

MOREHEAD STATE UNIVERSITY

AUDIT COMMITTEE MEETING

March 25, 2021 at 9:00 a.m.
MSU at Mt. Sterling



**MOREHEAD STATE UNIVERSITY
BOARD OF REGENTS
AUDIT COMMITTEE MEETING**

Thursday, March 25, 2021 at 9:00 a.m.
MSU at Mt. Sterling

Committee Members:
Sanford Holbrook, Audit Committee Chair
Eric Howard
Wayne Martin
Adam Hinton

AGENDA

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVE MINUTES OF OCTOBER 16, 2020 AUDIT COMMITTEE MEETING
- IV. RECOMMENDATIONS AND REPORTS
 - A. Accept 2019-20 NCAA Agreed Upon Procedures Report and WMKY-FM Audit
 - B. Report on Status of Internal Audits, Mrs. Cynthia Hunt, Internal Auditor
 - C. Approve Appointment of Auditing Firm and Price
 - D. Approve Minimum Scope of Annual Audit for the Year Ending June 30, 2021
- V. ADJOURNMENT

Agenda materials are available online at <http://www.moreheadstate.edu/bor>

BOARD OF REGENTS
AUDIT COMMITTEE MEETING MINUTES
October 16, 2020

The Audit Committee met on October 16, 2020 at 9:00 a.m. via webex video teleconference, due to the novel coronavirus.

Audit Committee Chair Sanford Holbrook presided over the meeting. Committee Chair Holbrook called the meeting to order and introduced Board Secretary Jacqueline Graves to call the roll.

The following Audit Committee members were present: Committee Chair Sanford Holbrook, Eric Howard, Wayne Martin, and Adam Hinton.

Committee Chair Holbrook moved to approve the minutes of the April 16, 2020 Audit Committee Meeting. Mr. Martin seconded the motion and the motion carried unanimously.

RECOMMENDATION: That the Audit Committee accept the audit report for the fiscal year ended June 30, 2020 as presented by Dean Dorton Allen Ford, PLLC.

KRS 164A.570 requires an annual audit to be conducted for all universities in the state system. This audit is to be conducted by an independent public accounting firm. On April 16, 2020, the Board approved the recommendation of the Audit Committee to appoint the accounting firm of Dean Dorton Allen Ford, PLLC to conduct the 2019-20 fiscal year audit. 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 completed the audit for the June 30, 2020 fiscal year. The report was issued with an unmodified opinion on the financial statements. A copy of the report was provided to each member of the Board of Regents.

Mr. David Richard, Assurance Director, and Brittany Neaves Rebholz, Manager of Assurance Services, with Dean Dorton Allen Ford, PLLC attended virtually to respond to questions. Mr. Richard provided a brief overview of the audit report, stating that work completed by Dean Dorton Allen Ford, PLLC went routinely and resulted in a clean opinion. Mr. Richard commended the University for managing its debts and liabilities during this difficult financial time. He stated that this management allowed the University to prevent furloughs and layoffs, unlike most universities in the state.

Mr. Richard stated that financial operations were conducted in accordance with the University's approved budget plan, which continues to demonstrate the University's commitment to advance its mission by focusing on goals and objectives, as defined by the SOAR 2018-2022 Vision and Strategic Plan. Total assets and deferred outflows of resources were \$340 million, versus \$355 million at June 30, 2019. He stated that the decrease is primarily related to a decrease in deferred outflows of resources of \$10 million and a decrease in capital assets, net of \$13 million. This was offset by an increase in cash and cash equivalents of \$2.8 million and an increase in investments of \$4.1 million. Total liabilities and deferred inflows of resources were \$308 million versus \$358 million at June 30, 2019. The decrease is primarily related to decreases in the University's proportionate share of the state's net pension liability of \$24.7 million, a decrease in bond and capital lease obligations of \$5.5 million, a decrease in deferred inflows of resources of \$12 million, and a decrease in other post-employment benefits (OPEB) liability in the amount of \$7 million.

He further stated that the total net position was \$32.1 million at June 30, 2020 and \$3.2 million at June 30, 2019.

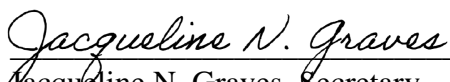
The audit was also completed to ensure compliance with federal financial aid regulations. The audit was successful and showed the University materially complied with all requirements. Any and all material misstatements identified as a result of the audit procedures were corrected by management. Members of the Board were provided a record of all adjustments made as a result of audit procedures.

MOTION: Mr. Hinton moved that the Committee accept the audit report for the fiscal year ended June 30, 2020 as presented by Dean Dorton Allen Ford, PLLC. Mr. Howard seconded the motion and the motion carried unanimously.

Ms. Cynthia Hunt, Internal Auditor, reported on completed and planned projects. She stated that she had conducted a review of President Morgan's purchasing card transactions and disbursements and determined that all such transactions and disbursements had a legitimate business purpose and were adequately supported and complied with applicable contract, university travel, and procurement and purchasing card policies. She stated that she had also reviewed the University student assistance fund and found no issues. She assisted the external auditors with their audit and plans to begin reviews of purchasing card activity and conduct department audits.

There being no further business to conduct, Mr. Martin moved that the meeting adjourn and Mr. Hinton seconded the motion. The motion carried unanimously.

Respectfully submitted,


Jacqueline N. Graves, Secretary
Board of Regents

**ACCEPT 2019-20 NCAA AGREED
UPON PROCEDURES REPORT AND
WMKY-FM AUDIT**

**BOR (IV-A)
March 25, 2021**

Recommendation:

That the Audit Committee accept the Agreed Upon Procedures Report required by the NCAA and the WMKY-FM audit report for the fiscal year ended June 30, 2020 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 April 16, 2020, the Board approved the recommendation of the Audit Committee to appoint the accounting firm of Dean Dorton Allen Ford, PLLC to conduct the 2019-20 fiscal year audits. 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 Agreed Upon Procedures Report required by the NCAA and the WMKY-FM audit report for the June 30, 2020 fiscal year. A copy of the reports have been provided to each member of the Board of Regents.

**APPROVE APPOINTMENT OF
AUDITING FIRM AND AUDIT PRICE**

**BOR (IV-C)
March 25, 2021**

Recommendation:

That the Audit Committee approve the audit price and 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, 2021.

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 will 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 8, 2021, the University issued a request for proposals from qualified public accounting firms to perform the auditing services. The request for proposals was posted on the University's online plan room and registered vendors were notified. The process closed on January 29, 2021. Responses were submitted by four firms:

- BKD, LLP, Louisville
- Crowe, LLP, Lexington
- Dean Dorton Allen Ford, PLLC, Lexington
- Plante Moran, Cincinnati

The proposals were independently evaluated by the Chief Financial Officer and VP for Fiscal Services, the Director of Internal Audits, the Director of Accounting and Financial Services, the Assistant Director of Accounting and Financial Services, and the Director of Finance for the MSU Foundation. The evaluations were based on cost factors and on technical factors; such as the audit firm's technical experience and the audit firm's experience with performing public higher education audits.

Based on the evaluations, it is recommended that the Audit Committee approve the audit price and the appointment of Dean Dorton Allen Ford, PLLC to conduct the annual audits. The contract will be awarded for the fiscal year that will end on June 30, 2021 with the option to extend the contract for seven additional one year periods. The fee for the first year of the contract will be \$97,200. Fee adjustments for future contracts will be based on the consumer price index.

**APPROVE MINIMUM SCOPE
OF THE ANNUAL AUDIT**

**BOR (IV-D)
March 25, 2021**

Recommendation:

That the Audit Committee approve the minimum scope of the University's audit for the year ending June 30, 2021.

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, 2021**

March 25, 2021

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, 2021. 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, 2021 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 (Uniform Guidance). 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 (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 48.111, 48.190, 56.800 through 56.823, and 164A.575.

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, 2021. 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, 2021. 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, 2021.

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. The Firm will also 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 1, 2021. 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, 2021 from the last day of field work (projected for late September 2021) to December 10, 2021. 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 close of business on December 10, 2021.

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 1. If final reports are not available as of October 1, drafts will be submitted by that date. The reports will contain the following items:
 - (a) Audited financial statements and an opinion thereon. 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*.
 - (b) A report on compliance in accordance with KRS 164A.555 through 164A.630 (House Bill 622) based on the audit of financial statements.
 - (c) A report on compliance with the Kentucky Lease Law in accordance with KRS 48.111, 48.190, 56.800 through 56.823, and 164A.575.
 - (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 provide a representation letter by July 15 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.

3. 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.
4. The Firm will certify, on line, the CPB audit report by November 30 of each year.
5. The Firm will provide a letter to report the results of the subsequent events audit through December 10, 2021. The letter shall be delivered to the Auditor of Public Accounts and to the University, no later than close of business on December 10, 2021.
6. The Firm will prepare the KFAC form 990 & 990-T by February 15 of each year.
7. 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.



Morehead State University is committed to providing equal educational opportunities to all persons regardless of race, color, national origin, age, religion, sex, sexual orientation, gender identity, gender expression, disabled veterans, recently separated veterans, other protected veterans, and armed forces service medal veterans, or disability in its educational programs, services, activities, employment policies, and admission of students to any program of study. In this regard the University conforms to all the laws, statutes, and regulations concerning equal employment opportunities and affirmative action. This includes: Title VI and Title VII of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, Executive Orders 11246 and 11375, Equal Pay Act of 1963, Vietnam Era Veterans Readjustment Assistance Act of 1974, Age Discrimination in Employment Act of 1967, Sections 503 and 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act of 1990, and Kentucky Revised Statutes 207.130 to 207.240; Chapter 344 and other applicable statutes. Vocational educational programs at Morehead State University supported by federal funds include industrial education, vocational agriculture, business education, and the associate degree program in nursing. Any inquiries should be addressed to: Affirmative Action Officer, Morehead State University, 301 Howell-McDowell Administration Building, Morehead, KY 40351, 606-783-2097.