UTAH VALLEY UNIVERSITY

Government Auditing Standards Report
For the Year Ended June 30, 2012

Report No. 12-50

STATE OF UTAH
OFFICE OF THE STATE AUDITOR

UTAH VALLEY UNIVERSITY
FOR THE YEAR ENDED JUNE 30, 2012

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STATE OF UTAH

OFFICE OF THE STATE AUDITOR

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. Matthew S. Holland, President
Utah Valley University

We have audited the basic financial statements of Utah Valley University (the University) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 23, 2012. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the component unit foundation (Utah Valley University Foundation), 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.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be a significant deficiency in internal control over financial reporting. (See Finding No. 1.) 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

We noted a certain matter that is included in the accompanying schedule of findings and recommendations. In addition, we noted a matter resulting from the University's portion of our statewide federal compliance audit for the year ended June 30, 2012, which was issued in a separate report to the University. (See Single Audit Management Letter #12-16, dated October 10, 2012.)

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the University's management, Board of Trustees, and Audit Committee, others within the entity, and the Utah State Board of Regents and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Office of the Utah State Auditor

Office of the Utah State Auditor
January 23, 2013

UTAH VALLEY UNIVERSITY

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012

1. INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING

Utah Valley University (the University) does not have adequate controls to ensure that the financial statements are properly prepared in accordance with generally accepted accounting principles. As a result, the following adjustment was required to properly present the University's financial position and results of operations for the fiscal year ended June 30, 2012:

- Unspent bond proceeds, totaling approximately $55 million, held in PTIF accounts were reclassified from Unrestricted Cash & Investments to Noncurrent Restricted Cash & Investments. In addition, the related Net Asset portion was also reclassified from the Invested in Capital Assets, net of related debt category to Restricted for Capital Projects since the funds will be used to construct future capital assets.

Management is responsible for the preparation and accuracy of the University's financial statements and for establishing internal controls and procedures to accurately capture and record transactions.

Recommendation:

We recommend that the University strengthen internal controls to ensure the financial statements reflect the University's financial position and results of operations in conformity with generally accepted accounting principles.

University's Response:

The University issued bonds near the end of the fiscal year. The unspent bond proceeds were classified on the University's financial statements as Restricted Cash in the current assets section of the Statement of Net Assets. The unspent bond proceeds should have been classified as a noncurrent asset, as the cash will be used to build capital assets. We adjusted the financial statements to be in compliance with GASB.

Steps will be taken in the future to ensure correct reporting of financial statement line items.

2. INADEQUATE CONTROLS OVER YEAR-END CUT OFF PROCEDURES

The University does not have adequate internal control over procedures to properly cut off year-end expenditures and accrue related liabilities. In accordance with generally accepted accounting principles, costs incurred in one fiscal year but paid in a subsequent fiscal year should be recorded as expenses and liabilities in the year incurred. However, the University's current practice examines for proper cut-off at year end only those invoices received before July 15th in the next fiscal year. In a sample of 28 check disbursements made between July 1, 2012 and August 31, 2012, 6 or 21.43%, were for obligations incurred in fiscal year 2012 that were not properly recorded as liabilities or expenses at June 30, 2012. For all of the disbursements, the invoice was received after the July 15th cut-off deadline. Of those, two disbursements had a fiscal year 2013 invoice date but were for services received during fiscal year 2012. Recording expenditures in the inappropriate fiscal year understates expenditures and liabilities in the fiscal year in which they were incurred and overstates expenditures in the fiscal year in which they are recorded.

Recommendation:

We recommend that the University develop and implement effective policies, procedures, and controls to properly cut off year-end expenditures and accrue related liabilities.

University's Response:

The University takes steps at year-end to ensure the cut-off procedures are sufficient so that expenses and accruals are materially correct. In April, the University begins the process of the year-end close by communicating with departments and setting dates whereby certain things must be done, such as creating purchase orders, for the current year. The deadlines leading up to year-end include having purchase orders approved early enough so there is time to have the goods delivered and paid for. As we approach our fiscal year-end, the accounts payable office reviews the Open PO report, which shows which purchase orders have been received but not invoiced or paid. Accounts payable clerks communicate with those responsible for the purchase orders on the Open PO report to find out if goods have been received and if the invoice has been sent to the department by mistake. The Open PO report gets smaller as items are either paid for, or if goods will not be received, rolled to the new fiscal year.

One of the challenges the University faces is the need to have a short closing process so we can begin getting ready for the coming school year, which begins in August. Departments must be able to have access to their available budgets for the new fiscal year. The July 15 deadline is one step in our closing procedures. It is our internal deadline communicated to departments to help us ensure expenses are recorded in the proper year. We continue to accrue expenses after July 15th that come to our attention during the process of reconciling accounts and getting ready for the annual audit.

University departments have limited resources allocated to them. The nature of having limited resources creates an incentive for departments to spend all of their allocated funds. Near the end of the fiscal year, departments are assessing their needs and trying to spend funds that have been allocated to them. For the most part, departments want the expenses to hit in the year closing out and to try to meet the year-end deadlines to ensure that happens.

In addition to the steps noted above, our future closing procedures will include the University staff performing a final review of transactions after year-end to ensure the expenses are recorded in the proper year.