

Presentation to the
Financial Administrator Development Program

***MSU Financial Statements and
External Audit***

What's Your Role?

October 25, 2016

Shea Bryant, Plante Moran Audit Associate

John Thelen, MSU Manager of Financial Analysis & Reporting

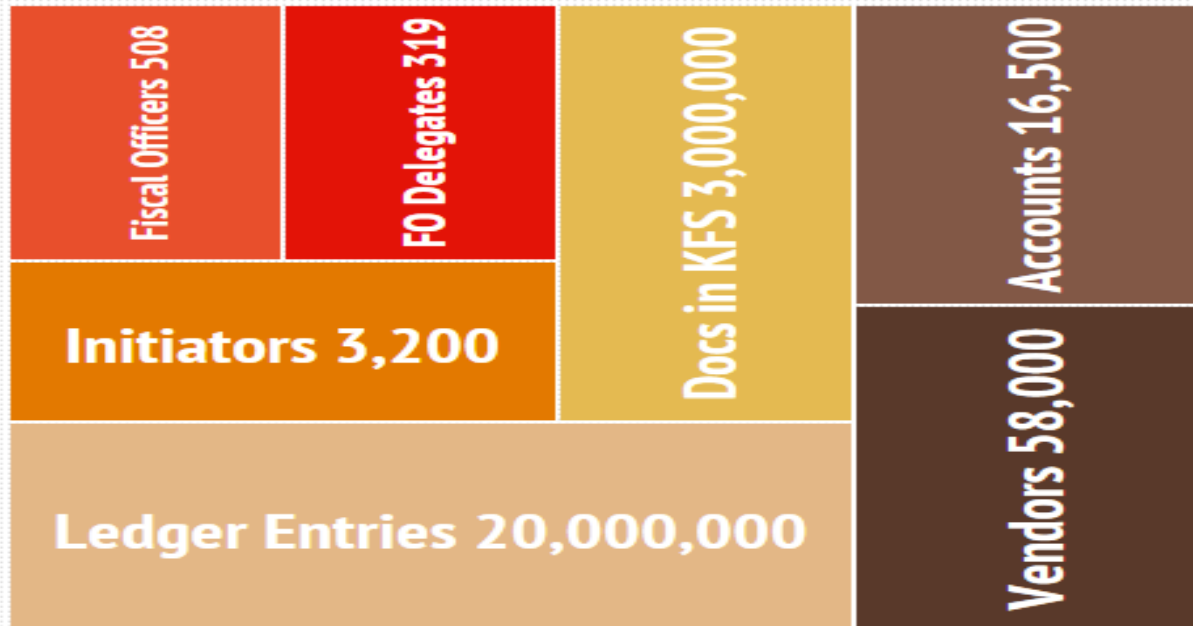


Outline

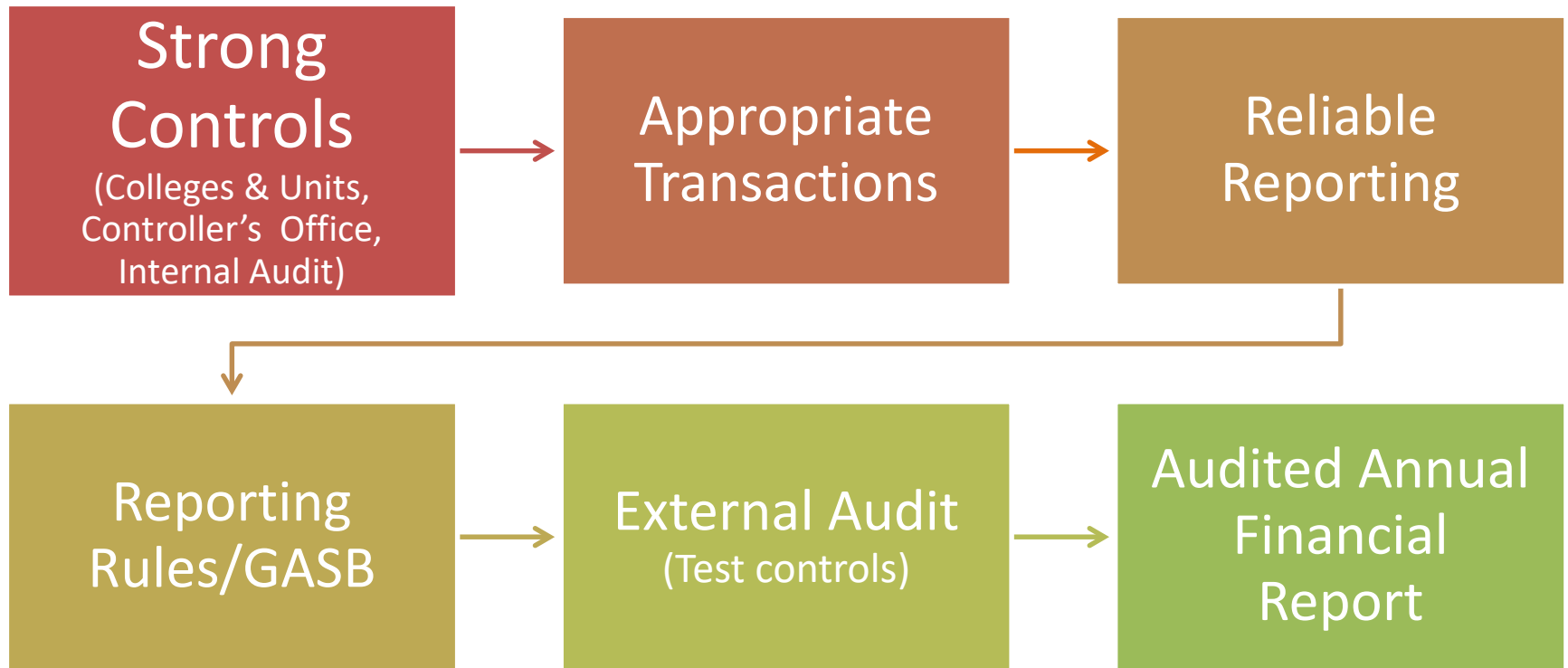
- MSU Financial Administrators, MSU Controller's Office, MSU Internal Auditors, and External Auditors have varying, yet connected, roles.
- Account transactions roll up to financial statements.
- Financial statement components.
- External Audit of financial statements.

STRENGTHEN STEWARDSHIP

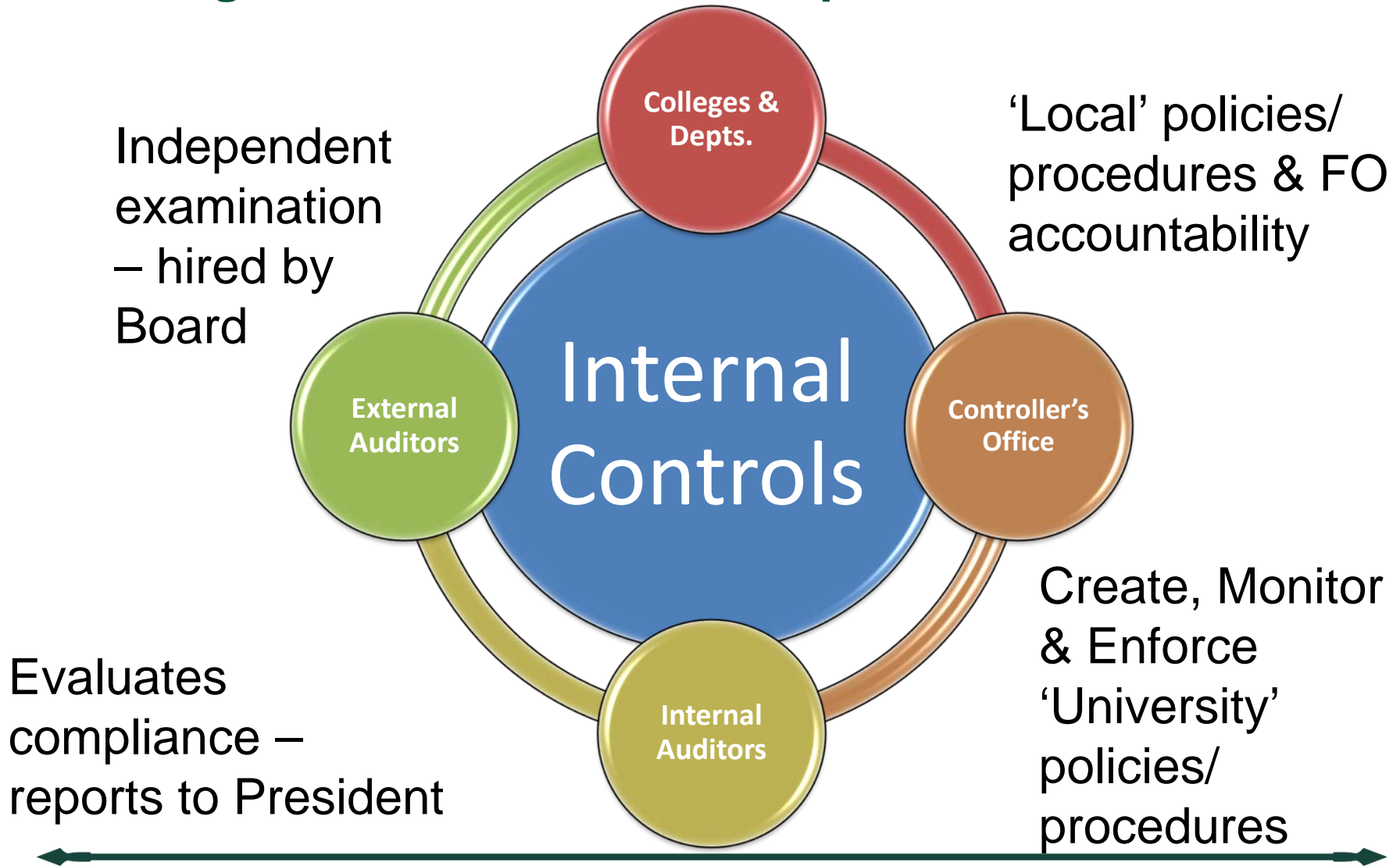
MSU's financial statements represent the strength of MSU's stewardship to the world. It begins with transactions in MSU's financial system.



Stewardship...



Creating an Environment of Compliance



What is internal control?

Internal control is a **PROCESS**



Specific policies
and
procedures...

...designed to
provide
reasonable
assurance...

...that an
organization's
fiscal objectives
will be met.

Reasonable Assurance

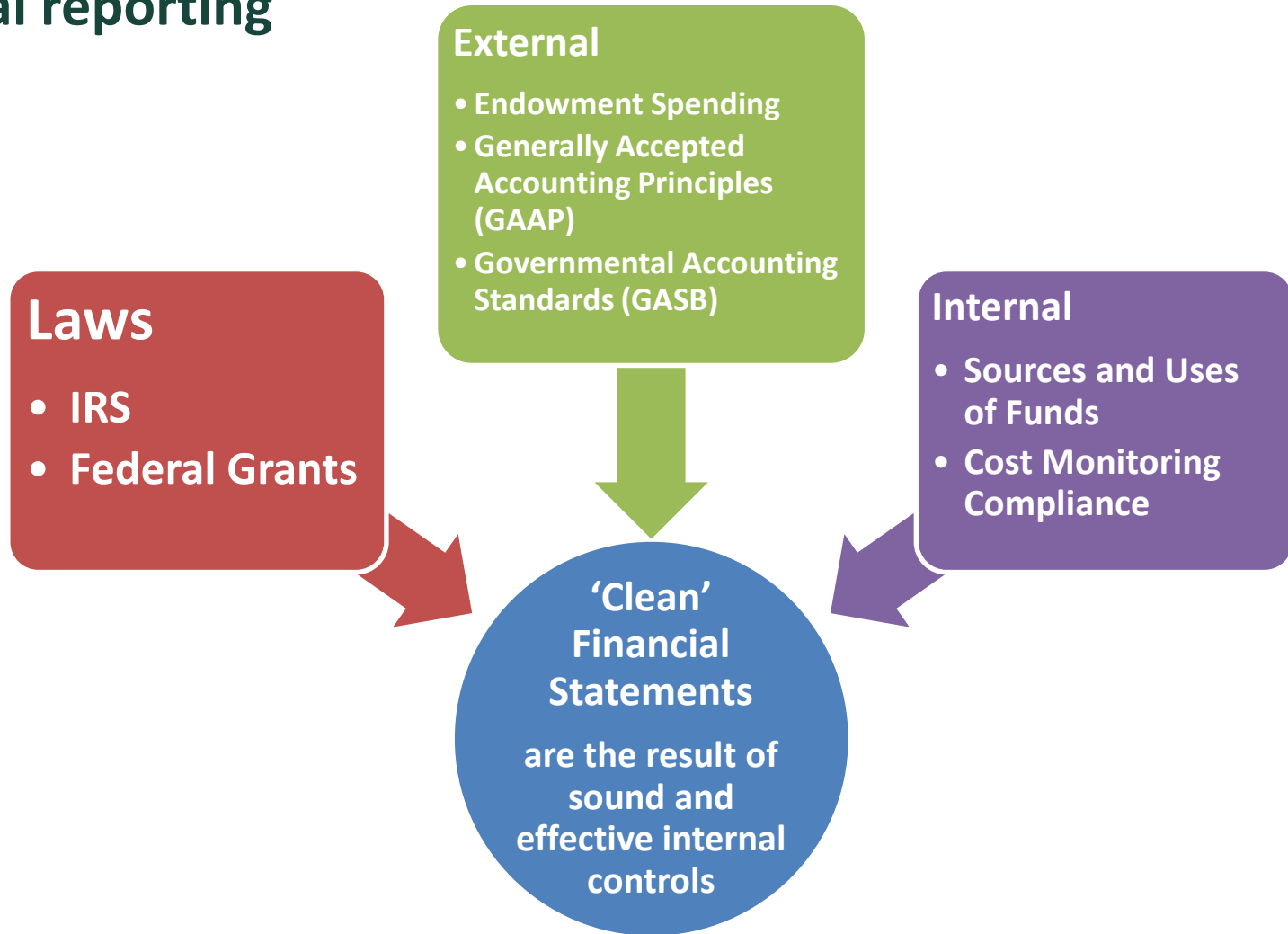
- Hiring staff with the proper skill sets
- Training....early and often
- Accountability understood & practiced
- Communicate the importance of compliance



Meeting fiscal objectives

- Promote effective and efficient operations
- Support compliance with policy
- Protect university assets
- **Provide reliable financial reporting**

Internal controls support strong stewardship & reliable financial reporting



MSU's financial reporting

- Financial statements audited annually by external audit firm
- Auditors are Plante Moran
- More on the audit later....but first:
- **What are the financial statements made of?**

The Rule Book: Governmental Accounting Standards Board (GASB)

- Source of Generally Accepted Accounting Principles for State & Local Governments (including public universities).
- MSU's financial statements are prepared under the rules of GASB.



GASB Stewardship: report internally using “funds” breakdown

| Fund | Description | Example |
|-----------------------|---|--|
| General | Core institution operating activities | GA – General operations |
| Auxiliary | Separate business activities | XA – Athletics |
| Designated | Self-supporting institution operating activities | DN – Non-credit instruction |
| Plant | Capital (fixed) assets and related debt; reserves | PT – Reserves for future capital asset needs |
| Expendable Restricted | Contract & grants; endowment spending | RC – Contracts and grants |
| Endowment | Nonexpendable gifts | NX – Donor Endowments |



“Funds” continued

| Fund | Description | Example |
|------------------------|--|---------------------|
| Retirement & Insurance | Administration of retirement and other benefits programs | TR – Retirement |
| Student Loan | Federal and institutional loans to students | LD - Federal |
| Agency | Non-university funds held for related entities | AS – Student Groups |



MSU's nine funds are consolidated



Statements of Net Position

(Amounts in Millions)

| | June 30, | |
|---|-----------------|-----------------|
| | 2016 | 2015 |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10 | \$ 9 |
| Investments | 303 | 312 |
| Accounts and interest receivable, net | 169 | 168 |
| Student loans and pledges receivable, net | 33 | 25 |
| Inventories and other assets | 19 | 20 |
| Total current assets | <u>534</u> | <u>534</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 12 | 207 |
| Restricted investments | 50 | - |
| Endowment investments | 2,194 | 2,242 |
| Other investments | 248 | 241 |
| Student loans and pledges receivable, net | 88 | 74 |
| Investments in joint ventures and other | 19 | 7 |
| Derivative instruments - swap asset | - | - |
| Capital assets, net | 2,365 | 2,107 |
| Total noncurrent assets | <u>4,976</u> | <u>4,878</u> |
| Total assets | <u>5,510</u> | <u>5,412</u> |
| Deferred outflows of resources: | | |
| | 74 | 62 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts and interest payable | 91 | 80 |
| Accrued personnel costs | 54 | 52 |
| Accrued self-insurance liabilities | 15 | 14 |
| Payroll taxes and other payroll deductions | 30 | 28 |
| Deposits held for others | 30 | 34 |
| Unearned revenues | 141 | 137 |
| Current portion of long term debt and other obligations | 172 | 214 |
| Total current liabilities | <u>533</u> | <u>559</u> |
| Noncurrent liabilities: | | |
| Accrued personnel costs | 33 | 33 |
| Accrued self-insurance liabilities | 8 | 7 |
| Unearned revenues | 15 | - |
| Derivative instruments - swap liability | 73 | 55 |
| Net other postemployment benefit obligation | 406 | 350 |
| Long term debt and other obligations | 1,066 | 1,091 |
| Total noncurrent liabilities | <u>1,601</u> | <u>1,536</u> |
| Total liabilities | <u>2,134</u> | <u>2,095</u> |
| Net position: | | |
| Net investment in capital assets | 1,227 | 1,055 |
| Restricted: | | |
| Nonexpendable | 583 | 530 |
| Expendable | 635 | 691 |
| Unrestricted | 1,005 | 1,103 |
| Total net position | <u>\$ 3,450</u> | <u>\$ 3,379</u> |

“Balance Sheet”



GASB revenue reporting

- Sources:
 - Tuition
 - State appropriations
 - Local, state and federal grants
 - Private gifts and grants
 - Investment income (loss)
 - Auxiliary activities
 - Departmental income

GASB expense reporting

- Expense uses (shown by functional category):
 - Instruction
 - Research
 - Public service
 - Academic support
 - Student services
 - Scholarship and fellowships
 - Institutional support
 - Operation and maintenance of plant
 - Auxiliary activities
 - Depreciation

Statements of Revenues, Expenses and Changes In Net Position

(Amounts in Millions)

Year ended June 30,

2016 2015

Operating revenues:

| | | |
|---|--------------|--------------|
| Student tuition and fees | \$ 952 | \$ 909 |
| Less: scholarship allowances | <u>122</u> | <u>112</u> |
| Net student tuition and fees | 830 | 797 |
| State of Michigan grants and contracts | 12 | 10 |
| Federal grants and contracts | 325 | 324 |
| Local and private sponsored programs | 84 | 81 |
| Interest and fees on student loans | 1 | 1 |
| Departmental activities (net of scholarship allowances of \$6 in 2016 and \$6 in 2015) | 219 | 203 |
| Auxiliary activities (net of room and board allowances of \$26 in 2016 and \$23 in 2015) | 340 | 326 |
| Total operating revenues | <u>1,811</u> | <u>1,742</u> |

Operating expenses:

| | | |
|---------------------------------------|--------------|--------------|
| Instruction and departmental research | 706 | 669 |
| Research | 350 | 328 |
| Public service | 245 | 227 |
| Academic support | 128 | 105 |
| Student services | 54 | 52 |
| Scholarships and fellowships | 66 | 63 |
| Institutional support | 140 | 128 |
| Operation and maintenance of plant | 134 | 129 |
| Auxiliary enterprises | 318 | 307 |
| Depreciation | 146 | 155 |
| Other operating expenses, net | 4 | 4 |
| Total operating expenses | <u>2,291</u> | <u>2,167</u> |

Operating loss

(480) (425)

Net nonoperating revenues (expenses):

| | | |
|---|------------|------------|
| State operating appropriation | 269 | 264 |
| State AgBioResearch appropriation | 32 | 32 |
| State cooperative extension service appropriation | 28 | 28 |
| Federal Pell grant revenue | 39 | 38 |
| Gifts | 60 | 73 |
| Net investment income (loss) | (103) | 93 |
| Interest expense on capital asset related debt | (44) | (37) |
| Other nonoperating revenues, net | 5 | 1 |
| Net nonoperating revenues | <u>286</u> | <u>492</u> |

Income (loss) before other

(194) 67

| | | |
|-----------------------------------|-----------|------------|
| State capital appropriations | 44 | 48 |
| Capital grants and gifts | 176 | 54 |
| Additions to permanent endowments | 45 | 37 |
| Increase in net position | <u>71</u> | <u>206</u> |

| | | |
|----------------------------------|-----------------|-----------------|
| Net position, beginning of year | 3,379 | 3,173 |
| Net position, end of year | <u>\$ 3,450</u> | <u>\$ 3,379</u> |

“Income Statement”



Accounts map to one 'function'

Browser tabs: Home, FINPRD, FINPRD, FINPRD, KFS :: Inquiry

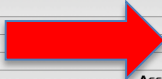
Address bar: https://fin.ebsp.msu.edu/kfs-prd/kr/inquiry.do?chartOfAccountsCode=MS&businessObjectClassName=org.ksaui.kfs.coa.businessobject.Account&rr

Navigation: Convert, Select, AIS Document Viewer, Beaumont Tower webcam..., Controller's Office Conne..., FINQA, Michigan State University, Suggested Sites, Web Access, Web Slice Gallery, Welcome to CashPro Onli...

Account Inquiry expand all collapse all

Account Details hide

| | |
|---|---|
| Chart Code: | MS - MICHIGAN STATE UNIVERSITY |
| Account Number: | XT100020 |
| Account Name: | CO Financial Analysis & Reporting Opera |
| Organization Code and Description: | 10076200-CONTROLLER |
| Campus Code: | EL - EAST LANSING CAMPUS |
| Account Effective Date: | 05/14/2012 |
| Account Expiration Date: | |
| Account Postal Code: | 48824 |
| Account City Name: | EAST LANSING |
| Account State Code: | MI |
| Account Street Address: | 426 AUDITORIUM RD RM 305 |
| Account Off Campus Indicator: | No |
| Closed?: | No |
| Account Type Code: | NA - NOT APPLICABLE |
| SubFund Group Code: | XT - AUX Other |
| Program/Initiative Code: | |
| Higher Ed Function Code: | 9009 - Internal Service Operations |
| Category Code: | |
| Account Restricted Status Code: | U - UNRESTRICTED |
| Account Restricted Status Date: | |
| Endowment Chart of Accounts Code: | |
| Endowment Account Number: | |
| Historical Account Number: | |
| Legacy Account Number: | 201338 |
| Source Of Funds Code: | OT |
| Use Of Funds Code: | |
| Mission Code: | |



- Payroll Related Attributes show
- Account Responsibility show
- Contracts and Grants show
- Awards hide
- Indirect Cost Recovery Accounts hide
- Plant show
- Plant Fund : Funding Source/Commitments show
- Plant Fund : Total Dollar Commitment show
- Revolving show
- Guidelines and Purpose hide

Account Published Name: FINANCIAL ANALYSIS AND REPORTING OPERATIONS

Sort Name: FINANCIAL

Account Expense Guideline Text: Salaries and fringes. Supplies, services and equipment. Labor

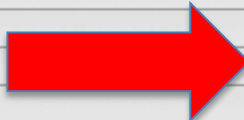
Account Income Guideline Text: Transfers from revenue operating accounts for the Controller's Office operations.

Estimated Annual Income: 100,000

Account Purpose Text: To account for actual expenses of the Controller's Financial Analysis & Reporting Office operations which include salaries, fringes, labor, and SSE.

Accounts map to one 'function'

| | |
|---|---|
| Chart Code: | <u>MS - MICHIGAN STATE UNIVERSITY</u> |
| Account Number: | XT100020 |
| Account Name: | CO Financial Analysis & Reporting Opera |
| Organization Code and Description: | <u>10076200-CONTROLLER</u> |
| Campus Code: | <u>EL - EAST LANSING CAMPUS</u> |
| Account Effective Date: | 05/14/2012 |
| Account Expiration Date: | |
| Account Postal Code: | <u>48824</u> |
| Account City Name: | EAST LANSING |
| Account State Code: | <u>MI</u> |
| Account Street Address: | 426 AUDITORIUM RD RM 305 |
| Account Off Campus Indicator: | No |
| Closed?: | No |
| Account Type Code: | <u>NA - NOT APPLICABLE</u> |
| SubFund Group Code: | <u>XT - AUX Other</u> |
| Program/Initiative Code: | |
| Higher Ed Function Code: | <u>9009 - Internal Service Operations</u> |
| Category Code: | |
| Account Restricted Status Code: | <u>U - UNRESTRICTED</u> |
| Account Restricted Status Date: | |
| Endowment Chart of Accounts Code: | |
| Endowment Account Number: | |
| Historical Account Number: | |
| Legacy Account Number: | 201338 |
| Source Of Funds Code: | <u>OT</u> |
| Use Of Funds Code: | |
| Mission Code: | |



MSU expense (GASB)

(Amounts in Millions)

| | Year ended June 30, | | | | |
|------------------------------------|---------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Instruction | \$ 706 | \$ 669 | \$ 632 | \$ 589 | \$ 575 |
| Research | 350 | 328 | 312 | 329 | 319 |
| Public service | 245 | 227 | 222 | 233 | 210 |
| Academic support | 128 | 105 | 95 | 82 | 82 |
| Student services | 54 | 52 | 49 | 47 | 32 |
| Scholarships and fellowships | 66 | 63 | 60 | 56 | 55 |
| Institutional support | 140 | 128 | 115 | 113 | 103 |
| Operation and maintenance of plant | 134 | 129 | 139 | 143 | 149 |
| Auxiliary activities | 318 | 307 | 289 | 289 | 275 |
| Depreciation | 146 | 155 | 150 | 139 | 128 |
| Other operating expenses, net | 4 | 4 | 6 | 4 | 3 |
| Total GASB expense reporting | <u>\$ 2,291</u> | <u>\$ 2,167</u> | <u>\$ 2,069</u> | <u>\$ 2,024</u> | <u>\$ 1,931</u> |

Next up...the Audit

- 2 minute break out
 - What does the audit mean to you?
 - Have you encountered an auditor at MSU or elsewhere?
 - What do you think auditors should look at?

Annual External Audit of Financial Statements

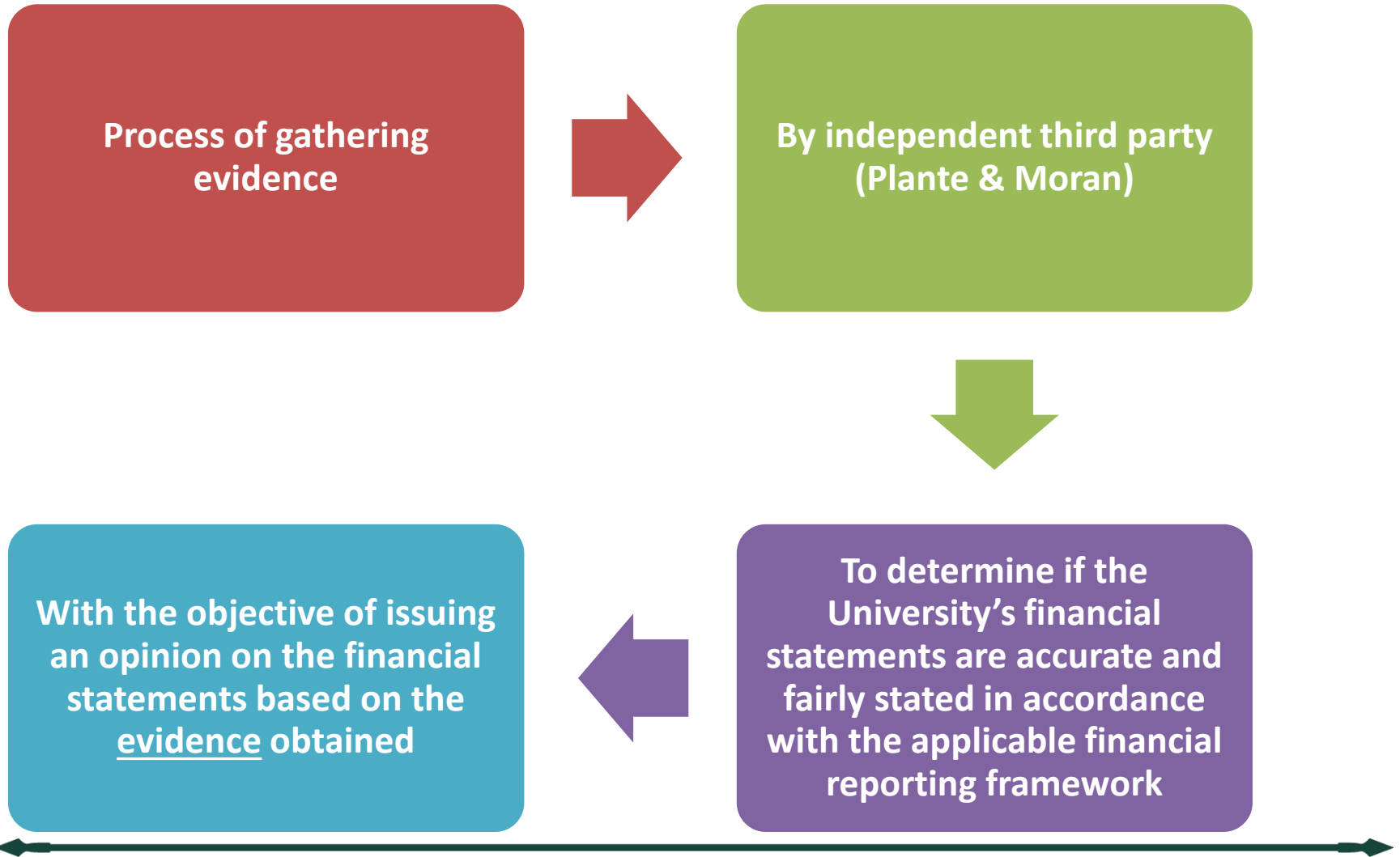
MSU financial statements:

ctrl.msu.edu/COFA/FinancialStatement.aspx

MSU annual financial report components

- Management Discussion and Analysis
- **Independent Auditor's Report**
- MSU Financial Statements
- MSU Foundation Financial Statements
- **Independent Auditor's Report on Internal Control Over Financial Reporting**

What is an external audit?



External audit - report on internal control

Basis of reliance
on the University's
processes and
controls

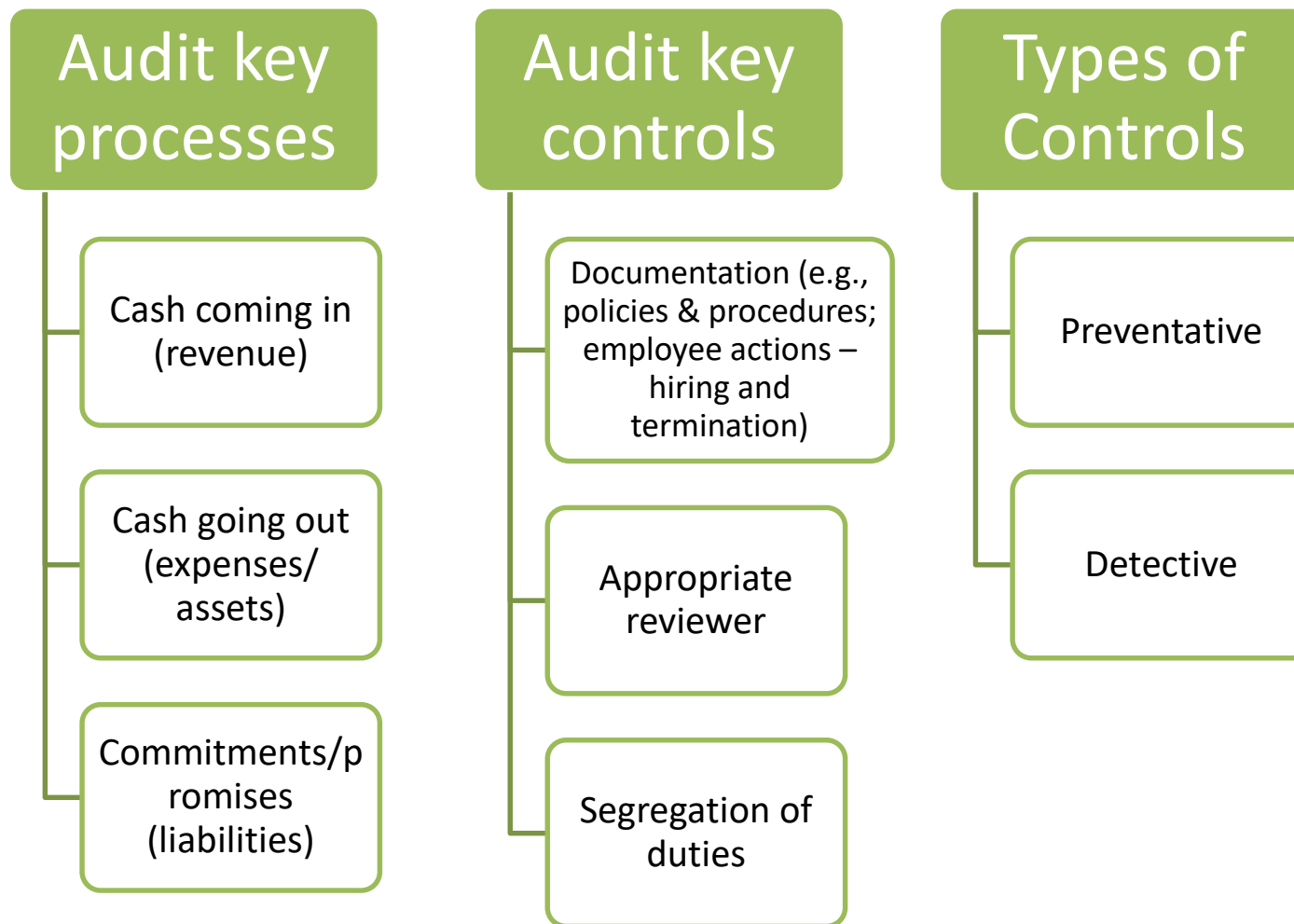
Test of compliance
with laws &
regulations

Government
Auditing Standards
(GAS)

If problems,
reports
deficiencies
(publicly!)

Not an opinion

Auditing internal controls continued



Specific audit steps

Obtain written procedures and policies



Select a transaction throughout the fiscal year



Obtain or view supporting documentation in paper or on screen (timesheet or time submission, purchase order, invoice, reimbursement request)



Note preparer/initiator

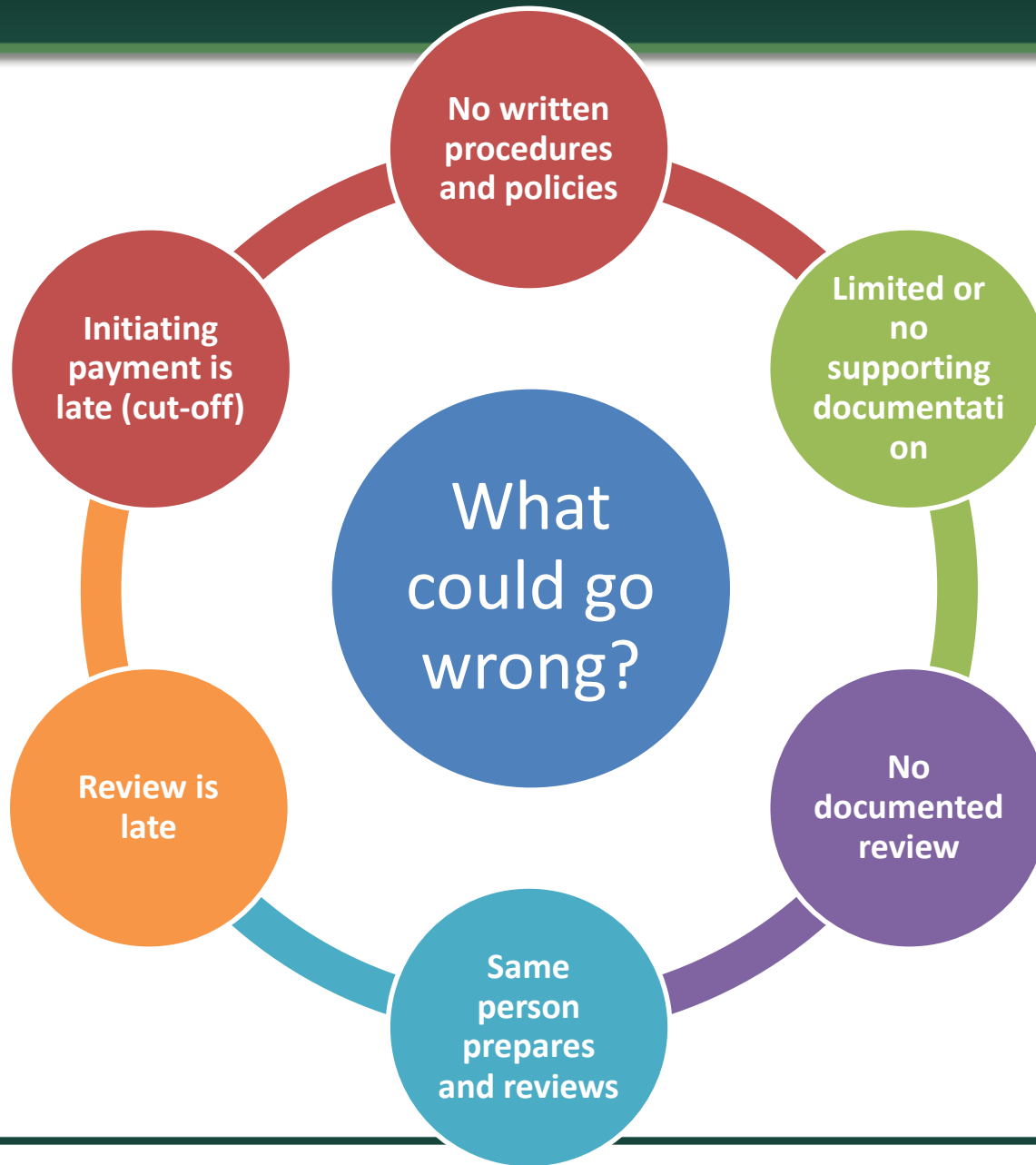


Note reviewer signature and date



Bottom line – were the rules followed?





Financial statement assertions

Accuracy

- Transactions & amounts are recorded at the right amount

Cut-off

- Transactions are recorded in the right period

Existence or Occurrence

- Assets, liabilities, and equity reported do exist and recorded transactions have occurred

Classification

- Transactions are recorded in the right account

Financial statement assertions continued

Completeness

- No material transactions or accounts have been omitted

Valuation or allocation

- Assets, liabilities, revenue, and expense items are correctly valued

Rights and obligations

- Assets and liabilities are the rights and obligations, respectively, of the entity at the opinion date

Presentation and disclosure

- Financial statement components are properly classified, described, and disclosed

Audit evidence

- Evidence in documentary form (whether paper, electronic, or other medium)
 - Original documents in electronic form qualify as reliable audit evidence

If you were going to do an audit of your unit....

- What would you look at?
 - Two minute group table exercise...discuss one process a unit should audit. What should you look for? Why?

Related to this information - other presentations

- Earlier today – Internal Audit presentation. Expanded discussion on a unit’s responsibility for internal controls and ethics.
- Future sessions – Using the financial system to facilitate financial reporting and sound fiscal management; Financial reporting in RHS - how a major unit reports.

Thank You!

