

MOREHEAD STATE UNIVERSITY

AUDIT COMMITTEE MEETING

Thursday, November 9, 2017
CHER BUILDING
DeMoss Suite (102D)



MOREHEAD STATE UNIVERSITY

**BOARD OF REGENTS
AUDIT COMMITTEE**

**November 9, 2017
9:30 a.m.**

AGENDA

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVE MINUTES OF MAY 11, 2017 MEETING
- IV. RECOMMENDATIONS AND REPORTS
 - A. Accept 2016-2017 Audit Report
 - B. Report on Status of Internal Audits
- V. OTHER BUSINESS
- VI. ADJOURNMENT

**BOARD OF REGENTS
AUDIT COMMITTEE MEETING
Thursday, May 11, 2017**

The Audit Committee met at 8 a.m. on Thursday, May 11, 2017, in the DeMoss Suite of the Center for Health, Education and Research (CHER) 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

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.

Ms. Walker moved to approve the minutes of the November 11, 2016 meeting as distributed. Mr. Howard seconded the motion. The motion carried unanimously.

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.

(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. 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.

Ms. Owen stated that the services rendered by Dean Dorton Allen Ford, PLLC for the 2015-16 fiscal year were satisfactory and in compliance with the terms of the contract. The fee for the 2016-17 fiscal year will not exceed \$87,320.

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

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, 2017.

(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. Among the items included in the audit is a review and evaluation of the existing internal controls, a general purpose audit of financial statements for accuracy, and an audit of financial aid. The firm will issue a management letter which will highlight any weaknesses of controls, procedures, policies or noncompliance and suggest possible improvements. Auditors spend over three weeks on campus during the course of the audit period.

MOTION: Mr. Howard moved that the Committee approve the minimum scope. 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.)*

CURRENT/COMPLETED AUDITS

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. The audit will review 100% of the disbursements made during the fiscal year ending June 30, 2017.

Return of Title IV Funds

When a student who receives Title IV funds (Federal Financial Aid) withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive. The audit will involve testing the calculation of Title IV funds returned to the Department of Education from a sampling of students who received funds, subsequently withdrew, and a portion of their aid was returned.

Purchasing Card Audits

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 of the audit revealed that images of receipts were not always uploaded by the cardholder in a timely manner, and in some instances the account allocation was not performed in a timely manner. He has conducted exit conference with cardholders and/or other administrative personnel to discuss corrective actions. No other deficiencies were noted during the reviews.

Ms. Patrick noted the current ProCard program results in \$100,000 from rebates, which is used to fund the managed travel position and also assists the university is obtaining better travel deals.

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 usage, travel expenditures and, where applicable, cash handling. Mr. Hunsucker also plans to conduct a review of reimbursements to President Andrews for travel and other expenditures received during the fiscal year 2016-2017.

Mr. Hunsucker stated that he had provided assistance to Dean Dorton Allen Ford 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. 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, 2017 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 June 8, 2017, 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 2016-17 fiscal year. The Board also approved at that time 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, 2017 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 9, 2017
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 and OVC policies related to the administration of the NCAA Student Assistance Fund.

Scope:

The scope included 882 transactions totaling \$89,987.67 for 346 student-athletes during the period July 1, 2016 through June 30, 2017 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:

<u>MEN'S SPORTS:</u>	<u>Recipients</u>	<u>Disbursements</u>	<u>Amount</u>
Baseball	39	109	\$ 17,155.56
Basketball	24	58	8,746.09
CC/Track	21	62	13,677.58
Football	118	250	10,461.52
Golf	<u>11</u>	<u>28</u>	<u>1,027.40</u>
Total	213	507	\$51,068.15
<u>WOMEN'S SPORTS:</u>			
Basketball	21	58	\$ 7,992.26
CC/Track	23	64	5,509.38
Golf	8	23	838.94
Soccer	32	84	3,423.95
Softball	21	61	14,019.21
Volleyball	<u>17</u>	<u>53</u>	<u>5,966.69</u>
Total	122	343	\$37,750.43
<u>MIXED SPORTS:</u>			
Rifle	<u>11</u>	<u>32</u>	<u>\$1,169.09</u>
 TOTAL – ALL SPORTS	 346	 882	 \$89,987.67

TRANSACTIONS**BY CATEGORY**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Category 1 - Educational	3	5	0	8
Category 2 – Health & Safety	9	6	0	15
Category 3 – Personal/Family	<u>495</u>	<u>332</u>	<u>32</u>	<u>859</u>
Total	507	343	32	882

RECIPIENTS BY**FINANCIAL AID TYPE**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
100 – On Full GIA	22	36	0	58
200 – On Partial GIA	53	69	9	131
300 – On No GIA	136	15	2	153
400 – Exhausted Eligibility	<u>2</u>	<u>2</u>	<u>0</u>	<u>4</u>
Total	213	122	11	346

RECIPIENTS**RECEIVING PELL**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Receiving PELL	70	21	1	92
NOT Receiving PELL	<u>143</u>	<u>101</u>	<u>10</u>	<u>254</u>
Total	213	122	11	346

AMOUNT (Rounded)**BY CATEGORY**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Category 1 - Educational	23,831	12,651	0	36,482
Category 2 – Health & Safety	3,710	4,125	0	7,835
Category 3 – Personal/Family	<u>23,527</u>	<u>20,974</u>	<u>1,169</u>	<u>45,671</u>
Total	51,068	37,750	1,169	89,988

The University received \$85,306 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, 2017 for the Student Assistance Fund was \$31,973.11. This amount was verified to the end-of-year balance in the General Ledger.

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 Morgan, Commissioner DeBauche of the Ohio Valley Conference, and Director of Athletics Hutchinson.

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, or on behalf of, Dr. Andrews for the period July 1, 2016 through June 30, 2017. The population consisted of 22 disbursements totaling \$5,373.25 with 100% of the disbursements 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:

Airfare	\$1,619.22
Moving Expenses	1,274.88
Lodging	992.48
Registration	900.00
Gas/Parking/Taxi	515.31
Mileage	58.50
Meals	12.86

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.

Official Withdrawal & Return of Title IV Funds

Background:

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.

An institution must have a procedure for determining whether a Title IV recipient who began attendance during a period completed the period or should be treated as a withdrawal. A school is required to determine the earned and unearned portion of Title IV aid as of the date the student ceased attendance based on the amount of time the student spent in attendance. After the 60% point in the period of enrollment, a student has earned 100% of the Title IV funds they were scheduled to receive during the period. The date of the institution's determination that the student withdrew would be the date the student began the official withdrawal process or the date of the student's notification to the school of their intent to withdraw, whichever is later.

The student's withdrawal date is used to determine the percentage of the period of enrollment completed and the amount of Title IV funds a student has earned. The date of the institution's determination that the student withdrew is used in the following circumstances:

- A school must document a student's withdrawal date and maintain documentation as of the date of determination.
- The school must return the amount of Title IV funds for which it is responsible no later than 45 days after the date of determination.

Objective:

The objectives of the audit were to verify the date of determination used in the return calculation, verify the calculation for the amount of unearned funds returned, and determine if the Title IV funds were returned within 45 days of the determination date.

Scope:

The population included 43 students receiving Title IV funds during the Spring 2017 that withdrew prior to the 60% point (March 30th) that would have not earned all of the Title IV funds they were awarded.

Results:

The determination dates for the students officially withdrawing were accurate. Based on these determination dates, no discrepancies were noted between the recalculated amount and the amount of Title IV funds returned. All Title IV funds were returned within 45 days of the determination date.

A report was issued to Denise Trusty, Director of Financial Aid.

Cash Counts

Cash counts were conducted at the close of business, Tuesday, June 27, 2017 for one of the University's two Cashiers and at the close of business on Friday, June 30, 2017 for the second cashier to verify the \$10,000 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 two Cashiers totaled \$10,000.00. Overage/shortage amounts are maintained separately, no overage/shortages were reported for either day. The year-to-date cumulative overage of \$31.32 was deposited back into the University's account.

A cash count was conducted Friday, June 30, 2017 for the University Store's \$2,500.00 permanent change fund. Cash on hand for the permanent change cash fund totaled \$2,230.95 a cumulative year-to-date shortage of \$269.05. The fund will be replenished during the current fiscal year.

A cash count was conducted Thursday, June 29, 2017 for the KFAC's \$200.00 store sales change fund. Cash on hand for the store sales change fund totaled \$200.00 with no cumulative year-to-date overage/shortage noted.

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, travel cards and travel expenditures. Reports will be issued as needed.

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)
- New Hire Testing
- Internal Control Testing
- Internal Control Questionnaires
- Cash Counts – Cashiers, Bookstore, KFAC
- Payroll Testing
- Termination Testing

A-133 Audit

- Adult Education (DOE), CFDA 84.002/84.002A - 8 Grants, \$1,109,256 expenses
Internal Control Narratives
Internal Control/Compliance Testing
Cash Management Testing
Eligibility Testing
- Improving Teacher Quality State Grants (DOE), CFDA 84.367 – 5 Grants, \$194,959 expenses
Internal Control Narratives
Internal Control/Compliance Testing
Cash Management Testing
- Research & Development (Various Agencies), Various CFDA's – 12 Grants, \$1,947,253 expenses
Internal Control Narrative
Internal Control/Compliance Testing
Cash Management Testing
Subrecipient Monitoring
- 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 units:

Accounting & Financial Services

Athletic Department

Procurement Services

Financial Aid

Payroll

PROFESSIONAL DEVELOPMENT:

Kentucky Public University Business Officers (KYPUBO) meeting, General Butler State Park, June 8 – 9

Active Shooter Training, Morehead State University, August 25

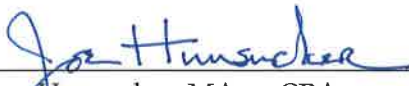
OTHER:

Serving as a member of the Strategic Planning Committee

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

Serving as a member of Staff Congress

Respectfully Submitted,



Joe Hunsucker, MAcc, CPA
Director of Internal Audits