MOREHEAD STATE UNIVERSITY

AUDIT COMMITTEE MEETING

April 16, 2020 at 9:45 a.m.
via webex video teleconference (or audio teleconference for those with limited or no video availability)
CALL TO ORDER

ROLL CALL

APPROVE MINUTES OF OCTOBER 18, 2019 MEETING

RECOMMENDATIONS AND REPORTS

A. Approve Reappointment of Auditing Firm and Audit Price ............................................................... 4

B. Approve Minimum Scope of the Annual Audit for the Year Ending June 30, 2020 ................................. 5

ADJOURNMENT

Agenda materials are available online at http://www.moreheadstate.edu/bor
The Audit Committee met at 12:30 p.m. on Friday, October 18, 2019, in the Heritage Room of the Adron Doran University Center (ADUC), in Morehead, Kentucky. Audit Committee Chair Wayne Martin presided.

The following Audit Committee Members were present:
Wayne Martin, Audit Committee Chair & Board of Regents Vice Chair
Kathy Walker, Board of Regents Chair
Eric Howard
Sanford Holbrook

Administrative staff members present included President Jay Morgan, Jacqueline Graves, Secretary to the Board of Regents, Caroline Atkins, Diversity Officer and Assistant to the President for Strategic Initiatives, Teresa Lindgren, Chief Financial Officer, Joe Hunsucker, Internal Auditor, Kelli Owen, Director of Accounting and Financial Services, Jeremy Withrow, Assistant Director of Accounting and Financial Services, Jami Hornbuckle, Assistant Vice President for Communications and Marketing, and Danielle Tackett with the Trailblazer student newspaper.

Mr. Howard moved to approve the minutes of the June 6, 2019 Committee Meeting as distributed. Ms. Walker seconded the motion and the motion carried unanimously.

RECOMMENDATION: That the Audit Committee accept the audit report for the fiscal year ended June 30, 2019 as presented by Dean Dorton Allen Ford, PLLC.

KRS 164A.570 requires an annual audit to be conducted by all universities in the state system. The audit is to be conducted by an independent public accounting firm. On June 6, 2019, the Board approved the recommendation of the Audit Committee to appoint the accounting firm of Dean Dorton Allen Ford, PLLC to conduct the 2018-19 fiscal year audit. The Board also approved at that time, the Audit Committee’s recommendation for the minimum scope of the audit work to be performed.

Mr. David Richard, CPA and Director of Assurance Services at Dean Dorton Allen Ford, PLLC, was present to answer questions. Chair Martin thanked Mr. Richard for his efforts and helpfulness answering questions. Mr. Richard provided a brief overview of the audit report, stating that work completed by Dean Dorton Allen Ford, PLLC went routinely and resulted in a clean opinion. Mr. Richard commended the University’s efforts during a challenging financial time.

Mr. Richard stated that financial operations were conducted in accordance with the approved budget plan, which continues to demonstrate the University’s commitment to advance its mission by focusing on the goals and objectives as defined in the SOAR 2018-2022 Vision & Strategic Plan. Total assets and deferred outflows of resources were $355 million versus $366 million at June 30, 2018. The decrease was primarily related to a decrease in the deferred outflows of $13 million. This was offset by an increase in cash and cash equivalents of $6.5 million. Total liabilities and deferred inflows of resources were $358 million versus $398 million at June 30,
2018. The decrease was primarily related to decreases in the University’s proportionate share of
the state’s net pension liability of $57 million, a decrease in bond and capital lease obligations of
$5 million, and a decrease in other post-employment benefits (OPEB) liability in the amount of $4
million. This was offset by an increase in deferred inflows of resources of $27 million. Total
net position was ($3.2) million at June 30, 2019 and ($32) million at June 30, 2018. Mr.
Richard stated that revenue was down due to challenging times for public universities, but
commended the University for reacting to the reduction in revenue by cutting expenses where
practicable.

An audit was also completed to ensure compliance with federal financial aid regulations. The
audit was successful and showed the University materially complied with all requirements.

President Morgan briefly acknowledged certain expense categories used to calculate
performance funding monies.

MOTION: Ms. Walker moved that the Committee accept the audit report for the fiscal
year ended June 30, 2019 as presented by Dean Dorton Allen Ford, PLLC. Mr. Holbrook
seconded the motion and the motion carried unanimously.

Mr. Joe Hunsucker, Internal Auditor, reported on current, completed, and planned projects.

CURRENT/COMPLETED PROJECTS

**NCAA Student Assistance Fund**

Mr. Hunsucker reviewed 1,055 transactions totaling $84,087.19 for 312 student-athletes
during the period July 1, 2018 through June 30, 2019, from the NCAA Student Assistance Fund.
He noted the University received $94,769 from the Ohio Valley Conference which was deposited
into the NCAA Student Assistance Fund on July 11, 2018. The balance of unspent funds on hand
as of June 30, 2019 was $91,012.77. Based on his review, he stated that the University’s Office of
Athletics’ internal controls over expenditures and disbursements related to the NCAA Student
Assistance Fund are adequate and the University is in compliance with applicable NCAA policies
for the fiscal year ended June 30, 2019.

**President Morgan’s Expenses**

Mr. Hunsucker reviewed President Morgan’s purchasing card transactions and
disbursements made to, or on behalf of, President Morgan for the period July 1, 2018 through June
30, 2019. The population consisted of 62 purchasing card transactions and 33 disbursements,
totaling $20,218.58, with one-hundred percent of the transactions being reviewed. The following
categories were reviewed during the period: vehicle allowance (per employment contract), fuel for
business travel, lodging during home repairs, airfare (via travel coordinator), lodging for business
travel, parking/taxi during official travel, and meals during official travel. He stated that all
disbursements and purchasing card transactions were adequately supported and in compliance with
applicable University policies. Based on his review, President Morgan’s purchasing card
transactions and disbursements had a legitimate business purpose, were adequately supported, and complied with applicable University travel, procurement, and purchasing card policies.

**Cash Counts**

Mr. Hunsucker conducted several cash counts, including the University’s Office of Accounting and Financial Services, the University’s Store, and the Kentucky Folk Art Center. Year-end reports were issued to applicable University personnel and the University’s external auditing firm, Dean Dorton Allen Ford, PLLC. No problems were discovered.

**PLANNED PROJECTS**

Mr. Hunsucker noted audits will be performed at selected University departments to determine compliance with applicable laws, rules, regulations, and University policies. The audits will primarily focus on the areas of purchasing cards, travel cards, and travel expenditures. Exit conferences will be held with applicable University personnel as needed and reports will be issued to the appropriate supervisory personnel.

Mr. Hunsucker noted that purchasing card policies related to the purchasing cardholder’s monthly reconciliation and their supervisor’s review/approval of monthly transactions were implemented during July and August. An audit will be conducted to ensure compliance with the new policies. A report will be issued to the President’s Senior Leadership team.

In addition, he stated that he had provided assistance to Dean Dorton Allen Ford, PLLC in several areas, as well as to various internal units. He provided a list of the professional development activities in which he had been involved during the past six months.

There being no further business to conduct, Ms. Walker moved that the meeting adjourn and Mr. Howard seconded the motion. The motion carried unanimously.

Respectfully submitted,

Jacqueline N. Graves, Secretary
Board of Regents
Recommendation:
That the Audit Committee approve the audit price and the extension of the auditing services contract with Dean Dorton Allen Ford, PLLC in Lexington, Kentucky, to conduct the required annual audits for Morehead State University for the fiscal year that will end on June 30, 2020.

Background:
KRS 164A.570 requires an annual audit to be conducted for all universities in the state system. The bylaws of the Board of Regents provide that the Audit Committee review, evaluate, and recommend to the full Board, an accounting firm to conduct the University’s required annual audits. State statutes specify that the auditing firm must be selected through a request for proposal process, and that a personal services contract be issued to engage the firm.

On January 11, 2016, the University issued a request for proposals from qualified public accounting firms to perform the auditing services. As a result of that process, the Audit Committee recommended and the Board approved the appointment of Dean Dorton Allen Ford, PLLC to conduct the annual audits. The contract with the firm was for the fiscal year that ended on June 30, 2016 with the option to extend the contract for four additional one year periods. The audit fee adjustments for the extension periods will be based on the consumer price index.

The services rendered by Dean Dorton Allen Ford, PLLC for the 2018-2019 fiscal year were satisfactory and in compliance with the terms of the contract. The fee for the 2019-2020 fiscal year will not exceed $94,700.

Prepared by: Teresa Lindgren
Recommendation:

That the Audit Committee approve the minimum scope of the University’s audit for the year ending June 30, 2020.

Background:

The University is required to have an annual audit conducted of its financial activities. The bylaws of the Board of Regents specify that the Audit Committee review, evaluate, advise and recommend to the full Board the minimum scope of the annual audit.

The Director of Accounting and Financial Services and the Director of Internal Audits have outlined the scope of the audit that will comply with all local, state, and federal audit requirements. A summary of the audit scope is attached.
This document outlines the minimum scope of the annual audit of Morehead State University (MSU), and any applicable related entities, to be conducted by the University’s auditors (the Firm) for the year ending June 30, 2020. Additional audit requirements and procedures may be added as situations warrant.

**Internal Controls**

The audit will include a review and evaluation of the existing internal control structure. The evaluation will provide a basis for reliance thereon in determining the nature, timing and extent of selective audit tests to be applied to recorded transactions and data for certain periods of the year.

**General Purpose Financial Statements**

The Firm will perform an audit of and issue its independent auditor's report on the financial statements of MSU as of June 30, 2020 and the results of its operations for the fiscal year then ended. The audit will be performed in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. The audit should include a determination as to whether Morehead State University’s federal expenditures have met the Single Audit threshold established by the provisions of the Single Audit Act, Subpart F 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). The report will also include an independent auditor's report on supplemental information covering those supplemental schedules suggested to be reported on by the AICPA Audit Guide *Audits of Colleges and Universities*.

**Federal Awards Programs**

The audit will include a Schedule of Expenditures of Federal Awards, which will be subjected to the auditing procedures applied in the audit of the financial statements. An opinion will be rendered on whether the Schedule is presented fairly in all material respects in relation to the financial statements taken as a whole.

The audit will report on the internal controls over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts in accordance with *Government Auditing Standards*. A report will also be issued on compliance with requirements applicable to each major program and internal control over compliance with requirements of laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act, Subpart F of Title 2 U.S. CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).
Kentucky Lease Law Compliance Audit

The Firm will issue a separate report on compliance with the Kentucky Lease Law. This report should include documentation of testing procedures performed, sample selection methods, and summary of the auditor’s result in accordance with KRS 48.111, 48.190, 56.800 through 56.823, and 164A.575.

Intercollegiate Athletics Department

The Firm will perform certain agreed-upon procedures and issue a separate report covering the limited examination of the Intercollegiate Athletics Department and its related booster organization, for the year ending June 30, 2020. These procedures will be performed in accordance with the latest version of the NCAA Financial Audit Guidelines.

Corporation for Public Broadcasting (CPB)

The Firm will issue its independent auditor’s report on the financial statements of WMKY-FM for the year ending June 30, 2020. The audit will be performed in accordance with auditing standards generally accepted in the United States of America and the Public Telecommunications Audit Guide and Requirements as they relate to the CPB Annual Financial Report for the year ending June 30, 2020.

Compliance Report Under KRS 164A.555 to 164A.630 (House Bill 622)

The Firm will also issue a separate letter covering its study of MSU’s internal accounting controls and administrative control procedures considered relevant to the criteria established by the Commonwealth of Kentucky Finance and Administration Cabinet as set forth in the latest version of the Cabinet's Minimum Audit Scope for Compliance.

Management Letter

As required by generally accepted auditing standards (Statement on Auditing Standards No. 60), the Firm will prepare a letter of reportable conditions noted during the audit related to inherent weaknesses of controls, procedures, policies or noncompliance with governmental laws or regulations and suggest possible improvements. The Firm will comment and discuss those or other matters with the Director of Accounting and Financial Services, the Internal Auditor, the Chief Financial Officer, the President and the University Board of Regents. The Firm will also submit ideas or observations that will help achieve the University’s objectives or improve efficiency in operations. As required by the Commonwealth of Kentucky Auditor of Public Accounts, all such matters conveyed to management will be documented in writing to be forwarded to the Auditor of Public Accounts. Recommendations to management will be in the format prescribed by the Auditor of Public Accounts. The Firm will document the resolution status of prior year recommendations.

Closing Package

In accordance with the directive from the Commonwealth of Kentucky Auditor of Public Accounts, the Firm will provide a copy of the comprehensive financial statements and management letter to the Auditor of Public Accounts. In addition, a report issued under Codification of Statements on Auditing
**Standards AU 623.11 through 623.17** applicable to the “closing package” furnished by the University to the Finance and Administration Cabinet will be provided to the Auditor of Public Accounts by October 2, 2020. If requested by the Auditor of Public Accounts and approved by the University, all working papers prepared by the audit team will be made available for review.

**Audit of Subsequent Events**

In accordance with the directive from the Auditor of Public Accounts, the Firm will update the audit procedures related to events subsequent to June 30, 2020 from the last day of field work (projected for late September 2020) to December 10, 2020. The Firm will report the results of these updated procedures in a separate letter, which shall be delivered to the Auditor of Public Accounts and to the University, no later than close of business on December 10, 2020.

**Other Reports**

The Firm will issue any other letter reports as may be required by the Finance and Administration Cabinet or the Auditor of Public Accounts of the Commonwealth of Kentucky.

**Exit Conferences**

Separate exit conferences may be required to be held with the MSU Board of Regents, the Board of Regents Audit Committee, the MSU President and other members of the administration. Also, it is expected that exit conferences will be held with major unit heads as appropriate to the areas or functions audited.

**Timing of Reports**

1. The audited financial statements and management letter shall be furnished to the Auditor of Public Accounts no later than October 2. If final reports are not available as of October 2, drafts will be submitted by that date. The reports will contain the following items:

   (a) Audited financial statements and an opinion thereon. A report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.

   (b) A report on compliance in accordance with KRS 164A.555 through 164A.630 (House Bill 622) based on the audit of financial statements.

   (c) A report on compliance with the Kentucky Lease Law in accordance with KRS 48.111, 48.190, 56.800 through 56.823, and 164A.575.

   (d) The closing package forms, in accordance with Codification of Statements on Auditing Standards, AU 623.11 through 623.17.
(e) If applicable, the Firm shall also obtain and submit management’s summary schedule of prior audit findings and corrective action plan for current year audit findings.

2. The Firm will provide a representation letter by July 15 to the Auditor of Public Accounts stating that the Firm is in compliance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards* concerning continuing education requirements, independence and internal quality control system and peer review requirements.

3. The Firm shall notify the Auditor of Public Accounts of matters which come to its attention which may have a significant impact on the Commonwealth’s financial statements. The Firm shall be available to the Auditor of Public Accounts to address questions about the University’s financial statements.

4. The Firm will certify, on line, the CPB audit report by November 30 of each year.

5. The Firm will provide a letter to report the results of the subsequent events audit through December 10, 2020. The letter shall be delivered to the Auditor of Public Accounts and to the University, no later than close of business on December 10, 2020.

6. The Firm will prepare the KFAC form 990 & 990-T by February 15 of each year.

7. The Firm will prepare the University’s form 990-T by February 15 of each year and provide consulting services related to unrelated business income.
Morehead State University is committed to providing equal educational opportunities to all persons regardless of race, color, national origin, age, religion, sex, sexual orientation, gender identity, gender expression, disabled veterans, recently separated veterans, other protected veterans, and armed forces service medal veterans, or disability in its educational programs, services, activities, employment policies, and admission of students to any program of study. In this regard the University conforms to all the laws, statutes, and regulations concerning equal employment opportunities and affirmative action. This includes: Title VI and Title VII of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, Executive Orders 11246 and 11375, Equal Pay Act of 1963, Vietnam Era Veterans Readjustment Assistance Act of 1974, Age Discrimination in Employment Act of 1967, Sections 503 and 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act of 1990, and Kentucky Revised Statutes 207.130 to 207.240; Chapter 344 and other applicable statutes. Vocational educational programs at Morehead State University supported by federal funds include industrial education, vocational agriculture, business education, and the associate degree program in nursing. Any inquiries should be addressed to: Affirmative Action Officer, Morehead State University, 301 Howell-McDowell Administration Building, Morehead, KY 40351, 606-783-2097.