

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, 2013

MINNESOTA OFFICE OF HIGHER EDUCATION

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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 *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

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, 2013, 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 September 30, 2013.

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.

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 Vuchow Krause, LLP

Minneapolis, Minnesota
September 30, 2013

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 OMB CIRCULAR A-133

Independent Auditors' Report

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the agency's major federal program for the year ended June 30, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's 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 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 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.

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, 2013.

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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Commissioner
Minnesota Office of Higher Education

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, 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 September 30, 2013, 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 OMB Circular A-133 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 Vuchow Kausel, LLP

Minneapolis, Minnesota
September 30, 2013

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

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 auditor's report issued on compliance for major programs: unmodified

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:

CFDA Number

Name of Federal Program

84.334S

Gaining Early Awareness and Readiness for Undergraduate Programs

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

 \$ 300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

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

None.

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (cont.)
For the Year Ended June 30, 2013

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS

None.

MINNESOTA OFFICE OF HIGHER EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Grantor Agency / Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U. S. Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	\$ 3,322,613	\$ 64,076
Improving Teacher Quality State Grants	84.367B	909,864	842,470
College Access Challenge Grant Program	84.378	<u>1,208,934</u>	<u>354,087</u>
Total U.S. Department of Education		<u>5,441,411</u>	<u>1,260,633</u>
U. S. Department of Justice			
John R. Justice Prosecutors and Defenders Incentive Act	16.816	<u>62,930</u>	<u>56,640</u>
TOTAL FEDERAL PROGRAMS		<u>\$ 5,504,341</u>	<u>\$ 1,317,273</u>

MINNESOTA OFFICE OF HIGHER EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2013

NOTE 1 – REPORTING ENTITY

This Report on 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.

NOTE 2 – BASIS OF PRESENTATION

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*.