

Kentucky State University

Board of Regents Meeting

Audit Committee

July 26, 2013

Regent Mindy Barfield, Chairperson

Regent Karen Bearden

Regent Syamala Reddy

Regent Phyllis Williams

KENTUCKY STATE UNIVERSITY
Regular Meeting of the
Board of Regents
Audit Committee
July 26, 2013
12:00 Noon
Board Room – Academic Services Building

AGENDA

- | | | |
|------|---|------------------------------------|
| I. | Call to Order | Regent Mindy Barfield, Chairperson |
| II. | Roll Call | Sonia Sanders, |
| III. | Opening Remarks | Regent Mindy Barfield |
| IV. | Approval of Minutes | Regent Mindy Barfield |
| | <ul style="list-style-type: none">• <u>October 26, 2012 Meeting</u>• <u>January 25, 2013 Meeting</u>• <u>April 26, 2013 Meeting</u> | |
| V. | Report | Mark Ferm, Internal Auditor |
| VI. | Discussion | |
| VII. | Adjournment | |

Agenda Item Background

To:	Board of Regents Audit Committee	Date: July 26, 2013
From:	Regent Mindy Barfield, Chairperson Audit Committee	
Subject:	October 26, 2012 Committee Minutes	
Reason for Consideration:	Approval	Enclosures: Yes

Background:

The minutes of the Audit Committee meeting for October 26, 2012, require approval in order to become an official part of the committee records.

Recommendation:

It is recommended that the Audit Committee approve the minutes of the October 26, 2012 meeting.

Approval

Initiator:	Regent Mindy Barfield
Board Action Date:	July 26, 2013
Effective Date:	July 26, 2013

Audit Committee
July 26, 2013
12:00 Noon
Board Room – Academic Services Building

MINUTES

Call to Order

Regent Barfield called the meeting of the Kentucky State University Board of Regents Audit Committee to order at 12:21 pm on October 26, 2012

Roll Call

Regent Barfield-Yes
Regent-Bearden-Yes
Regent-Reddy-Yes
Regent-Williams-Yes
Quorum Established: Yes

Opening Remarks

Regent Barfield welcomed the Audit committee and Mark Ferm, Internal Auditor from Tronconi Segarra & Associates.

DISCUSSION: Mr. Ferm presented a brief overview of the continued work of the internal auditors. Regent Barfield opened the floor for questions. Hearing none, Regent Barfield thanked Mr. Ferm for their work and continued commitment to KSU.

VII. Adjournment

Action: Motion to adjourn by Regent Williams and seconded by Regent Bearden. Meeting was adjourned at 12:29 p.m.

Submitted and Approved by:

Regent Mindy Barfield, Chair
Internal Audit Committee
Board of Regents

_____ Approved with no corrections
_____ Approved with corrections

**Audit Committee
 July 26, 2013
 12:00 Noon
 Board Room – Academic Services Building**

Agenda Item Background

To:	Board of Regents Audit Committee	Date: July 26, 2013
From:	Regent Mindy Barfield, Chairperson Audit Committee	
Subject:	January 25, 2013 Committee Minutes	
Reason for Consideration:	Approval	Enclosures: Yes

Background:

The minutes of the Audit Committee meeting for January 25, 2013, require approval in order to become an official part of the committee records.

Recommendation:

It is recommended that the Audit Committee approve the minutes of the January 25, 2013 meeting.

Approval

Initiator:	Regent Mindy Barfield
Board Action Date:	July 26, 2013
Effective Date:	July 26, 2013

**Audit Committee
July 26, 2013
12:00 Noon
Board Room – Academic Services Building**

MINUTES

Call to Order

Regent Barfield called the meeting of the Kentucky State University Board of Regents Audit Committee to order at 12:01 on January 25, 2013

Roll Call

Regent Barfield-Yes
Regent-Bearden-Yes
Regent-Reddy-Absent
Regent-Williams-Absent
Quorum Established: - No

Opening Remarks

Regent Barfield welcomed the Audit committee members and introduced Mark Ferm Internal Auditor from Tronconi Segarra & Associates. Regent Barfield noted that the October 26, 2012 minutes will be approved at the next Audit Committee meeting.

DISCUSSION: Mr. Ferm presented an overview of the Audit Assessment which included the continuation of the internal audit plan. Mr. Ferm explained that the team looked to be on schedule. Regent Barfield thanked Mr. Ferm for the presentation and their continued efforts to complete the audit in a timely manner.

VII. Adjournment

Action: Motion to adjourn by Regent Bearden and seconded by Regent Barfield.
Meeting was adjourned at 12:14 pm

Submitted by:

Approved by:

Regent Mindy Barfield, Chair
Internal Audit Committee
Board of Regents

Regent Mindy Barfield, Chair
Internal Audit Committee
Board of Regents

_____ Approved with no corrections
_____ Approved with corrections

Agenda Item Background

To:	Board of Regents Audit Committee	Date: July 26, 2013
From:	Regent Mindy Barfield, Chairperson Audit Committee	
Subject:	April 26, 2013 Committee Minutes	
Reason for Consideration:	Approval	Enclosures: Yes

Background:

The minutes of the Audit Committee meeting for April 26, 2013, require approval in order to become an official part of the committee records.

Recommendation:

It is recommended that the Audit Committee approve the minutes of the August 26, 2013 meeting.

Approval

Initiator:	Regent Mindy Barfield
Board Action Date:	July 26, 2013
Effective Date:	July 26, 2013

Audit Committee
April 26, 2013
12:00 Noon
Board Room - Academic Services Building

MINUTES

Call to Order

Regent Barfield called the meeting of the Kentucky State University Board of Regents Audit Committee to order at 12:31 p.m. April 26, 2013

Roll Call

Regent Barfield-Yes
Regent-Bearden-Yes
Regent-Reddy-Absent
Regent-Williams-Absent
Quorum Established: - No

Opening Remarks

Regent Barfield welcomed the Audit committee members and introduced Mark Ferm Internal Auditor from Tronconi Segarra & Associates. Mr. Ferm made a brief presentation. After discussion explained that the team was on schedule. Regent Barfield thanked Mr. Ferm for the presentation and their continued efforts to complete the audit in a timely manner.

VII. **Adjournment**

Action: Motion to adjourn by Regent Bearden and seconded by Regent Barfield.
Meeting was adjourned at 12:40 p.m.

Submitted by:

Approved by:

Regent Mindy Barfield, Chair
Internal Audit Committee
Board of Regents

Regent Mindy Barfield, Chair
Internal Audit Committee
Board of Regents

_____ Approved with no corrections

_____ Approved with corrections

Kentucky State University



Risk Assessment Update July 26, 2013

Presented by:

**TRONCONI SEGARRA
& ASSOCIATES^{LLP}**

Certified Public Accountants
Business Consultants

SOLUTIONS BEYOND THE OBVIOUS

Kentucky State University
Risk Assessment Update
July 26, 2013

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To the Audit Committee of
Kentucky State University

We are pleased to present an update of our risk assessment of the internal controls of Kentucky State University (the "University"). The purpose of our engagement is to assist you in the development of a risk assessment of University operations, to perform various internal audit services, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiry of University faculty and staff, observations, inspection of various policies and procedures, and testing of the operating effectiveness of some controls. We plan to issue additional periodic reports throughout the course of the engagement, which will follow the proposed rotation plan for significant cycles as documented in the internal audit plan.

The importance of an adequate system of internal control is to promote effective and efficient operations so as to help the University carry out its mission; to provide reasonable, but not absolute, assurance that assets are safeguarded against inappropriate or unauthorized use; to promote the accuracy and reliability of accounting data and financial reporting to ensure transactions are executed in accordance with management's authorization and recorded properly in accounting records; to encourage adherence to management's policies and procedures for conducting programs and operations; and to ensure compliance with applicable laws and regulations. Furthermore, a successful system of internal control includes performing an annual assessment to identify potential weaknesses in policies and procedures and to implement corrective actions.

This report contains the final risk assessment for the fiscal year ended June 30, 2013, and our audit plan for the fiscal year ended June 30, 2014. Additionally included is the risk assessment for the fiscal year ended June 30, 2013. Since the previous update to the audit committee, we have performed observations within the areas of general control environment, and purchasing, accounts payable, and disbursements. Additionally, we have performed testing in the area of disbursements and return of title IV funds.

Internal control testing was performed through tailored procedures designed based on our understanding of the University's relevant policies and procedures in effect for the aforementioned cycles.

The University's risks are the risks that an action or event will adversely affect the University's ability to successfully achieve its objectives. The Risk Assessment section of the report analyzes the significant risk findings that were identified during our assessment.

The accompanying comments are intended solely for the information and use of the Audit Committee, Board of Regents, department heads, and others within the University and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the employees of the University for their cooperation. We have already discussed many of these comments and suggestions with various University personnel, and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Truman Segura & Associates LLP

July 26, 2013

**Risk Assessment
Fiscal Year 2012 - 2013**

Kentucky State University
Risk Assessment
Fiscal Year 2012 - 2013

Overview

The University's risks are the risks that an action or event will adversely affect its ability to successfully achieve its objectives. During our engagement we became aware of various sources of risk that impact the University. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications on the University.
- A moderate impact suggests that the risk could have implications for the University's ability to succeed.
- A significant impact suggests that the risk would have important implications on the University.

Likelihood refers to the probability that the risk may occur given the current context of the University. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur, despite the current risk management practices in place.

The Risk Management Tolerance Model and the Risk Assessment Matrix that follows summarizes these risks and assesses their impact and likelihood.

Kentucky State University
Risk Assessment
Fiscal Year 2012 - 2013 (continued)

Cycles plotted in the red sections of the model are considered to be high risk and, as such, the related deficiencies should be given urgent attention in terms of priority. Cycles plotted in the yellow sections are considered to have moderate risk, are considered to be important, and should be given second priority after the high risk cycles. Cycles plotted in the green section of the model are considered least risky and remediation efforts to address deficiencies in these cycles would be expected to be addressed during routine operations of the University.

We have developed the risk assessment around significant transaction cycles as a means by which the associated risks can be easily understood and managed. The cycles or areas that have been evaluated are:

- Information Technology (IT)
- Land and Other Grants (G)
- Travel & Entertainment (T&E)
- Payroll and Personnel (PP)
- Capital Assets (CA)
- Student Financial Aid – Student Eligibility (SFA - E)
- Financial Reporting (FR)

Kentucky State University
Risk Assessment
Fiscal Year 2012 - 2013 (continued)

Risk Management Tolerance Model

Impact	Significant	G	FR, IT	
	Moderate	PP, SFA - E	CA	
	Minor	T&E		
		Low	Medium	High

Likelihood

Kentucky State University
Risk Assessment
Fiscal Year 2012 - 2013 (continued)

Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
IT	We noted high overall risk in the Information Technology cycle. There is a pervasive reliance on information technology at the University. Upon review of the cycle it was noted that there are a number of recommendations the University should consider addressing to ensure assets are properly safeguarded and operations will continue in the event of an emergency situation.	Significant	Medium
G	We noted moderate overall risk in the Land and Other Grants cycle. The University should consider strengthening controls related to budgetary and expense review by Principal Investigators within the College of Agriculture, Food Science, and Sustainable Systems.	Significant	Low
T&E	We noted low overall risk in the Travel & Entertainment cycle. The implementation of the Concur Expense system appears to be operating with appropriate monitoring.	Minor	Low
PP	We noted minor overall risk in the Payroll and Personnel cycle. Controls over manual checks and bank reconciliations should be strengthened.	Moderate	Low
CA	We noted moderate overall risk in the Capital Assets cycle. Inventories should be scheduled regularly and asset tags should be assigned to individually significant assets.	Moderate	Medium
SFA-E	We noted a low overall risk in the Student Financial Aid cycle related to the area of student eligibility. Automated controls through the National Student Loan Database System (“NSLDS”), along with procedure in place within the financial aid office appears to be operating effectively in relation to eligibility for student financial aid.	Moderate	Low

Kentucky State University
Risk Assessment
Fiscal Year 2012 - 2013 (continued)

FR	We noted a high overall risk in the Financial Reporting cycle. The turnover of employees in the department, lack of formalized documentation, along with observations made by the external auditors are all contributing factors to the risks identified in this area.	Significant	Medium
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Audit Plan – 2013 - 2014

Kentucky State University
Audit Plan – 2013-2014

Proposed Rotation Plan for Significant Cycles

We proposed the following three-year rotation plan as a result of our initial risk assessment reported to the audit committee on July 27, 2012. We find no reason to deviate from this rotation plan at this time:

Transaction Cycle/Area	Fiscal 2012-2013	Fiscal 2013-2014	Fiscal 2014-2015
General Control Environment (GC)		X	
Student Financial Aid (SFA)	X	X	X
Land and Other Grants (G)	X	X	X
Capital Assets (CA)	X		
Information Technology (IT)	X		
Purchasing, Accounts Payable, and Disbursements (PA)		X	
Payroll and Personnel (PP)	X		X
Financial Reporting (FR)	X		
Travel & Entertainment (T&E)	X	X	X
Auxiliary Enterprises (AE)		X	

Kentucky State University
Audit Plan – 2013-2014 (continued)

Transaction Cycle/Area	Fiscal 2012-2013	Fiscal 2013-2014	Fiscal 2014-2015
Investments (I)		X	
Debt (D)			X
Accounts Receivable and Collections (AR)			X

For each cycle selected for a given year, we will gain an understanding of the design and operating effectiveness of key internal controls through observation, inquiry, walkthroughs, and testing a sample of transactions/attributes.

The area of Student Financial Aid can further be broken down into the areas of Institution Eligibility and Participation, Reporting, Student Eligibility, Disbursements, Return of Title IV funds, GAP's and Cash Management, and Administrative Capability. These areas will be factored in our rotation plans, and the number of areas to be covered impacts the need to address Student Financial Aid every year.

Kentucky State University
Audit Plan – 2013-2014 (continued)

Timeline for 2013 – 2014

The following outlines our preliminary internal audit plan for the fiscal year ended June 30, 2014:

Transaction Cycle/Area	Interviews and Walkthroughs	Control Testing Performed	Recommendations Proposed
General Control Environment (GC)	X	October 2013	January 2014
Student Financial Aid (SFA) <ul style="list-style-type: none"> ▪ Disbursement (SFA –D) ▪ Return of Title IV funds (SFA – R) 	X	X	October 2013
Student Financial Aid (SFA) <ul style="list-style-type: none"> ▪ Institution Eligibility and Participation (SFA – IE) 	October 2013	January 2014	April 2014
Land and Other Grants (G)	October 2013	October 2013	January 2014
Purchasing, Accounts Payable, and Disbursements (PA)	X	October 2013	January 2014
Travel & Entertainment (T&E)	January 2014	April 2014	June 2014
Auxiliary Enterprises (AE)	January 2014	April 2014	June 2014
Investments (I)	October 2013	January 2014	April 2014