



UNIVERSITY SYSTEM OF GEORGIA ATLANTA, GEORGIA

**REPORT ON AUDIT
FOR FISCAL YEAR ENDED
JUNE 30, 2017**



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AUDIT SUMMARY

We have audited the basic financial statements of University System of Georgia (System) as of and for the year ended June 30, 2017, and issued our report thereon, dated December 21, 2017. 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 Independent Auditor's Report, included in the System's Consolidated Annual Financial Report, is available on the Georgia Department of Audits and Accounts' website at <http://www.audits.ga.gov/> and at the System's website at <http://www.usg.edu/>.

Our audit of the System found:

- the financial statements are presented fairly, in all material respects;
- one internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Summary of Opinions

Opinion Unit

Business-Type Activities
Aggregate Discretely Presented Component Units
Aggregate Remaining Fund

Type of Opinion

Unmodified
Unmodified (Audited by Other Auditors)
Unmodified



DEPARTMENT OF AUDITS AND ACCOUNTS

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Greg S. Griffin
STATE AUDITOR
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The Honorable Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the Board of Regents of the University System of Georgia
and
Dr. Steve Wrigley, Chancellor
University System of Georgia

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the 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, the financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of the University System of Georgia (the System), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 21, 2017. Our report includes a reference to other auditors who audited the financial statements of aggregate discretely presented component units, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. Except for the Augusta University Research Institute Inc., AU Health Systems, Inc., AU Medical Associates & Subsidiaries, Georgia Tech Research Corporation, and the University of Georgia research Foundation, Inc. the other auditors did not audit the discretely presented component units' financial statements in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in accompanying *Schedule of Finding Questioned Costs* as item FS-2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 System of Georgia Response to Findings

The System's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin". The signature is written in a cursive style with a horizontal line at the end.

Greg S. Griffin

State Auditor

December 21, 2017

CURRENT YEAR FINDINGS AND QUESTIONED COST

Financial Internal Control and Compliance Findings

FS-2017-001 Strengthen Controls over Census Data

Internal Control Impact: Significant Deficiency

Compliance Impact: None

Description:

The University System of Georgia (USG) should strengthen controls to ensure the completeness and accuracy of census data used in actuarial valuations.

Background:

Annually, the USG provides plan member census data to its actuary, who uses it to determine plan enrollment, net other postemployment benefit (OPEB) liability, and actuarially determined contributions for other postemployment benefits.

Criteria:

Management is responsible for having adequate controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The USG's internal controls over GAAP financial reporting should include the review of information used by management's actuary in preparing the financial statements and all disclosures as required by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans requires other postemployment benefit plans to report the net OPEB liability in the notes to the financial statements of other postemployment benefit plans. The calculation of the net OPEB liability is dependent on the completeness and accuracy of the underlying plan census data.

Condition:

Our audit procedures noted that the USG actuarial valuation report and census data used by the actuary did not contain approximately 2,655 inactive member dependents and therefore they were not included in the fiscal year 2016 postemployment benefit actuarial valuation and the beginning balances for fiscal year 2017. The USG did not have an adequate internal control process to ensure the completeness of the member data used by the actuary.

Cause:

The USG did not have an adequate monitoring process in place to ensure completeness and accuracy of the actuarial valuation report and therefore did not detect errors in the underlying census data used by the actuary.

Effect:

The estimated net OPEB liability disclosed in the notes to the financial statements was understated by approximately \$91 million as of the June 30, 2017 actuarial valuation. Lack of a management review and monitoring process increases the risk of recording/reporting inaccurate financial information.

Recommendation:

The USG should develop and implement a process to monitor the census data used in the actuarial valuation by reviewing all elements of the actuarial valuation report and reconciling the census data used in the valuation to the USG records.

Views of Responsible Officials and Corrective Action Plans:

The University System of Georgia (USG) has implemented procedures to strengthen monitoring and review of census data to ensure accuracy and completeness of data utilized by the actuary in the calculation of the USG's OPEB liability.

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UNIVERSITY SYSTEM OF GEORGIA

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