

**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, 2010

# 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, 2010, and have issued our report thereon dated October 5, 2010. 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***

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 the 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 above.

Director  
Minnesota Office of Higher Education

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether agency'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.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota  
October 5, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Director  
Minnesota Office of Higher Education  
Saint Paul, Minnesota

**Compliance**

We have audited the compliance of the Minnesota Office of Higher Education (the "agency"), a component unit of the State of Minnesota, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The agency's major federal programs are identified in the summary of auditors' 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 agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Director  
Minnesota Office of Higher Education

### ***Internal Control Over Compliance***

The management of the agency is responsible for establishing and maintaining effective internal control over compliance with 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 in order to determine our 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 the 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, 2010, which collectively comprise the agency's basic financial statements and have issued our report thereon dated October 5, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the agency's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken 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 5, 2010

**MINNESOTA OFFICE OF HIGHER EDUCATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2010**

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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 that  
are not considered to be material  
weakness(es)?                                           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 that  
are not considered to be material  
weakness(es)?                                           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>
84.334S	Gaining Early Awareness and Readiness for Undergraduate Programs
84.069B/A	Special Leveraging Education Assistance Partnership/ Leveraging Education Assistance Partnership

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

Auditee qualified as low-risk auditee?          X   yes               no

**MINNESOTA OFFICE OF HIGHER EDUCATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (cont.)**  
For the Year Ended June 30, 2010

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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 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, 2010

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<u>Grantor Agency / Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>U. S. Department of Education</b>			
Leveraging Education Assistance Partnership	84.069A	\$ 604,642	\$ 604,642
Special Leveraging Education Assistance Partnership	84.069B	777,411	777,411
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	2,478,141	576,409
Improving Teacher Quality State Grants	84.367B	1,202,826	1,155,992
College Access Challenge Grant Program	84.378	767,205	29,000
Total U.S. Department of Education		<u>5,830,225</u>	<u>3,143,454</u>
<b>TOTAL FEDERAL PROGRAMS</b>		<u>\$ 5,830,225</u>	<u>\$ 3,143,454</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, 2010

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#### **NOTE 1 – REPORTING ENTITY**

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This report on Expenditures 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 the 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*.