

MOREHEAD STATE UNIVERSITY

AUDIT COMMITTEE MEETING

Friday, October 19, 2018
ADUC
Room 329



MOREHEAD STATE UNIVERSITY

**BOARD OF REGENTS
AUDIT COMMITTEE**

**October 19, 2018
2 p.m.**

AGENDA

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVE MINUTES OF MAY 10, 2018 MEETING
- IV. RECOMMENDATIONS AND REPORTS
 - A. Accept 2017-2018 Audit Report
 - B. Report on Status of Internal Audits
- V. OTHER BUSINESS
- VI. ADJOURNMENT

**BOARD OF REGENTS
AUDIT COMMITTEE MEETING
Thursday, May 10, 2018**

The Audit Committee met at 9 a.m. on Thursday, May 10, 2018, 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. Jay Morgan, President; Ms. Teresa Lindgren, Interim Chief Financial Officer; 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 9, 2017 meeting as distributed. Mr. Howard seconded the motion. The motion carried by general consent.

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.

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 2016-17 fiscal year were satisfactory and in compliance with the terms of the contract. The fee for the 2017-18 fiscal year will not exceed \$90,000. Dean Dorton changes the lead auditor every two years.

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

VOTE: The motion carried by general consent.

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

(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.

The Audit Committee discussed the possibility of a separate audit of financial policies and practices in the future.

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

VOTE: The motion carried by general consent.

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, 2018.

Departmental Audits

Mr. Hunsucker regularly audits various departments to ensure transactions have legitimate business purposes, comply with applicable University purchasing and travel guidelines, contain appropriate documentation, and have correct account allocations. Since his last report, he has audited 15 departments and over 4,800 transactions. The audits revealed no issues with voucher transactions. Purchasing card transactions had legitimate business purposes and complied with applicable University purchasing guidelines. Some instances of missing receipts and allocation to incorrect accounts (by default) were noted and reviewed with the cardholders and/or administrative personnel to ensure corrective actions were taken.

Police Department Evidence Room

Mr. Hunsucker found no exceptions during his review process of the University Police Department's controls over evidence and property. His opinion is that the Police Department has adequate controls in place to ensure evidence and property are properly stored and maintained.

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 Morgan for travel and other expenditures received during the fiscal year 2017-2018.

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. Goodpaster seconded the motion. The motion carried by general consent at 9:47 a.m.

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, 2018 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 7, 2018, 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 2017-18 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, 2018 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
October 19, 2018
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 783 transactions totaling \$42,483.15 for 277 student-athletes during the period July 1, 2017 through June 30, 2018 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	31	129	\$ 5,955.83
Basketball	12	36	2,290.72
CC/Track	22	62	2,662.72
Football	87	195	10,804.77
Golf	<u>11</u>	<u>33</u>	<u>1,387.57</u>
Total	163	455	\$23,101.61
<u>WOMEN'S SPORTS:</u>			
Basketball	14	48	\$ 4323.58
CC/Track	20	56	3,855.85
Golf	7	17	791.21
Soccer	27	71	2,795.44
Softball	22	66	2,821.77
Volleyball	<u>14</u>	<u>37</u>	<u>2,282.15</u>
Total	104	295	\$16,870.00
<u>MIXED SPORTS:</u>			
Rifle	<u>10</u>	<u>33</u>	<u>\$ 2,511.54</u>
TOTAL – ALL SPORTS	277	783	\$42,483.15

TRANSACTIONS**BY CATEGORY**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Category 1 – Educational	0	0	1	1
Category 2 – Health & Safety	4	10	2	16
Category 3 – Personal/Family	<u>451</u>	<u>285</u>	<u>30</u>	<u>766</u>
Total	455	295	33	783

RECIPIENTS BY**FINANCIAL AID TYPE**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
100 – On Full GIA	11	28	0	39
200 – On Partial GIA	47	65	8	120
300 – On No GIA	104	11	2	117
400 – Exhausted Eligibility	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total	163	104	10	277

RECIPIENTS**RECEIVING PELL**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Receiving PELL	53	15	1	69
NOT Receiving PELL	<u>110</u>	<u>89</u>	<u>9</u>	<u>208</u>
Total	163	104	10	277

AMOUNT (Rounded)**BY CATEGORY**

	<u>Men</u>	<u>Women</u>	<u>Mixed</u>	<u>Total</u>
Category 1 – Educational	0	0	1,152	1,152
Category 2 – Health & Safety	2,531	5,032	116	7,679
Category 3 – Personal/Family	<u>20,571</u>	<u>11,838</u>	<u>1,243</u>	<u>33,652</u>
Total	23,102	16,870	2,511	42,483

The University received \$90,841 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, 2018 for the Student Assistance Fund was \$80,330.96. 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, VP for Student Affairs Mast and Director of Athletics Hutchinson.

President Morgan's Expenses

Objectives:

The objectives of the review were to determine if Dr. Morgan's purchasing card transactions and disbursements from University funds to Dr. Morgan had a legitimate business purpose, were adequately supported and complied with applicable University travel, procurement and purchasing card policies.

Scope:

The scope included a review of Dr. Morgan's purchasing card transactions and disbursements made to, or on behalf of, Dr. Morgan for the period July 1, 2017 through June 30, 2018. The population consisted of 74 purchasing card transactions and 28 disbursements totaling \$24,611.70 with 100% of the transactions being reviewed.

Results:

The following categories of expenditures were reviewed during the period:

Vehicle Allowance (per employment contract)	\$ 14,400.00
Rent During Renovation of President's Home (2017)	4,350.00
Fuel for Business Travel	2,051.71
Insurance (per employment contract)	1,706.98
Lodging (for Regents' accommodations)	1,060.00
Lodging During Official Travel	840.78
Parking/Taxi During Official Travel	142.68
Meals During Official Travel	59.55
TOTAL	\$ 24,611.70

No exceptions were noted during the review. All disbursements and purchasing card transactions were adequately supported and in compliance with applicable University policies.

Opinion:

Based on the results of my review of applicable documentation and substantive tests performed, it is my opinion that Dr. Morgan's purchasing card transactions and disbursements to Dr. Morgan had a legitimate business purpose, were adequately supported and complied with applicable University travel, procurement and purchasing card policies.

A report was issued to the members of the Board of Regents' Audit Committee.

Purchasing Card Audits

Purchasing card audits were conducted for the following units to determine compliance with University procurement and purchasing card policies:

Earth and Space Science – 553 transactions for the period July 1, 2017 through April 30, 2018

Housing & Residence Life – 202 transactions for the period July 1, 2017 through April 30, 2018

No significant deficiencies were noted during the reviews. Exit conferences were held at the conclusion of each audit with cardholders and/or other administrative personnel to discuss ways to improve efficiencies when needed.

Cash Counts

Cash counts were conducted at the close of business, Thursday, June 28, 2018 for one Cashier and at the close of business on Friday, June 29 for the remaining Cashiers to verify the cumulative \$11,000 Cashier Operating account in the University's Office of Accounting & Financial Services. Cash and cash equivalents on hand for the Cashiers totaled \$11,000.00. Overage/shortage amounts are maintained separately, no overage/shortages were reported for either day. The year-to-date cumulative shortage for the Cashiers was \$58.37.

A cash count was conducted Friday, June 29, 2018 for the University Store's \$2,500.00 permanent change fund. Cash on hand for the permanent change cash fund totaled \$2,500.00 with no cumulative year-to-date overage/shortage noted.

A cash count was conducted Thursday, June 28, 2018 for the Kentucky Folk Art Center'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.

Year-end reports were issued to applicable University personnel and our external audit firm, Dean Dorton Allen Ford.

A cash count was conducted Wednesday, August 29, 2018 for a departing temporary Cashier. Cash on hand for the Cashier totaled \$2,000.00 with no cumulative year-to-date overage/shortage noted. The funds were redeposited into the University's bank account.

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

- TRIO Programs (Upward Bound, Talent Search, Commonwealth Education Opportunity Center and Student Support Services programs)
Internal Control Narratives
Internal Control/Compliance Testing
Cash Management Testing
Eligibility Testing
- Federal Work Study Payroll Testing
- Internal Control Questionnaires

Assistance is being provided to Maximus, Inc. in calculating the University's indirect facilities & administrative (F&A) rate.

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:

Maneuvering and Understanding the Changes to Kentucky's Sales and Use Taxes webinar, sponsored by Dean Dorton Allen Ford, June 27

College Business Management Institute (CBMI), sponsored by Southern Association of College and University Business Officers (SACUBO), University of Kentucky, July 30 – August 3

Preventing Discrimination and Harassment: Faculty and Staff, presented by EduRisk Learning, Morehead State University, August 6

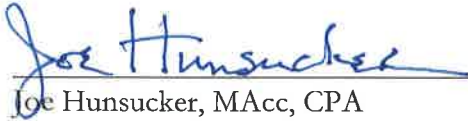
OTHER:

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

Serving as a member of Staff Congress

Teaching 2 sections of ACCT 281

Respectfully Submitted,

A handwritten signature in blue ink that reads "Joe Hunsucker". The signature is written in a cursive style and is positioned above a horizontal line.

Joe Hunsucker, MAcc, CPA
Director of Internal Audits