

MOREHEAD STATE UNIVERSITY

AUDIT COMMITTEE MEETING

THURSDAY, May 10, 2018

9:00 a.m.

CHER BUILDING
DeMoss Suite (102D)



MOREHEAD STATE UNIVERSITY

**BOARD OF REGENTS
AUDIT COMMITTEE**

**May 10, 2018
9:00 a.m.**

AGENDA

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVE MINUTES OF NOVEMBER 9, 2017 MEETING
- IV. RECOMMENDATIONS AND REPORTS
 - A. Approve Appointment of Auditing Firm
 - B. Approve Minimum Scope of the Annual Audit for the Year Ending June 30, 2018
 - C. Report on Status of Internal Audits
- V. OTHER BUSINESS
- VI. ADJOURNMENT

**BOARD OF REGENTS
AUDIT COMMITTEE MEETING
Thursday, November 9, 2017**

The Audit Committee met at 9:30 a.m. on Thursday, November 9, 2017, in the DeMoss Suite of the Center for Health, Education and Research in Morehead, Kentucky. Mr. Wayne Martin, Chair of the Audit Committee, presided.

The following Committee members were present:

Mr. Wayne Martin, Audit Committee Chair & Board Vice Chair
Mr. Paul Goodpaster
Mr. Eric Howard
Ms. Kathy Walker

In addition, Regents Dr. Shannon Harr, Dr. Jonathan Pidluzny, and Mr. Patrick Price were also present. Administrative staff members present included: Dr. Jay Morgan, President; Ms. Beth Patrick, Chief Financial Officer and Vice President for Administration; Ms. Kelli Owen, Director of Accounting and Financial Services; Mr. Jeremy Withrow, Assistant Director of Accounting and Reporting; and Mr. Joe Hunsucker, Internal Auditor.

Ms. Walker moved to approve the minutes of the May 11, 2017 meeting as distributed. Mr. Howard seconded the motion. The motion carried unanimously.

RECOMMENDATION: That the Audit Committee accept the audit report for the fiscal year ended June 30, 2017 as presented by Dean Dorton Allen Ford, PLLC.

(Additional background information attached to these minutes.)

KRS 164A.570 requires that an annual audit be conducted for all universities in the state system. The audit is to be conducted by an independent public accounting firm. At its meeting on June 8, 2017, the Board of Regents approved the recommendation of the Audit Committee to reappoint the accounting firm of Dean Dorton Allen Ford, PLLC to conduct the audit for the 2016-17 fiscal year. Also on June 8, 2017, the Board approved the Audit Committee's recommendation for the minimum scope of the audit work to be performed.

Mr. Justin Hubbard from Dean Dorton Allen Ford reported on the University's audited financial statements. The audit report was issued with an unmodified opinion on the financial statements, the highest opinion they can issue. He stated that the audit included a review of the estimates of the allowance for uncollectible accounts receivable, useful lives of capital assets, fair value of investments, accrued employee expenses, and

pension liability, and suggested that the Board continue to monitor these estimates. The University's portion of the state's pension liability increased by \$45M from the prior year due to changes in the assumptions and actuarial tables.

Mr. Hubbard noted that increases in operating expenses in the total of \$8M suggested increases in spending when in fact the University's discretionary spending decreased by \$5M. The overall increase in operating expenses was due to increases in pension expenses.

He noted that the University does a good job of monitoring student accounts and writing them off when appropriate. He also stated the auditors found no material weaknesses in the University's internal controls. He said that the MSU Foundation had a clean audit opinion as well.

MOTION: Mr. Howard moved that the Committee approve the recommendation. The motion was seconded by Mr. Goodpaster.

VOTE: The motion carried unanimously.

Mr. Hunsucker, Director of Internal Audits, reported on current, completed and planned projects. (*See complete Internal Auditor's Report attached.*)

COMPLETED AUDITS

NCAA Student Assistance Fund

Mr. Hunsucker said that based on his review, the Office of Athletics' internal controls are adequate and in compliance with applicable NCAA policies related to the fund.

President Andrews' Expenses

Mr. Hunsucker's review included all reimbursements totaling \$5,373.25 made to Dr. Andrews for the period July 1, 2016 through June 30, 2017. He said no exceptions were noted during the review, stating that Dr. Andrews' travel expenditures were incurred while he was on official University business, and were in compliance with all applicable policies in the Morehead State University Travel Regulations Manual.

Official Withdrawal & Return of Title IV Funds

Mr. Hunsucker verified the date of student withdrawal determination, the return of Title IV funds calculation, and the timeliness of the return of funds. He found no discrepancies in the calculated amounts, the determination dates were accurate, and funds were returned within the required timeframe. He noted that as a result of the internal audit, the Office of Financial Aid has increased the frequency with which they check official withdrawals to ensure timely completion of these tasks.

Cash Counts

Mr. Hunsucker reported that he conducted several cash counts, including at the University's cashiers, the University Store, and at the Kentucky Folk Art Center at the end of the fiscal year.

PLANNED PROJECTS

Mr. Hunsucker noted that audits will be performed at selected University departments to determine compliance with applicable laws, rules, regulations and University policies. The audits will focus primarily on the areas of purchasing cards, travel cards, and travel expenditures.

In addition, Mr. Hunsucker stated that he had provided assistance to Dean Dorton Allen Ford in several areas as well as to various internal units. Further, 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, Mr. Howard moved that the meeting adjourn at 10:42 a.m. Ms. Walker seconded the motion. The motion carried unanimously.

Respectfully submitted,



Sharon S. Reynolds, Secretary
Board of Regents

APPROVE APPOINTMENT OF AUDITING FIRM

May 10, 2018

Recommendation:

That the Audit Committee approve the extension of the auditing services contract with Dean Dorton Allen Ford, PLLC in Lexington to conduct the required annual audits for Morehead State University for the fiscal year that will end on June 30, 2018.

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 2016-2017 fiscal year were satisfactory and in compliance with the terms of the contract. The fee for the 2017-2018 fiscal year will not exceed \$90,000.

APPROVE MINIMUM SCOPE OF THE ANNUAL AUDIT

May 10, 2018

Recommendation:

That the Audit Committee approve the minimum scope of the University's audit for the year ending June 30, 2018.

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.

**MOREHEAD STATE UNIVERSITY
MINIMUM SCOPE OF THE ANNUAL AUDIT
FOR THE YEAR ENDING JUNE 30, 2018**

May 10, 2018

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, 2018. 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, 2018 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 and the U.S. Office of Management and Budget's (OMB) Compliance Supplement. 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 and the U.S. Office of Management and Budget's (OMB) Compliance Supplement.

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 56.800 through 56.823, and KRS 48.111.

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, 2018. 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, 2018. 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, 2018.

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 5, 2018. 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, 2018 from the last day of field work (projected for late September 2018) to December 12, 2018. 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 noon on December 13, 2018.

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 5. If final reports are not available as of October 5, drafts will be submitted by that date. The reports will contain the following items:
 - (a) Audited financial statements and an opinion thereon.
 - (b) 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*. Where applicable, this report must refer to a separate schedule of findings and questioned costs.
 - (c) A report on compliance in accordance with KRS 164A.555 through 164A.630 (House Bill 622) based on the audit of financial statements.
 - (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 certify, on line, the CPB audit report by November 30 of each year.

3. The Firm will prepare the KFAC form 990 & 990-T by February 15 of each year.
4. The Firm will provide a representation letter by July 27 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.
5. 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.
6. 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.

**Report to the Audit Committee
May 10, 2018
Joe Hunsucker, Director of Internal Audits**

CURRENT/COMPLETED PROJECTS

NCAA Student Assistance Fund

As required by the Ohio Valley Commissioner's Office, as directed by the Board of Presidents of the conference's member schools, an institutional review of the NCAA Student Assistance Fund will be conducted for the fiscal year ending June 30, 2018. The University received \$90,841 from the Ohio Valley Conference which was deposited into an Agency account on July 7, 2017. Current year-to-date expenditures through April 5 were 262 transactions totaling \$21,393. 100% of the disbursements made during the year will be reviewed. The results of the audit will be reported to President Morgan, Commissioner DeBauche of the Ohio Valley Conference, Vice President Mast and Director of Athletics Hutchinson.

Departmental Audits

A general review of transactions, primarily supply and travel expenses, for various departments was conducted. The objectives of these reviews were to ensure that transactions had a legitimate business purpose, complied with applicable University purchasing and travel guidelines, and determine if purchasing cardholders were attaching digital images of their receipts, transactions were being allocated to the correct GL account and transactions were being reviewed/approved. Reports showing General Ledger (GL) activity for supply (GL account 5100xxx) and travel (GL account 5110xxx) transactions were generated and included expenses paid via voucher (check request) and purchasing card. Purchasing card reports were generated and receipts were reviewed using PNC's Visa Intellilink System. The following units were reviewed:

Unit	Scope	Voucher - Supplies	Voucher - Travel	P-Card - Supplies	P-Card - Travel	Total
Art & Design	7/1/16 – 12/31/17	4	17	209	0	230
Comm., Media & Lang.	7/1/16 – 12/31/17	2	11	56	0	69
Hist., Phil, Pol., Int'l	7/1/16 – 12/31/17	3	26	55	0	84
Music, Theatre & Dance	7/1/16 – 12/31/17	2	10	700	44	756
Craft Academy	7/1/17 – 1/31/18	0	2	162	0	164
21 st Century	1/1/17 – 1/31/18	0	1	131	0	132
Enrollment Services	7/1/16 – 2/28/18	2	49	165	13	229
Athletics – All Units	7/1/17 – 3/31/18	0	0	574	989	1,563
Upward Bound	7/1/16 – 3/31/18	33	2	209	52	296
Talent Search	7/1/16 – 3/31/18	4	11	122	24	161
Comm. Educ. Opp.	7/1/16 – 3/31/18	3	19	85	73	180
Student Support Serv.	7/1/16 – 3/31/18	3	2	83	59	147
MSU at Prestonsburg	7/1/16 – 3/31/18	0	0	22	0	22
AUX Svcs. – All Units	7/1/17 – 3/31/18	0	0	653	18	671
Human Resources	7/1/17 – 3/31/18	0	0	97	0	97

Results:

No issued were noted with transactions processed via voucher. Transactions were adequately documented and properly approved.

For purchasing card transactions, there are three critical steps in the P-card process: (1) Uploading the receipt images on a monthly basis and in a timely manner, (2) Allocation of charges to the correct GL account, and (3) Creation of an expense report for transaction approval by an up line supervisor. Some issues of non-compliance were found in each area.

Images of receipts were not always uploaded and other times were not uploaded by the cardholder in a timely manner. Each P-card has a default GL object code that transactions are coded to if the cardholder doesn't perform the GL account allocation prior to Accounting & Financial Services (A&FS) uploading P-card transactions for the month. During the review, I noted several instances in which the account allocation was not performed or not performed timely by the cardholder resulting in some transactions defaulting to an incorrect GL account. While many transaction defaulted to the correct GL account, I noted several transactions that were coded to the wrong GL account. These transactions can only be corrected by journal entry by A&FS causing additional work for both the cardholder and A&FS staff.

Purchasing cardholder's supervisors receive an electronic notification that purchasing card transactions are awaiting their approval only after the cardholder creates an expense report in Intellilink. I noted several instances in which the cardholder failed to create an expense report, the supervisor did not receive notification and transactions were not approved.

Except as noted above, it appears that the P-card transactions had a legitimate business purpose and complied with applicable University purchasing guidelines.

When needed, exit conferences were held with cardholders and/or other administrative personnel to discuss corrective actions needed for any deficiencies noted.

Police Department Evidence Room

Background:

The Kentucky Association of Chiefs of Police (KACP) Accreditation Program provides law enforcement agencies within Kentucky with commonly accepted standards for efficient and effective operations. Chapter 27 of the KACP Standards, Collection and Preservation of Evidence, provides guidance to law enforcement agencies on establishing procedures for the handling and control of evidence and property maintained by law enforcement agencies. The Morehead State University Police Department, in an effort to meet the accreditation standards set by the KACP, has developed a Standard Operating Procedure (SOP) Manual. Chapter 25 of the SOP Manual establishes policies and procedures for the security and maintenance of all evidence and found property.

Objectives:

The objectives of the review were to determine the adequacy of internal controls for the University Police Department's evidence room and to determine if the University Police Department was in compliance with the provisions of Chapter 25 of their SOP Manual.

Scope:

At the time of the review (April 16), there were 173 cases listed on the *Evidence Inventory Sheets*. A judgmental sample of 79 items was selected for verification - 41 selected by locker number and 38 by item description on the *Evidence Inventory Sheets*.

Methodology:

The review included interviews with Lt. Jared Hunt and Sgt. Mark Stidham, Evidence Room Technicians, an inspection of the evidence area, a review of applicable evidence records, and an inventory/audit of items located in the Evidence Room located at 109 Laughlin Health Building.

The contents for the lockers selected for review were verified to the items listed on the *Evidence Inventory Sheets*. Lockers and their contents were reviewed to determine that a Form KSP-41 was attached to the container in which the property/evidence was located and that the property/evidence was stored in accordance with the provisions of Chapter 25 of the SOP Manual.

Results:

No exceptions were noted during the review process. Based on my review and the results of substantive tests performed, the University Police Department had adequate controls in place to ensure evidence and property were being properly stored and maintained, and was in compliance with the provisions of Chapter 25 of the SOP Manual.

PLANNED PROJECTS

Departmental Audits

Audits will be performed at selected University departments to determine compliance with applicable laws, rules, regulations and University policies. The audits will focus primarily on the areas of purchasing card usage, travel expenditures and, where applicable, cash handling. Exit conferences will be conducted with appropriate administrative personnel to discuss any deficiencies noted during the audits.

President Morgan's Expenses

A review of P-card transactions and reimbursements to Dr. Morgan for travel and other expenditures received during fiscal year 2017-18 will be performed. The results of the review will be reported to the Audit Committee.

EXTERNAL ASSISTANCE

Assistance to Dean Dorton Allen & Ford, PLLC was provided for the following areas:

NCAA Agreed Upon Procedures Audit

- Preparation of EADA Report (Athletics)

INTERNAL ASSISTANCE

Assistance was provided for the following areas:

Accounting & Financial Services

Athletic Department

Procurement Services

TRIO Programs

PROFESSIONAL DEVELOPMENT

Accounting & Auditing update, sponsored by Dean Dorton Allen Ford, PLLC
Lexington, November 30

Kentucky Colleges & Universities Auditors meeting
University of Kentucky, March 8

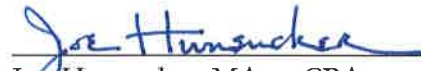
Higher Education – Current Issues & Trends, sponsored by Dean Dorton Allen Ford, PLLC
Louisville, March 23

OTHER

Serving as a member of Staff Congress

Served as a member of the Strategic Planning Committee

Respectfully Submitted,



Joe Hunsucker, MAcc, CPA
Director of Internal Audits