

MOREHEAD STATE UNIVERSITY

AUDIT COMMITTEE MEETING

THURSDAY, May 11, 2017
CHER BUILDING
DeMoss Suite (102D)



MOREHEAD STATE UNIVERSITY

**BOARD OF REGENTS
AUDIT COMMITTEE**

**May 11, 2017
8:00 a.m.**

AGENDA

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVE MINUTES OF NOVEMBER 11, 2016 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, 2017
 - C. Report on Status of Internal Audits
- V. OTHER BUSINESS
- VI. ADJOURNMENT

**BOARD OF REGENTS
AUDIT COMMITTEE MEETING
Friday, November 11, 2016**

The Audit Committee met at 8 a.m. on Friday, November 11, 2016, 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 was unable to attend.

In addition, Regents Dr. Royal Berglee, Dr. Shannon Harr, Mr. Adam Abbott, Mr. Patrick Price and Mr. Craig Preece were also present. Administrative staff members present included: Dr. Wayne D. Andrews, 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.

Mr. Goodpaster moved to approve the minutes of the March 18, 2016 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, 2016 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 March 18, 2016, the Board of Regents approved the recommendation of the Audit Committee to appoint the accounting firm of Dean Dorton Allen Ford, PLLC to conduct the audit for the 2015-16 fiscal year. On June 10, 2016, the Board approved the Audit Committee's recommendation for the minimum scope of the audit work to be performed.

Ms. Chrissy Fiscus from Dean Dorton Allen Ford reported on the University's audited financial statements. The audit report was issued with an unqualified opinion on the financial statements. She 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 (such as vacation), and pension liability, and had no issues with these estimates. A decline in net position is largely due to investments in capital assets (construction projects) and an increase in the pension liability.

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.

Police Department Evidence Room

Mr. Hunsucker found no exceptions during his review process of the Police Department's controls over evidence and property.

President Andrews' Expenses

Mr. Hunsucker's review included all reimbursements totaling \$3,281.73 made to Dr. Andrews for the period July 1, 2015 through June 30, 2016. 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.

Purchasing Card Audits

Mr. Hunsucker performed audits on purchasing cards for two colleges and provided feedback to the respective deans.

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.

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 and travel expenditures, as well as the travel purchasing cards.

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. Goodpaster moved that the meeting adjourn at 9:00 a.m. Mr. Howard seconded the motion. The motion carried unanimously.

Respectfully submitted,



Sharon S. Reynolds, Secretary
Board of Regents

APPROVE APPOINTMENT OF AUDITING FIRM

May 11, 2017

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, 2017.

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 2015-2016 fiscal year were satisfactory and in compliance with the terms of the contract. The fee for the 2016-2017 fiscal year will not exceed \$87,320.

APPROVE MINIMUM SCOPE OF THE ANNUAL AUDIT

May 11, 2017

Recommendation:

That the Audit Committee approve the minimum scope of the University's audit for the year ending June 30, 2017.

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, 2017**

May 11, 2017

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, 2017. 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, 2017 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 the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the United States General Accounting Office. The audit should include a determination as to whether Morehead State University's federal expenditures have met the Single Audit threshold established by the Single Audit Act and the provisions in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and the performance of a single audit in accordance with these standards, if required. 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 and the provisions in Title 2 U.S. Code of Federal Regulations (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 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, 2017. 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, 2017. 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, 2017.

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 and VP for Administration, and 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 6, 2017. 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, 2017 from the last day of field work (projected for late September 2017) to December 13, 2017. 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 14, 2017.

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 6. If final reports are not available as of October 6, 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 28 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 11, 2017
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, 2017. The University received \$85,306 from the Ohio Valley Conference which was deposited into an Agency account on September 7, 2016. Current year-to-date expenditures through April 20 were 285 transactions totaling \$35,909. 100% of the disbursements made during the period are being reviewed. The results of the audit will be reported to President Morgan, Commissioner DeBauche of the Ohio Valley Conference, Vice President Bentley and Director of Athletics Hutchinson.

Return of Title IV Funds

Title IV funds (Federal Financial Aid) are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive. If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned to the Department of Education.

For the spring 2017 term, 77 students receiving Title IV funds withdrew and a portion of their aid was returned to the Department of Education. A random sample of 20 students has been selected for testing, the amount returned for these students will be recalculated and compared with the amount calculated by the Office of Financial Aid. A report will be issued to Vice President Patrick, Vice President Bentley, Kelli Owen, Director of the Office of Accounting & Financial Services, and Denise Trusty, Director of the Office of Financial Aid.

Purchasing Card Audits

Prior to July 2015, the University's Purchasing cards (P-cards) were each tied to one General Ledger (GL) account. In an effort to reduce the number of P-cards on campus, expand the use of these cards to other types of purchases and eliminate filing paper copies of receipts, the University began using the Visa Intellilink System at that time. This system allows the cardholder to allocate charges to the appropriate GL account (for example Supplies, Travel, or Memberships, etc.), attach digital receipts to document the transaction and for supervisors to review/approve transactions electronically.

In addition to ensuring that transactions had a legitimate business purpose and complied with applicable University purchasing guidelines, the objective of these reviews was to determine if cardholders were attaching digital images of their receipts and transactions were being allocated to the correct GL account.

Procurement (Travel Coordinator) – review of 1,265 P-card transactions and General Ledger chargebacks for the period June 28, 2016 through January 5, 2017.

Office of International Student Services – 85 transactions for the period July 1, 2015 through January 31, 2017.

Agriculture (Agriculture Sciences, Vet Tech Program, Equestrian Program, University Farm) – 533 transactions for the period August 1, 2015 through February 28, 2017.

School of Music, Theatre & Dance (Music, Choir, Theatre & Dance, Little Company, University Band, Athletic Band) – 929 transactions for the period July 1, 2015 through February 28, 2017.

Honor's Program – 63 transactions for the period July 1, 2015 through February 28, 2017.

Registrar's Office – 51 transactions for the period July 1, 2015 through February 28, 2017.

Morehead State Public Radio – 27 transactions for the period July 1, 2015 through March 31, 2017.

Kentucky Center for Traditional Music – 34 transactions for the period July 1, 2015 through March 31, 2017.

Eagle Card Office – 127 transactions for the period July 1, 2015 through March 31, 2017.

First Year Programs – 152 transactions for the period July 1, 2015 through March 31, 2017.

Results:

Images of receipts were not always uploaded by the cardholder in a timely manner. Each P-card has a default GL object code transactions are coded to if the cardholder doesn't perform the GL account allocation prior to Accounting & Financial Services uploading P-card transactions for the month. During the review, I noted several instances in which the account allocation was not performed by the cardholder in a timely manner resulting in some transactions defaulting to an incorrect GL account.

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.

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 Andrews' Expenses

A review of reimbursements to Dr. Andrews for travel and other expenditures received during fiscal year 2016-2017 will be performed. The results of the review will be reported to the Chair of the Board of Regents.

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

PROFESSIONAL DEVELOPMENT

Accounting & Auditing update, sponsored by Dean Dorton Allen Ford, PLLC Lexington, November 16

Kentucky Colleges & Universities Auditors meeting, University of Kentucky, March 9

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

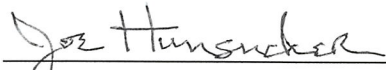
What's Happening in Student Financial Services? Webcast, sponsored by NACUBO, April 13

Active Shooter Mitigation and Response, sponsored by American Association of Occupational Health Nurses, New Orleans, April 27

OTHER

Serving as a member of Staff Congress

Respectfully Submitted,



Joe Hunsucker, MAcc, CPA
Director of Internal Audits