

**MINNESOTA OFFICE OF HIGHER EDUCATION**

(A Component Unit of the State of Minnesota)

Saint Paul, Minnesota

REPORT ON FEDERAL AWARDS

For the Year Ended June 30, 2016

# MINNESOTA OFFICE OF HIGHER EDUCATION

## TABLE OF CONTENTS For the Year Ended June 30, 2016

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 – 2
Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3 – 5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8 – 9

REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Commissioner  
Minnesota Office of Higher Education  
Saint Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education (the "agency"), a component unit of the State of Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Minnesota Office of Higher Education's basic financial statements, and have issued our report thereon dated October 11, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Commissioner  
Minnesota Office of Higher Education

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Vichow Krause, LLP*

Minneapolis, Minnesota  
October 11, 2016

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

To the Commissioner  
Minnesota Office of Higher Education  
Saint Paul, Minnesota

**Report on Compliance for the Major Federal Program**

We have audited the Minnesota Office of Higher Education's (the "agency"), a component unit of the State of Minnesota, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the agency's major federal program for the year ended June 30, 2016. The agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the agency's compliance.

To the Commissioner  
Minnesota Office of Higher Education

### ***Opinion on the Major Federal Program***

In our opinion, the Minnesota Office of Higher Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the Minnesota Office of Higher Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the agency's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Commissioner  
Minnesota Office of Higher Education

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Minnesota Office of Higher Education, a component unit of the State of Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Minnesota Office of Higher Education's basic financial statements. We issued our report thereon dated October 11, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Baker Tilly Vichow Krause, LLP*

Minneapolis, Minnesota  
October 11, 2016

**MINNESOTA OFFICE OF HIGHER EDUCATION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2016

Grantor Agency / Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
<b>U. S. Department of Education</b>			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	\$ 3,004,493	\$ -
Improving Teacher Quality State Grants	84.367B	916,493	871,050
Total U.S. Department of Education		<u>3,920,986</u>	<u>871,050</u>
<b>U. S. Department of Justice</b>			
John R. Justice Prosecutors and Defenders Incentive Act	16.816	34,666	-
<b>TOTAL FEDERAL PROGRAMS</b>		<u>\$ 3,955,652</u>	<u>\$ 871,050</u>

See accompanying notes to schedule of expenditures of federal awards.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2016

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### **NOTE 1 – BASIS OF PRESENTATION**

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The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of the Minnesota Office of Higher Education under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Minnesota Office of Higher Education, it is not intended to and does not present the financial position, changes in net position or cash flows of the Minnesota Office of Higher Education.

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### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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Expenditures reported on the schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

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### **NOTE 3 – INDIRECT COST RATE**

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The Minnesota Office of Higher Education has not elected to use the 10% de minimis indirect cost rate.

# MINNESOTA OFFICE OF HIGHER EDUCATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

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#### **FINANCIAL STATEMENTS**

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- > Material weakness(es) identified?                   Yes              X   No
- > Significant deficiency(ies) identified?               Yes              X   None reported
- > Noncompliance material to basic  
financial statements noted?                           Yes              X   No

#### **FEDERAL AWARDS**

Internal control over major programs:

- > Material weakness(es) identified?                   Yes              X   No
- > Significant deficiency(ies) identified?               Yes              X   None reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to  
be reported in accordance with section 516(a) of  
the Uniform Guidance?

       Yes              X   No

Auditee qualified as low-risk auditee?

  X   Yes                   No

Identification of major federal programs:

CFDA Number

84.334S

Name of Federal Program

Gaining Early Awareness and Readiness for  
Undergraduate Programs

Dollar threshold used to distinguish between  
type A and type B programs:

      \$ 750,000

**MINNESOTA OFFICE OF HIGHER EDUCATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2016

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**SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

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None

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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None