

# MOREHEAD STATE UNIVERSITY

## AUDIT COMMITTEE MEETING

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FRIDAY, November 11, 2016  
CHER BUILDING  
DeMoss Suite (102D)



**MOREHEAD STATE UNIVERSITY**

**BOARD OF REGENTS  
AUDIT COMMITTEE**

**November 11, 2016  
8:00 a.m.**

**AGENDA**

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVE MINUTES OF MARCH 18, 2016 MEETING
- IV. RECOMMENDATIONS AND REPORTS
  - A. Accept 2015-2016 Audit Report
  - B. Report on Status of Internal Audits
- V. OTHER BUSINESS
- VI. ADJOURNMENT

**BOARD OF REGENTS  
AUDIT COMMITTEE MEETING  
Friday, March 18, 2016**

The Audit Committee met at 8 a.m. on Friday, March 18, 2016, in the DeMoss Suite of the Center for Health, Education and Research (CHER) in Morehead, Kentucky. Mr. Patrick E. Price, Chair of the Audit Committee, presided.

The following Committee members were present:

Mr. Patrick E. Price, Audit Committee Chair & Board Vice Chair  
Mr. Paul Goodpaster  
Mr. Eric Howard  
Ms. Kathy Walker

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 November 5, 2015 meeting as distributed. Mr. Howard seconded the motion. The motion carried unanimously.

**RECOMMENDATION:** That the Audit Committee approve the appointment of 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, 2016.

*(Additional background information attached to these minutes.)*

Ms. Owen said that KRS 164A.570 requires that an annual audit 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. Responses were submitted by two firms. The proposals were independently evaluated by the Chief Financial Officer and VP for Administration, the Director of Internal Audits, the Director of Accounting and Financial Services, and the Director of Finance for the MSU Foundation. The

evaluations were based 40% on cost factors and 60% on technical factors such as expertise and experience.

As a result of that process, it is recommended that the Audit Committee approve the appointment of Dean Dorton Allen Ford, PLLC to conduct the annual audits for the fiscal year that will end 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 fee for the 2015-16 fiscal year will not exceed \$80,250.

Dean Dorton Allen Ford has conducted the University's audits for ten years, but the partners assigned to the work have rotated more often than the University's Bylaws and Sarbanes-Oxley requires.

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

VOTE: The motion carried unanimously.

RECOMMENDATION: That the Audit Committee approve the minimum scope of the University's audit for the year ending June 30, 2016.

*(Minimum Scope of the Annual Audit attached to these minutes.)*

Ms. Owen stated that the Bylaws of the Board of Regents specify that the Audit Committee will review, evaluate, advise and recommend to the full Board the minimum scope of the annual audit. Further, the scope of the audit must comply with all local, state, and federal audit requirements.

MOTION: Mr. Howard moved that the Committee approve the minimum scope. The motion was seconded by Ms. Walker.

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.)*

## **CURRENT/COMPLETED AUDITS**

### **Restricted Funds Travel**

Mr. Hunsucker conducted an audit of the travel associated with restricted accounts. While he did discover some errors, he found no evidence of intentional fraud. He concluded that internal controls related to University travel are adequate and that, with the exception of the items listed in his report, University employees are in compliance with established University policies and procedures related to travel, and that

reimbursements made to employees were only for expenses related to official University business.

### **NCAA Student Assistance Fund**

Mr. Hunsucker continues to review the Office of Athletics' internal controls over expenditures and disbursements related to the NCAA Student Assistance Fund. He said that Athletics has changed their approach to the fund and have expanded the number of student-athletes that benefit. The institutional review will be conducted for the fiscal year ending June 30, 2016 and is required by the Ohio Valley Commissioner's Office.

### **Purchasing Card Audits**

Mr. Hunsucker reported that the University's purchasing card program underwent some changes in July 2015. 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. He said that overall he is pleased with the changes to the program and its adoption.

Mr. Hunsucker conducted purchasing card audits at multiple University units to ensure that transactions had legitimate business purpose, complied with applicable University purchasing guidelines, included digital images of receipts, and were allocated to the correct general ledger account. The primary result was that images of receipts were not always uploaded by the cardholder in a timely manner. He has conducted exit conference with cardholders and/or other administrative personnel to discuss corrective actions. No other significant deficiencies were noted during the reviews.

### **Cash Counts**

Mr. Hunsucker reported that he conducted three cash counts with cashiers in Accounting and Financial Services, and the amount of operating funds at the cashier's window has been reduced.

## **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 card, travel expenditures and, where applicable, cash handling. Mr. Hunsucker also plans to conduct a review of reimbursements to Dr. Andrews for travel and other expenditures received during the fiscal year 2015-2016.

Mr. Hunsucker will conduct an audit to determine compliance with applicable laws and regulations by the University Police Department in their handling and control of evidence and property.

In addition, Mr. Hunsucker stated that he had provided assistance to Dean Dorton Allen Ford in several areas and 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, Ms. Walker moved that the meeting adjourn at 8:59 a.m. Mr. Howard seconded the motion. The motion carried unanimously.

Respectfully submitted,



Sharon S. Reynolds, Secretary  
Board of Regents

**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.

**Background:**

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 March 18, 2016, the Board 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.

Dean Dorton Allen Ford, PLLC has completed the audit for the June 30, 2016 fiscal year. The report was issued with an unmodified opinion on the financial statements. An electronic copy of the audit report has been provided to each member of the Board of Regents.

**Report to the Audit Committee  
November 11, 2016  
Joe Hunsucker, Director of Internal Audits**

**CURRENT/COMPLETED PROJECTS:**

**NCAA Student Assistance Fund**

Objectives:

The objectives of the review were (1) to determine the adequacy of the Morehead State University Office of Athletics' internal controls over expenditures and disbursements related to the NCAA Student Assistance Fund, and (2) to determine if the University was in compliance with applicable NCAA policies related to the administration of the NCAA Student Assistance Fund.

Scope:

The scope included 648 transactions totaling \$57,956.22 for 308 student-athletes during the period July 1, 2015 through June 30, 2016 from the NCAA Student Assistance Fund. 100% of the disbursements made to or on behalf of student-athletes during the period were reviewed. Student-athletes from the following teams received funding from the NCAA Student Assistance Fund during the period:

<b><u>MEN'S SPORTS:</u></b>	<b><u>Recipients</u></b>	<b><u>Disbursements</u></b>	<b><u>Amount</u></b>
Baseball	38	74	\$ 5,571.10
Basketball	19	48	9,689.40
CC/Track	25	61	5,073.32
Football	85	163	14,944.02
Golf	11	21	1,388.42
Tennis	<u>8</u>	<u>14</u>	<u>893.71</u>
<b>Total</b>	<b>186</b>	<b>381</b>	<b>\$37,559.97</b>
<b><u>WOMEN'S SPORTS:</u></b>			
Basketball	16	33	\$ 5,123.01
CC/Track	18	58	3,815.35
Golf	9	18	1,149.03
Soccer	29	54	3,542.93
Softball	19	38	2,425.76
Tennis	6	11	654.31
Volleyball	<u>17</u>	<u>39</u>	<u>2,664.50</u>
<b>Total</b>	<b>114</b>	<b>251</b>	<b>\$19,374.89</b>
<b><u>MIXED SPORTS:</u></b>			
Rifle	<u>8</u>	<u>16</u>	<u>\$1,021.36</u>
 <b>TOTAL – ALL SPORTS</b>	 <b>308</b>	 <b>648</b>	 <b>\$57,956.22</b>



**TRANSACTIONS****BY CATEGORY**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Category 1 – Educational	0	0	0	0
Category 2 – Health & Safety	13	4	0	17
Category 3 – Personal/Family	<u>368</u>	<u>247</u>	<u>16</u>	<u>631</u>
<b>Total</b>	<b>381</b>	<b>251</b>	<b>16</b>	<b>648</b>

**RECIPIENTS BY****FINANCIAL AID TYPE**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
100 – On Full GIA	18	40	0	58
200 – On Partial GIA	62	63	8	133
300 – On No GIA	106	11	0	117
400 – Exhausted Eligibility	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>186</b>	<b>114</b>	<b>8</b>	<b>308</b>

**RECIPIENTS****RECEIVING PELL**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Receiving PELL	57	26	2	85
NOT Receiving PELL	<u>129</u>	<u>88</u>	<u>6</u>	<u>223</u>
<b>Total</b>	<b>186</b>	<b>114</b>	<b>8</b>	<b>308</b>

**AMOUNT (Rounded)****BY CATEGORY**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Category 1 – Educational	0	0	0	0
Category 2 – Health & Safety	7,620	2,430	0	10,050
Category 3 – Personal/Family	<u>29,940</u>	<u>16,945</u>	<u>1,021</u>	<u>47,906</u>
<b>Total</b>	<b>37,560</b>	<b>19,375</b>	<b>1,021</b>	<b>57,956</b>

The University received \$76,562 from the Ohio Valley Conference which was deposited into the NCAA Student Assistance Fund. The deposit was verified through review of University cash receipts system.

The balance of unspent funds on hand as of June 30, 2016 for the Student Assistance Fund was \$36,654.78. This amount was verified to the end-of-year balance in the General Ledger.

**Results:**

No exceptions were noted during the current year review. All student-athletes receiving funds from the NCAA Student Assistance Fund were determined to meet the eligibility requirements established by the NCAA and all expenditures were in compliance with NCAA guidelines. During the course of my review, no significant audit issues were noted related to the administration of the NCAA Student Assistance Fund by Morehead State University's Office of Athletics.

### Opinion:

Based on the results of my review of applicable documentation and substantive tests performed, it is my opinion that the Morehead State University's Office of Athletics' internal controls over expenditures and disbursements related to the NCAA Student Assistance Fund are adequate and that the University is in compliance with applicable NCAA policies related to the administration of the NCAA Student Assistance Fund.

The results of the audit were reported to President Andrews, Commissioner DeBauche of the Ohio Valley Conference, and Director of Athletics Hutchinson.

## **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, there were 91 active cases listed on the *Evidence Inventory Sheets*, a judgmental sample of 28 items was selected for verification - 15 selected by locker number and 13 by item description on the *Evidence Inventory Sheets*.

### Methodology:

The review included an interview with Lt. Jared Hunt, Evidence Room Technician, 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.

A report was issued to Chief Merrell John Harrison and Lt. Jared Hunt.

### **President Andrews' Expenses**

#### Objectives:

The objectives of the review were to:

- (a) determine if reimbursements from University funds to, or for, Dr. Andrews for travel expenditures were only incurred while he was on official University business,
- (b) determine if Dr. Andrews was in compliance with the Morehead State University Travel Regulations Manual, and
- (c) determine if any reimbursements from University funds to Dr. Andrews for other expenditures were adequately supported and in compliance with the University's procurement policies.

#### Scope:

The scope of the review included all reimbursements made to Dr. Andrews for the period July 1, 2015 through June 30, 2016. The population consisted of 11 disbursements totaling \$3,281.73 with 100% of the disbursements made to, or for, Dr. Andrews being reviewed.

#### Methodology:

- (1) Obtained and reviewed applicable University travel and procurement policies.
- (2) Using Datatel, a listing of all transactions involving payments to, or for, Dr. Andrews was obtained.
- (3) Applicable vouchers and supporting documentation for each disbursement identified above was obtained from the University's Office of Accounting & Financial Services and Office of Procurement Services.
- (4) Vouchers and supporting documentation for each disbursement was reviewed to determine compliance with applicable University travel and procurement policies.

#### Results:

A review of vouchers disclosed the following categories of expenditures were incurred during the review period:

Registration	\$1,079.00
Lodging	1,088.21
Airfare	743.30
Gas/Parking/Taxis	342.00
Meals	29.22

No exceptions were noted during the review. Dr. Andrews' travel expenditures were incurred while he was on official University business, were adequately supported and were in compliance with all applicable policies in the Morehead State University Travel Regulations Manual. A review of the general ledger activity for the President's Office disclosed no purchasing card activity during the fiscal year for Dr. Andrews.

### Opinion:

Based on the results of my review of applicable documentation and substantive tests performed, it is my opinion that Dr. Andrews' travel expenditures were incurred while he was on official University business and that he was in compliance with all applicable policies in the Morehead State University Travel Regulations Manual.

A report was issued to Mr. Paul C. Goodpaster, Chair of the University's Board of Regents.

### **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.

- College of Business & Technology (Dean's Office, School of Business Administration, MBA Program, School of Engineering & Information Systems, Engineering & Technology Management, Computer Science & Information Systems, Public Management & Government) – 305 P-card transactions for the period July 1, 2015 through September 28, 2016
- College of Education (Dean's Office, 21<sup>st</sup> Century, Early Childhood, Elementary & Special Education, Education Unit for Child Care Services, Foundational & Graduate Studies in Education, Middle Grades & Secondary Education, Teacher Education Services – 590 P-card transactions for the period July 1, 2015 through October 28, 2016

### **Cash Counts**

A cash count was conducted at the close of business, Thursday, June 30, 2016 for the University's three Cashiers to verify the \$19,000 Cashier Operating account in the University's Office of Accounting & Financial Services to the CR Session Reconciliation Report. Cash and cash equivalents on hand for the three Cashiers totaled \$19,000.00. Overage/shortage amounts are maintained separately, no overage/shortages were reported for the day. The year-to-date cumulative overage of \$62.63 was deposited back into the University's account on June 29<sup>th</sup>.

A cash count was conducted Thursday, June 30, 2016 for the University Store's \$2,500.00 permanent change fund. Cash on hand for the permanent change cash fund totaled \$2,435.05 a cumulative year-to-date shortage of \$64.95. The fund was replenished during the current fiscal year.

A cash count was conducted Thursday, June 30, 2016 for the Kentucky Folk Art Center's \$200.00 store sales change fund. Cash and cash equivalents on hand totaled \$200.02.

Reports were issued to Justin Hubbard, CPA, Dean Dorton Allen Ford.

## **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 and travel expenditures. Reports will be issued as needed.

### **Travel P-cards**

#### **Objectives:**

The objectives of the review will be to:

- (a) review internal controls related to University travel,
- (b) determine if University employees were in compliance with established University policies and procedures related to travel, and
- (c) determine that reimbursements were only for expenses related to official University business.

#### **Scope:**

The scope of the review will consist of a travel expense from all funds paid with a University issued travel card.

## **EXTERNAL ASSISTANCE:**

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

University Store inventory and internal control narrative

Facilities Management inventory and internal control narrative

Kentucky Folk Art Center inventory

General Purpose Financial Statements Audit

- Compensated Absences Account (Accrued Vacation & Vacation Overage testing)
- Health Reimbursement Account
- New Hire Testing
- Internal Control Testing
- Internal Control Questionnaires
- Cash Counts – Cashiers, Bookstore, KFAC
- Payroll Testing
- Termination Testing

A-133 Audit

- Appalachian Regional Commission (ARC) CFDA 93.243 - (3 grants total)  
Internal Control Narratives  
Internal Control/Compliance Testing  
Cash Management Testing
- Department of Education – (DOE) CFDA 84.325 McLaren-PEEAK grant  
Internal Control Narrative  
Internal Control/Compliance Testing  
Cash Management Testing
- Federal Work Study Payroll Testing
- Internal Control Questionnaires

NCAA Agreed Upon Procedures

- Preparation of EADA Report

Department of Education

- Preparation of EADA Report

**INTERNAL ASSISTANCE:**

Assistance was provided to the following areas:

Accounting & Financial Services

Athletic Department

Procurement Services

Financial Aid

Payroll

**PROFESSIONAL DEVELOPMENT:**

College Business Management Institute, sponsored by the Southern Association of College & University Business Officers (SACUBO), Lexington, July 25 – 29

**OTHER:**

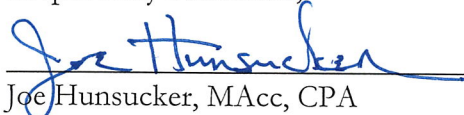
Serving as a member of the University Data Quality Committee

Serving as a member of the Grants Post-Award Efficiency Taskforce

Serving as a member of the PCI Committee

Serving as a member of Staff Congress

Respectfully Submitted,



Joe Hunsucker, MAcc, CPA  
Director of Internal Audits