and
Single Audit Management Letter
For the Year Ended June 30, 2015

Report No. 15-18



OFFICE OF THE
UTAH STATE AUDITOR

UNIVERSITY OF UTAH

Government Auditing Standards Report
and
Single Audit Management Letter
For the Year Ended June 30, 2015

Report No. 15-18

AUDIT TEAM:

Hollie Andrus, CPA, Audit Director

Jason Allen, CPA, CFE, Audit Supervisor

UNIVERSITY OF UTAH
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page</u>																
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 <i>GOVERNMENT AUDITING STANDARDS</i>	1																
SINGLE AUDIT MANAGEMENT LETTER	3																
FINDINGS AND RECOMMENDATIONS:																	
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="text-align: center;"><u>Federal Program</u></th> <th style="text-align: center;"><u>Type/Applicability</u></th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>1. Ineffective Reviews of Management Reports</td> <td style="text-align: center;">R&D Cluster for the University of Utah</td> <td style="text-align: center;">SD-e; SD-f</td> <td style="text-align: right;">5</td> </tr> <tr> <td>2. Reimbursement Billing Errors Resulting in Overpayment</td> <td style="text-align: center;">Foster Care–Title IV-E</td> <td style="text-align: center;">RN-f</td> <td style="text-align: right;">7</td> </tr> <tr> <td>3. Inadequate Controls over Contract Expenditures</td> <td style="text-align: center;">HIV Care</td> <td style="text-align: center;">SD-e; MW-f*; MN-f*</td> <td style="text-align: right;">9</td> </tr> </tbody> </table>		<u>Federal Program</u>	<u>Type/Applicability</u>		1. Ineffective Reviews of Management Reports	R&D Cluster for the University of Utah	SD-e; SD-f	5	2. Reimbursement Billing Errors Resulting in Overpayment	Foster Care–Title IV-E	RN-f	7	3. Inadequate Controls over Contract Expenditures	HIV Care	SD-e; MW-f*; MN-f*	9
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<u>Finding Type:</u> MW Material Internal Control Weakness SD Significant Deficiency of Internal Control MN Material Noncompliance RN Reportable Noncompliance or Illegal Acts	<u>Applicable To:</u> e Entity Financial Statements f Federal Program
* Finding No. 3 is included in the statewide A-133 audit report as a material weakness and material noncompliance to the Department of Health	



OFFICE OF THE
UTAH 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, 2015, 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 4, 2015. 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 and Clinics (Hospital) and the University's component units, as described in our report on the University's financial statements. This report includes our consideration of the results of the Hospital 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 Hospital auditors, is based solely on the reports of the other auditors. The financial statements of the University's component units 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 the component units.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses to the University. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as Findings 1 and 3, that we consider to be significant deficiencies to the University.

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 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 Utah State Auditor

Office of the Utah State Auditor
November 4, 2015



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER

November 4, 2015

To the Board of Trustees, Audit Committee,
and
David W. Pershing, President
University of Utah

This management letter is issued as a result of the University of Utah's (University's) portion of the statewide federal compliance audit for the year ended June 30, 2015. Our report on the statewide federal compliance audit for the year ended June 30, 2015 is issued under separate cover. The following federal programs were tested as major programs at the University:

- Research and Development Programs
- Student Financial Assistance Programs
- HIV Care Formula Grants

In planning and performing our audit of the federal programs listed above, we considered the University's compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2015. We also considered the University's internal control over compliance with the requirements previously described that could have a direct and material effect on the federal programs in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A material weakness over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance

requirement of a federal program will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses to the University of Utah. However, Finding 3, as presented in the accompanying schedule of findings and recommendations, identifies an internal control deficiency in the University's role in administering the HIV Care Formula Grants. The State of Utah A-133 Single Audit Report includes a finding to the State of Utah's Department of Health related to deficiencies in internal control for the HIV Care Formula Grants. The finding to the Department of Health is considered a material weakness at the major program level.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control presented in the accompanying schedule of findings and recommendations as Finding 1 to be a significant deficiency at the federal program level.

The University's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

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

Sincerely,



Hollie Andrus, CPA
Audit Director
801-808-0467
handrus@utah.gov

cc: John E. Nixon, Chief Business Officer for Administrative Services
Arnold B. Combe, Vice President for Administrative Services
Jeffrey J. West, Associate Vice President for Financial and Business Services
Laura M. Howat, Controller
Todd J. Kapos, Associate Director for Financial Accounting and Reporting
Lisa A. Zaelit, Associate Director for Income Accounting
Kenneth M. Erickson, Director for Research Management and Compliance

UNIVERSITY OF UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015

1. INEFFECTIVE REVIEWS OF MANAGEMENT REPORTS

Federal Agency: **Various**

CFDA Number and Title: **Research and Development Cluster for the University of Utah**

Federal Award Numbers: **Various**

Questioned Costs: N/A

Pass-through Entity: N/A

For each of the University's Research and Development (R&D) projects, a PeopleSoft monthly management report detailing the revenues and expenditures for individual projects is generated from the University's accounting system. As part of our fiscal year 2015 OMB A-133 single audit, we selected 15 R&D projects and inquired of each project's Principal Investigator (PI) regarding his review of the management reports, as required by University Policy 3-003. The PIs' reviews of these reports, evidenced by their manual or electronic signature, is a key independent control in monitoring the financial activity recorded on the University's general ledger.

In reviewing the 15 selected projects, the evidence of the management report reviews (manual or electronic signatures) indicated that in many cases the reviews were performed by the grant accountant rather than the PI. Through further discussion with PIs and grant accountants, we determined that for 12 of the 15 projects tested, the PIs had delegated the responsibility to review the reports to their grant accountants—personnel who have access to and record transactions on the University's general ledger. In many cases, in lieu of reviewing the reports generated by PeopleSoft, the PI requested that the grant accountant extract the project's financial information from the University's accounting system and report the information on spreadsheets in a different format. However, this type of review is ineffective unless the spreadsheet is reconciled to the management report by the PI.

During our discussions with the PIs and their grant accountants, we discovered that the grant accountants for two of the projects tested had been delegated the responsibility to review the reports for their entire department; thus, they were reviewing the monthly expenditures for approximately 70 to 85 R&D projects. In these two departments, the PIs only reviewed reports if a problem arose or if they were specifically asked to review the report by their grant accountant.

University Policy 3-003 states, "monthly management reports should be approved by the PI. The PI should not seek to delegate this function, and may do so only when there is no practical alternative. If review and approval authority must be delegated, it is imperative that the PI remain sufficiently involved to be knowledgeable about financial matters and exert meaningful oversight." Furthermore, the University's research handbook outlines the PIs roles and responsibilities and states that the PI is accountable for compliance with University policy and proper fiscal management and conduct of the project.

UNIVERSITY OF UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015

The reviews of the management reports should be performed in accordance with University policy. Delegation of the report review should be limited to rare or extenuating circumstances and should not be assigned to personnel who have the ability to record transactions on the general ledger. The delegation of these reviews to a grant accountant, who often has the ability to adjust transactions, can cause inappropriate transactions or other errors (intentional or unintentional) to occur undetected because there is no independent review of recorded transactions.

Recommendation:

We recommend that the Principal Investigators comply with University Policy 3-003 by performing independent reviews of the monthly management reports directly from the University's accounting system rather than delegating that responsibility to a grant accountant. We also recommend that the Principal Investigators document their reviews, preferably electronically, through the University's accounting system.

University's Response:

We concur that Principal Investigators (and other Account Executives) need to comply with University policy in performing independent reviews of the management reports.

A substantial portion of the costs incurred on each research project (often 70-80% or more) include labor and related benefits costs. The University of Utah effectively implemented an electronic review and approval system for effort reporting: electronic Personnel Activity Report ("e-PAR"), effective for the fourth quarter of the fiscal year ended June 30, 2015. The e-PAR system requires each applicable individual to review and timely approve their effort reporting (the labor and related benefits costs). The Manager of Compliance Accounting and Reporting monitors and generates metrics on the timely completion and approval of all e-PAR reports for each fiscal year quarter. This seems to be working well, but the review does not occur monthly. With that caveat, these facts are submitted as evidence that personal services (labor and related benefits) charges are, in fact, reviewed and certified on all sponsored projects on a regular basis.

In addition, at the "close" of each project, a "final review" of project expenditures is also completed and approved by the PI — to identify, detect and accurately account for any inappropriate project expenditures. The PI on each research project is responsible for the timely review and approval of all costs charged to the applicable project(s). Again, this effort is needed, timely, and important — but it is not meant to be the only review of financial activity that is performed by the PI.

We realize making progress in resolving this recommendation will take time and require some behavioral changes on the part of PIs. We also believe that management can provide additional "tools" to empower PIs to be more diligent in their financial accountability duties. With this in mind, we will pursue the following:

UNIVERSITY OF UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015

- *The University will re-emphasize, train and monitor PI's timely review of all project expenditures*
- *The University will re-examine Policy 3-003 to determine if changes are necessary to achieve greater compliance*
- *The University will add functionality to the existing on-line review tool for PIs, to facilitate a more efficient user experience in the account review process*

Contact Person: Jeffrey J. West, Associate Vice President, Finance, (801) 581-7520
Anticipated Correction Date: June 30, 2016

2. REIMBURSEMENT BILLING ERRORS RESULTING IN OVERPAYMENT

Federal Agency: **U.S. Department of Health and Human Services**
CFDA Number and Title: **93.658 Foster Care – Title IV-E**
Federal Award Number: **University of Utah Award # 130814, Contract 10029428**
Questioned Costs: **\$0**
Pass-through Entity: N/A

The University's Internal Audit Department (Internal Audit) conducted a 'management transition' audit of the University's College of Social Work – Social Research Institute (SRI). A significant amount of funding is provided to SRI from Title IV-E contracts and grants. These contracts and grants provide support for faculty, and include scholarships and stipends to students who are actively employed, or will be employed in the future, by the State of Utah's Department of Human Services, Division of Child and Family Services (DCFS). The primary audit objectives were to evaluate financial accountability and compliance with federal regulations during fiscal years 2010 through 2014. Internal Audit identified billing errors related to a single Title IV-E contract that the University has with DCFS and reported that these billing errors resulted in a DCFS underpayment of \$120,782 for the fiscal years 2010 through 2012 and a DCFS overpayment of \$138,573 for the fiscal year 2013 through December 2014. Subsequent to the issuance of the applicable Internal Audit Report, the University reduced its June 2015 invoice to DCFS on the current contract (issuing a credit for the noted overpayment). Therefore, we have not questioned costs related to the overpayment.

Internal Audit reported that the improper billing amounts were possibly due to (1) transactions (transfers) being included that should not have been, (2) billings prepared and submitted after contract limits were reached, (3) detailed procedures of the billing process not being thoroughly documented, and/or (4) individuals responsible for portions of the billing not having access to the applicable financial reports. The reimbursement requests (billing) prepared by the University should be accurate, adequately supported, and submitted to the awarding entity in a timely manner. Inaccuracies and potential unallowable costs can occur when there are not adequate internal controls, access to relevant data, and timely preparation and review of reimbursement requests.

UNIVERSITY OF UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015

Recommendation:

We recommend that the University implement internal controls to ensure that billings for reimbursement of grant expenditures are accurate and prepared in a timely manner.

University's Response:

We view the billing problems encountered with DCFS as an isolated incident, applicable to this one project (due to the contract's unique and complex billing calculation requirement). This neither was nor is a systemic problem with the University's Internal Controls or its timely billing processes for sponsored awards.

Two primary factors were the cause of incorrect calculations of certain billing amounts:

- 1. Certain SRI personnel's lack of access to the applicable financial system "management reports". Access is required to identify accurate source financial information to calculate invoice amounts. The responsible SRI person has now been granted access to the management reports and is able to verify that "transfers out" from activities are not included in any billing amounts.*
- 2. The billing calculation for this award is dependent upon a percentage rate that is provided by DCFS to SRI each month. This DCFS-provided percentage rate can change or be updated by DCFS (after it is provided to SRI), which resulted in differences between the dollar amount that DCFS paid the University and the dollar amount initially billed to DCFS. Under our current accounting procedures, estimated billing amounts are timely resolved. We will keep estimated receivables in a hold status until DCFS provides the correct, applicable rate.*

Historically, certain SRI personnel did not have access to the source data in applicable management reports. As a result, invoices were sent to DCFS for amounts that then exceeded the award funding. Billings were prepared and submitted to DCFS in a timely manner. However, there was a necessary and accurate delay until the billing amount had been confirmed as "correct" by DCFS or accurately adjusted.

The internal audit of SRI that is referenced in this finding was completed in February 2015. Actions have already been implemented that addressed and resolved this audit recommendation.

*Contact Person: Kenneth M. Erickson, Director, Research Management & Compliance,
(801) 585-6244*

Anticipated Correction Date: July 31, 2015 (already corrected / implemented)

UNIVERSITY OF UTAH

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2015

3. **INADEQUATE CONTROLS OVER CONTRACT EXPENDITURES**

Federal Agency: **U.S. Department of Health and Human Services**

CFDA Number and Title: **93.917 HIV Care Formula Grants**

Federal Award Number: **2X07HA00032-24-00**

Questioned Costs: **\$0**

Pass-through Entity: N/A

The Utah Department of Health (Department) contracts with the University to provide medical services to recipients of HIV Care Formula Grant (Ryan White/HIV Care program) funds. Client-level data from the University is necessary for the Department to determine that only eligible clients are being served with the grant funds. Section II, Attachment A, of the contract between the Department and the University requires the University to submit client-level data to the Department on a monthly basis. However, because of the labor intensiveness of collecting the information, the University did not provide the data at any point during the fiscal year. Without the necessary client-level data, it is difficult to ascertain whether funds disbursed to the University are used to service only eligible clients and whether the costs are allowable charges to the grant. Subsequent to our review, we obtained adequate evidence to determine that funds disbursed to the University were used for allowable purposes; therefore, we have not questioned costs related to this error.

Recommendation:

We recommend that the University fulfill its contractual agreement by providing the Utah Department of Health with the required client-level data in a timely manner.

University's Response:

We concur that the University needs to fulfill its contractual agreement by providing the Utah Department of Health with the required client-level data in a timely manner. The required client-level data is provided monthly to the Utah Department of Health, beginning on September 1, 2015.

*Contact Person: Teddy Bryant, Manager, Accounting and Finance, Infectious Disease
Department at the University of Utah, (801) 585-5507*

Anticipated Correction Date: September 1, 2015 (already corrected / implemented)