

# **DIXIE STATE UNIVERSITY**

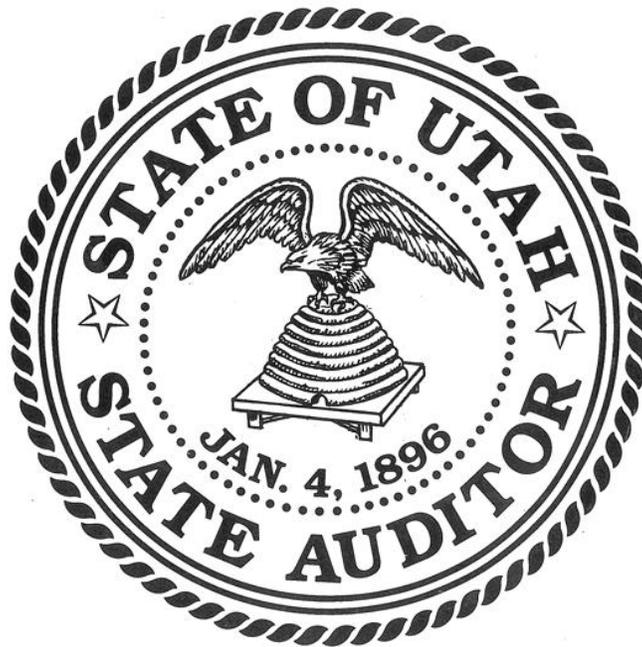
## **A Component Unit of the State of Utah**

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

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Report No. 12-59



**OFFICE OF THE**  
**UTAH STATE AUDITOR**

# **DIXIE STATE UNIVERSITY**

## **A Component Unit of the State of Utah**

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

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Report No. 12-59

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**DIXIE STATE 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  
Stephen D. Nadauld, President  
Dixie State University

We have audited the basic financial statements of Dixie State University (the University) as of and for the year ended June 30, 2012, and have issued our report thereon dated April 23, 2013. 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 University's discretely presented component unit foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and 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 opinions 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.

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

certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations, that we consider to be significant deficiencies in internal control over financial reporting. 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*.

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 Board of Trustees, audit committee, management, others within the organization, 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*

April 23, 2013

# **DIXIE STATE UNIVERSITY**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012**

### **1. INADEQUATE CONTROLS OVER FINANCIAL REPORTING**

Dixie State University (the University) does not have adequate internal controls to ensure that the financial statements are properly prepared in accordance with generally accepted accounting principles. As a result, a significant number of audit adjustments were required to properly present the University's financial position, results of operations, cash flows, and disclosures. The proposed adjustments included the following:

- Deferred revenue was reduced by \$309,551 and student tuition and fees revenue was increased by the same amount.
- Money market mutual funds totaling \$599,891 were reclassified from noncurrent investments to restricted cash and cash equivalents.
- \$259,475 was reclassified from auxiliary/other receivables to noncurrent loans.
- \$1,799,007 was reclassified from nonoperating gifts to capital gifts.

In addition, we proposed numerous adjustments to the cash flows statement, footnote disclosures, and management's discussion and analysis.

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

#### **Recommendation:**

**We recommend that the University improve internal controls to ensure the financial statements reflect the University's financial position, results of operations, cash flows, and disclosures in conformity with generally accepted accounting principles.**

#### **University's Response:**

*The University experienced an untimely employee turnover in a key position responsible for the preparation of financial statements. As a result, the preparation of the FY 2012-13 financial statements was completed by a team of accounting staff members. This circumstance resulted in the need for some reclassifications between financial statement line items during the audit and revealed weaknesses in the financial statement preparation process. The University has since undertaken a year-long project to create processes and procedures to improve the consistency, quality and supporting documentation relative to the financial statements preparation process.*

# **DIXIE STATE UNIVERSITY**

## **FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2012**

### **2. LACK OF FORMAL POLICIES AND PROCEDURES OVER THE MEASUREMENT OF FAIR VALUE FOR ALTERNATIVE INVESTMENTS**

The University does not have formal approved policies and procedures over the measurement of alternative investment fair value for financial reporting purposes. During fiscal year 2012, the University held alternative investments with a value of \$299,496; however, the University had not taken appropriate actions to establish the fair value of the investments at fiscal year end. In prior years, an informal policy was in place; however, due to a change in personnel and the policy never being formalized, the policy was not followed in fiscal year 2012. Because a readily determinable fair value does not exist for alternative investments, management of the University must establish accounting and financial reporting policies and procedures to:

- Determine the fair value measurements and disclosures.
- Select appropriate valuation measurements.
- Identify and adequately support any significant assumptions used.
- Prepare the valuation.
- Ensure that the presentation and disclosure of fair value measurements are in accordance with generally accepted accounting principles.

Once the policies and procedures are established, the University should then proceed through the formal policy approval process which includes final approval by the University's Board of Trustees and submission of the approved policy to the Utah State Board of Regents.

Lack of policies and procedures over the measurement of fair values for alternative investments could result in misstatements in the annual financial reporting of the University's investments.

#### **Recommendation:**

**We recommend that the University develop and formally approve adequate policies and procedures over the measurement of alternative investment fair values for financial reporting purposes.**

#### **University's Response:**

*A number of years ago, in association with the University of Utah, Dixie State University had developed a set of procedures for the measurement of the fair values of alternative investments. These procedures have been used for a number of years in the preparation of financial statements without audit incident. As a result of the circumstances detailed in the prior response, we were unable to locate these procedures during the audit. They have since been located and are now part of the documented procedures for financial statement preparation.*