

UNIVERSITY OF UTAH

Single Audit Management Letter
For the Year Ended June 30, 2016

Report No. 16-09



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Bertha Lui, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 16-09

November 4, 2016

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, 2016. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover. We tested the following federal programs as major programs on a statewide level:

- Student Financial Assistance Cluster
- TRIO Cluster

In planning and performing our statewide compliance audit of the above programs, we considered the University's compliance with the applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2016. We also considered the University's internal control over compliance with the types of requirements described above that could have a direct and material effect on the major programs tested in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 second paragraph and would not necessarily identify all deficiencies in the University's internal control that might be material weaknesses or significant deficiencies as defined in the following paragraphs. However, as discussed subsequently, based on the audit procedures performed, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses or 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 in internal control 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 consider the deficiency in internal control over compliance presented in the accompanying schedule of findings and recommendations as Finding No. 1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance presented in the accompanying schedule of findings and recommendations as Finding No. 2 to be a significant deficiency.

During our audit, we also became aware of a deficiency in internal control other than significant deficiencies or material weaknesses that is an opportunity for strengthening internal controls and operating efficiencies. This other finding is included in the accompanying schedule of findings and recommendations.

The University's written responses to and Corrective Action Plans for the findings identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. 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
Barbara H. Snyder, Vice President for Student Affairs
Jeffrey J. West, Associate VP for Financial and Business Services
Laura M. Howat, Controller
Lisa Zaelit, Associate Director for Income Accounting
Ken Erickson, Associate Director for Compliance Accounting & Reporting
Dawn Atterbury, Manager, Grants & Contracts Accounting
Kyle Ethelbah, TRIO Program Director

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Finding Type:

MW Material Internal Control Weakness
SD Significant Deficiency of Internal Control
MN Material Noncompliance

Applicable To:

f Federal Program

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FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

1. INACCURATE ANNUAL PERFORMANCE REPORT

Federal Agency: **Department of Education**

CFDA Number and Title: **84.042 Student Support Services – TRIO**

Federal Award Number: **P042A100856**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

From a statewide sample of 3 reports, we tested the accuracy and completeness of the Annual Performance Report (APR) for the TRIO Student Support Services program submitted by the University of Utah (University) during the year and noted the following errors:

- The student information reported by the University did not agree with the student records on file for 8 of the 15 students selected for review. The errors occurred because the program director did not have adequate access to student documentation in a readily usable format. In addition, an inadequate understanding of APR fields that can be updated prevented the correction of prior year errors which, in turn, contributed to current year errors and increased the potential for further errors.
- The University over reported the “number of current participants served” during the year by 107 students because the program director did not understand how to update this field, nor did he understand the importance of this critical field in the report.

According to the Annual Performance Report instructions, the University must certify that the information submitted is accurate, complete, and readily verifiable by signing the report. Although the report was signed, the University did not have adequate internal controls to ensure proper verification of the report’s accuracy. Inaccurate reporting could result in improper analytical data being used to evaluate the program, which could affect future funding.

Recommendation:

We recommend the University: 1) obtain a proper understanding of the reporting requirements in order to ensure accurate reporting of student information, 2) provide the program director with adequate access to the student documentation, and 3) implement proper internal controls over program reporting.

University’s Response:

The University concurs with the audit finding.

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FOR THE YEAR ENDED JUNE 30, 2016

Corrective Action Plan:

1. *The Project Director will attend training provided by the Council for Opportunity in Education entitled, “Building Your Program, Assisting You in Your First Year of Managing Your Program (Including a Hands-on Annual Performance Report).”*
2. *The University of Utah TRIO Programs office will work with the University of Utah Registrar’s office to connect the TRIO Student Access Database with the Institutional-supported PeopleSoft Software. This connection will allow for student data to be transferred electronically into the annual performance report format to eliminate the need for manual data retrieval and entry, thus eliminating human error.*
3. *The University of Utah TRIO Programs office will implement “second layer” internal control processes to review data that has been input into the Student Access database.*

Contact Person: *Kyle Ethelbah, TRIO Director, 801-581-7188*

Anticipated Completion Date: *Dec 31, 2016 for 1 above, April 30, 2017 for 2 and 3 above*

2. INCORRECT CLASSIFICATION OF ELIGIBILITY IN RELATION TO EARMARKING REQUIREMENTS

Federal Agency: **Department of Education**

CFDA Number and Title: **84.042 Student Support Services**

Federal Award Number: **P042A100856**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The University made clerical errors when inputting the eligibility classification in its TRIO program database (which is used to determine acceptance of new participants) for 2 of the 24 participants selected for review at the University. One student was classified as low-income and first-generation but should have been classified as low-income only. The other student was classified as low-income only but should have been classified as low-income and first-generation. Lack of independent reviews resulted in these errors remaining undetected. We reviewed the eligibility classifications for the 24 University students, selected from a statewide sample of participants in three programs, to determine the University’s compliance with earmarking requirements. An improper classification in the eligibility category could affect the University’s compliance with serving the required minimum percentage of low-income and first-generation students.

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Recommendation:

We recommend the University implement independent reviews to ensure accurate information is input into the program database so that correct data is available for monitoring earmarking requirements.

University's Response:

The University concurs with the audit finding.

Corrective Action Plan:

- 1. A file review will be conducted by the Office of Assessment Evaluation and Research once each year on individual student files to ensure compliance with federal reporting classifications.*
- 2. The University of Utah TRIO Programs office will contract with an independent consultant to review policies and procedures to ensure compliance with federal reporting and monitoring processes.*

Contact Person: Kyle Ethelbah, TRIO Director, 801-581-7188

Anticipated Completion Date: April 30, 2017

3. INDIRECT COSTS IMPROPERLY CHARGED TO GRANT AID PROJECT

Federal Agency: **Department of Education**

CFDA Number and Title: **84.042 Student Support Services**

Federal Award Number: **P042A150577**

Questioned Costs: N/A

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: N/A

The University improperly charged indirect costs to its TRIO program's grant aid expenditures. According to Indirect Cost Guidance for Federal TRIO Program Grantees, indirect costs rates should not be applied to grant aid expenditures. In order to automatically charge indirect costs to federal programs, the University creates "projects" in its general ledger and assigns indirect cost rates to the projects. Once a project is created and a rate is assigned, the system calculates a monthly charge for indirect costs. When the University created the TRIO grant aid project in its system, it inappropriately assigned an 8% rate and the system applied the rate to TRIO grant aid expenditures.

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Improper charging of indirect costs results in noncompliance with program requirements and could affect future funding. We have not questioned any costs related to this error because the University has repaid the \$1,547 of indirect costs that were charged to the grant aid project.

Recommendation:

We recommend the University strengthen internal controls to ensure indirect cost rates assigned in the system are correct and appropriate for the respective project.

University's Response:

This was a rare, isolated incident. The F & A set up error was quickly and internally identified by the University's processes at the time. The correct Indirect Cost Base was then applied to the project. We believe our current, improved processes are sufficient and that no additional action is required to improve internal controls.

The State auditors identified that \$1,547 of F & A costs were incorrectly charged to one TRIO project. We reviewed the contract file, investigated the overcharge, and found that the wrong indirect cost base (Total Direct Costs – "TDC") had been initially assigned to this project for purposes of calculating F & A. The keying error occurred when the project was initially set up and entered in the University's system. This error was detected in FY 2013, and the F & A calculation basis was updated (from "TDC" to the proper basis) in the system. However, the \$1,547 F & A overcharge was not corrected at that time (due to an oversight) even though the overcharge had been identified and the intention was to correct the overcharge at that time.

This project is still in "open" status. The University's standard "project closeout review and procedures" would have readily identified any incorrect F & A charges when the project ended and the correction would have been made prior to closing the project (had the State audit not identified this error).

Corrective Action Plan:

No Corrective Action is planned by the University. Since FY 2013 when this incident occurred, significant changes and improvements have been made in the award set up and set up review process that identifies and corrects these types of mistakes.

*Contact Person: Craig Merritt, Manager of Compliance Oversight and Reporting,
801-581-5989*