

**MINNESOTA OFFICE OF HIGHER EDUCATION**

(A Component Unit of the State of Minnesota)

Saint Paul, Minnesota

**REPORT ON FEDERAL AWARDS**

As of and for the Year Ended June 30, 2012

# MINNESOTA OFFICE OF HIGHER EDUCATION

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INDEPENDENT AUDITORS' 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

Director  
Minnesota Office of Higher Education  
Saint Paul, Minnesota

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 (the "agency"), a component unit of the State of Minnesota, as of and for the year ended June 30, 2012, which collectively comprise the Minnesota Office of Higher Education's basic financial statements and have issued our report thereon dated October 10, 2012. We conducted our audit 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.

***Internal Control Over Financial Reporting***

Management of the Minnesota Office of Higher Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the agency's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the agency's internal control over financial reporting.

*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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Director  
Minnesota Office of Higher Education

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Minnesota Office of Higher Education's financial statements are free of 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*.

This report is intended solely for the information and use of the director, management, others within the entity, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Minneapolis, Minnesota  
October 10, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Director  
Minnesota Office of Higher Education  
Saint Paul, Minnesota

**Compliance**

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the agency's major federal programs for the year ended June 30, 2012. The agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the agency's management. Our responsibility is to express an opinion on the agency's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 a 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. Our audit does not provide a legal determination of the agency's compliance with those requirements.

In our opinion, the Minnesota Office of Higher Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Director  
Minnesota Office of Higher Education

### ***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 requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

### ***Schedule of Expenditures of Federal Awards***

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, 2012, and have issued our report thereon dated October 10, 2012 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the agency's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

This report is intended solely for the information and use of the director, management, others within the entity, federal awarding agencies, state funding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.



Minneapolis, Minnesota  
October 10, 2012

**MINNESOTA OFFICE OF HIGHER EDUCATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2012**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

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**FINANCIAL STATEMENTS**

Type of auditors’ report issued: unqualified

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 auditor’s report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?      \_\_\_\_\_ Yes        X   No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.367B	Improving Teacher Quality State Grants
84.378	College Access Challenge Grant Program

Dollar threshold used to distinguish between type A and type B programs:        \$ 300,000  

Auditee qualified as low-risk auditee?        X   yes      \_\_\_\_\_ no

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

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None.

**MINNESOTA OFFICE OF HIGHER EDUCATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (cont.)  
For the Year Ended June 30, 2012

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

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None.

**MINNESOTA OFFICE OF HIGHER EDUCATION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2012

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	\$ 2,820,671	\$ 84,647
Improving Teacher Quality State Grants	84.367B	835,988	790,560
College Access Challenge Grant Program	84.378	<u>1,036,612</u>	<u>175,392</u>
Total U.S. Department of Education		<u>4,693,271</u>	<u>1,050,599</u>
<b>U. S. Department of Justice</b>			
John R. Justice Prosecutors and Defenders Incentive Act	16.816	<u>140,722</u>	<u>119,650</u>
<b>TOTAL FEDERAL PROGRAMS</b>		<u>\$ 4,833,993</u>	<u>\$ 1,170,249</u>

## MINNESOTA OFFICE OF HIGHER EDUCATION

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2012

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#### **NOTE 1 – REPORTING ENTITY**

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This Report on Expenditure of Federal Awards includes the federal financial assistance of the Minnesota Office of Higher Education (the "agency"), a component unit of the State of Minnesota. The reporting entity of the agency is based upon criteria established by the Governmental Accounting Standards Board.

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#### **NOTE 2 – BASIS OF PRESENTATION**

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The 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.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.