UtahState University

AUDIT NEWS

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Unrelated Business Income Tax (UBIT)

Utah State University is exempt from Federal income tax on revenues derived from the University's exempt (education) purpose. However, the University also engages in activities which do not directly relate to the exempt purpose. Revenue generated from these unrelated activities are subject to income tax under Section 511 of the *Internal Revenue Code* (IRC). This helps prevent tax exempt organizations from having an unfair advantage over for-profit businesses which pay tax on income from similar activities.

Each year, the University must file Form 990T to report UBIT to the Internal Revenue Service. Since the University is decentralized, it is the responsibility of individual departments to identify and ensure the Controller's Office is notified of UBIT from their activities. The following guidelines should help departments identify UBIT:

- Revenue generated trade or business– any activity which generates revenue from the sale of goods or services. It is the source of the revenue, not the use which defines UBIT.
- The activity of trade or business is carried on regularly. This condition is met if the activity is reasonably similar in frequency, continuity and manner of the private sector business.
- The business or trade activity is not substantially related to the accomplishment of the University's tax exempt purpose (education).

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Misconceptions about Internal Auditing

Some common misconceptions about internal auditing and auditors -

- Review only financial data
- Responsible for fraud protection
- Responsible for developing policies and procedures
- Responsible for training related to the system of internal control and other processes

The goal of internal audit is to proactively work with the University community to recommend ways for management to meet their objectives through the most effective, accurate and efficient means. Internal auditors are responsible to evaluate what gets in the way of management meeting their objectives. Although internal auditors investigate fraud, that is not our primary function. Internal auditors focus on assessing and interpreting if current processes and procedures comply with policies and regulations, procedures are effective in achieving University objectives, and controls are in place to help prevent fraud, waste or abuse. Internal auditors do not develop policies or provide training because these are management, not internal audit responsibilities. This is because internal auditors' independence would be undermined if internal auditors developed policies or provided training which would later be subject to audit.

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Misconceptions about Internal Auditing (continued)

The following table (*Tone at the Top,* Issue 25 - March 2005, Published by the Institute of Internal Auditors) shows how internal and external auditing differs.

KEY FACTORS THAT DISTINGUISH AND DIFFERENTIATE INTERNAL AND EXTERNAL AUDITING		
IN REGARD TO:	**INTERNAL AUDITING:**	**EXTERNAL AUDITING:**
Focus	Provides financial-, operations-, assurance-, consultative-, governance-, computer-, and fraud-related services.	Attests to financial statements and internal control.
Management	Reports to executive management administratively. Builds relationships throughout the organization to ensure concerns are identified and resolved in a timely manner.	Reports to the audit committee on financial and internal control.
Audit Committee	Reports directly to the audit committee.	Attests to the audit committee the accuracy of financial reports.
Standards	Follows the Institute of Internal Auditors (IIA)'s *International Standards for the Professional Practice of Internal Auditing*.	Is governed by appropriate accounting and audit standards.
Approach	Customizes approaches to best meet individual assignment objectives.	Customizes financial audit approaches to best meet individual assignment objectives.
Independence	Demonstrates organizational independence and objectivity in work approach, but is not independent of the organization.	Is independent of the organization.
Results	Identifies problems, makes recommendations and helps facilitate resolutions.	Meets statutory requirements and provides necessary adjustments to meet financial accuracy.
Control	Provides assurance that the financial and operational systems of internal control are adequate and effective; and that systems of internal control of each activity of the organization (including control over financial reporting) are adequately designed, effective and efficient.	Identifies risks and assesses controls over financial reporting for audit planning purposes. Audit planning results in documentation of linkage of the identified audit risk and the evaluation of internal controls.
Risk	Identifies and qualifies key business risks to estimate probability of occurrence and impact on business.	Identifies key transactions and exposures for financial statements.
Fraud	Includes fraud detection steps in audit programs. Investigates allegations of fraud. Reviews fraud prevention controls and detection processes put in place by the management and makes recommendations for improvement.	Includes fraud detection steps in audit plan. Gathers information necessary to identify risks of material misstatement due to fraud by inquiring of management and others within the entity about the risks of fraud.
Recommendations	Communicates recommendations for corrective action to management in the audit reports.	Communicates recommendations for corrective action.
Follow-up	Follows through with customers to ensure work is sufficient to achieve problem resolution.	Limits follow-up primarily to financial areas.