

LAKE REGION  
STATE COLLEGE  
DEVILS LAKE, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2015

ROBERT R. PETERSON  
STATE AUDITOR

Office of the State Auditor  
Division of State Audit

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO BRANCH OFFICE  
1655 43<sup>rd</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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March 15, 2016

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
State Board of Higher Education  
Dr. Doug Darling, President, Lake Region State College

We are pleased to submit this audit of Lake Region State College for the biennium ended June 30, 2015. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Mary Feltman, CPA. Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to President Darling and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## ***Introduction***

Lake Region State College is committed to being a responsive, diverse institution that prepares students for successful living and citizenship in a rapidly changing local, national, and world community. The College provides quality academic education, career and technical education, workforce training, educational outreach opportunities, and life-long learning within the North Dakota University System.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

## ***Responses to LAFRC Audit Questions***

*1. What type of opinion was issued on the financial statements?*

The financial statements for Lake Region State College were included in the Annual Financial Report of the North Dakota University System; an unmodified opinion was issued on the annual financial report of the North Dakota University System.

*2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

*3. Was internal control adequate and functioning effectively?*

Yes.

*4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

*5. Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

*6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 14 of this report, along with management's response.

## ***LAFRC Audit Communications***

*7. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

In fiscal year 2015, Lake Region State College changed accounting policies related to pensions by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions*. There were no management conflicts of interest or significant unusual transactions noted.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Lake Region State College include useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the estimated useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

In fiscal year 2014, Lake Region State College had one significant audit adjustment to reclassify Pell revenue. There were no significant audit adjustments in fiscal year 2015.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Campus Solutions are high-risk information technology systems critical to Lake Region State College. No exceptions related to the operations of an information technology system were noted.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of Lake Region State College for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of Lake Region State College's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Lake Region State College and are they in compliance with these laws?
3. Are there areas of Lake Region State College's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of Lake Region State College is for the biennium ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Lake Region State College has operations in the following locations. Each location was included in the audit scope:

- Main campus in Devils Lake
- Grand Forks Air Force Base campus

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2015 and 2014 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Lake Region State College's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared in a condensed form to present Lake Region State College's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. Also, the related note disclosures have not been included in this report. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2015, operations of Lake Region State College were primarily supported by appropriations from the state's general fund, student tuition and fees, and federal grants and contracts.

### ***Financial Summary***

Total assets increased \$584,000 due to an increase in capital assets of \$1.2 million and a decrease in due from state general fund of \$978,000. The increase in capital assets was for additions of the Bergstrom Technical Center and the decrease in due from state general fund was due to timing of state appropriations.

Total liabilities decreased \$447,000 primarily due to a decrease in accounts payable of \$1.1 million and an increase in pension liability of \$1.3 million. In fiscal year 2014, accounts payable was higher than usual because of payables for the Bergstrom Technical Center. The fiscal year 2015 amount is the average balance. The increase in pension liability reflects Lake Region State College's implementation of GASB 68, *Accounting and Financial Reporting for Pensions*.

Revenues consisted primarily of state appropriations (regular and capital asset), student tuition and fees, and federal grants and contracts. There was a decrease in net state appropriations of \$1.5 million. This was due to timing, Lake Region State College drew down more in fiscal year 2014 than in the current year, primarily for the Bergstrom Technical Center. Student tuition and fees increased \$493,000, primarily due to an increase in enrollment of 90 students and a slight increase in tuition and fees of 2.13%. Gifts increased \$520,000 due to revenue received for the Challenge Grant. All other revenues remained fairly constant for Lake Region State College, decreasing only slightly. Total revenues were \$20,263,169 for the year ended June 30, 2015 as compared to \$20,776,528 for the year ended June 30, 2014.

Total expenses for Lake Region State College were \$17,872,328 for the year ended June 30, 2015 as compared to \$16,899,483 for the prior year. The increase in total expenses is primarily from salaries and wages, which account for 63% of total expenses for the audit period. The increase of \$564,000, reflects a 3% average salary for administration with an average increase of 4.58% for faculty. All other expenditures remained fairly constant.

### ***Analysis of Significant Changes in Operations***

There was no significant changes in operations.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

There was no significant variance between budgeted or actual expenditures.

# Financial Statements

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## Statement of Net Position

	June 30, 2015	June 30, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,224,821	\$ 3,159,467
Investments	105,000	105,000
Accounts receivable, net	888,038	520,804
Receivable from component units		9,512
Due from other NDUS institutions	78,736	129,384
Due from state general fund		978,129
Grants & contracts receivables, net	750,787	700,260
Inventories	280,283	329,207
Notes receivable, net	304,285	312,054
Other assets	8,355	17,239
Capital assets, net	15,361,619	14,156,399
<b>Total assets</b>	<b>\$ 21,001,924</b>	<b>\$ 20,417,455</b>
<b>Deferred outflows of resources</b>	<b>\$ 267,468</b>	
<b>LIABILITIES</b>		
Accounts payable	\$ 345,756	\$ 1,484,919
Payable to component units		12,500
Accrued payroll	501,968	489,708
Deferred revenue	585,840	926,749
Deposits	217,771	189,715
Due to others	4,992,582	5,334,906
Pension liability	1,347,621	
<b>Total liabilities</b>	<b>\$ 7,991,538</b>	<b>\$ 8,438,497</b>
<b>Deferred inflows of resources</b>	<b>\$ 263,061</b>	
<b>NET POSITION</b>		
Investment in capital assets	\$ 10,829,824	\$ 9,266,679
Restricted for:		
Expendable:		
Instructional	409,254	25,593
Loans	338,466	343,595
Debt service	203,962	232,314
Unrestricted	1,233,287	2,110,777
<b>Total net position</b>	<b>\$ 13,014,793</b>	<b>\$ 11,978,958</b>

## **Statement of Revenues, Expenses, and Changes in Net Position**

	June 30, 2015	June 30, 2014
<b>REVENUES AND OTHER ADDITIONS</b>		
State appropriations	\$ 6,449,485	\$ 5,979,612
Student tuition and fees	3,994,051	3,500,797
Federal grants and contracts	2,770,465	2,512,322
State appropriations-capital assets	2,126,640	4,082,278
Auxiliary enterprises	1,645,579	1,438,401
State and local grants and contracts	1,280,469	1,428,469
Gifts	1,056,721	536,990
Sales and services of educational departments	788,427	1,101,760
Capital grants and gifts	102,180	166,950
Nongovernmental grants and contracts	31,859	13,416
Other	10,993	7,862
Investments income	5,715	7,349
Other nonoperating revenue	585	322
<b>Total revenue and other additions</b>	<b>\$ 20,263,169</b>	<b>\$ 20,776,528</b>
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Salaries and wages	\$ 11,211,357	\$ 10,647,399
Operating expenses	3,762,774	3,616,639
Depreciation	957,485	925,562
Cost of sales and services	698,717	634,704
Scholarships and fellowships	583,505	427,217
Data processing	474,030	448,130
Interest on capital asset-related debt	184,460	198,140
Loss on capital assets		1,692
<b>Total expenses and other deductions</b>	<b>\$ 17,872,328</b>	<b>\$ 16,899,483</b>
<b>Revenues over expenses</b>	<b>\$ 2,390,841</b>	<b>\$ 3,877,045</b>
<b>NET POSITION</b>		
Net Position-beginning of the year, as restated	\$ 10,623,952	\$ 8,101,913
Net Position-end of the year	<b>\$ 13,014,793</b>	<b>\$ 11,978,958</b>

## Statement of Cash Flows

	June 30, 2015	June 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 3,638,844	\$ 4,004,605
Grants and contracts	2,963,258	2,502,376
Payments to suppliers	(6,976,734)	(2,619,127)
Payments to employees	(11,194,168)	(10,646,487)
Payments for scholarships and fellowships	(583,505)	(427,217)
Loans issued to students	(83,743)	(54,660)
Collection of loans to students	82,960	53,187
Auxiliary enterprise charges	1,643,966	1,430,122
Sales and service of educational departments	754,663	1,021,702
Cash received (paid) on deposits	22,120	(11,758)
Other receipts	20,461	1,213,207
<b>Net cash used by operating activities</b>	<b>\$ (9,711,878)</b>	<b>\$ (3,534,050)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 6,449,485	\$ 5,979,612
Grants and gifts received for other than capital purposes	2,125,728	578,215
Direct lending receipts	2,094,133	2,279,282
Direct lending disbursements	(2,083,386)	(2,139,742)
Agency fund cash decrease	(269,357)	(44,855)
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 8,316,603</b>	<b>\$ 6,652,512</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	\$ 3,104,769	\$ 3,202,018
Capital grants and gifts received	102,181	166,950
Purchases of capital assets	(1,209,609)	(5,301,396)
Principal paid on capital debt and lease	(357,967)	(343,127)
Interest paid on capital debt and lease	(184,460)	(198,140)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ 1,454,914</b>	<b>\$ (2,473,695)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	\$ 5,715	\$ 7,349
<b>Net cash provided by investing activities</b>	<b>\$ 5,715</b>	<b>\$ 7,349</b>
<b>Net increase in cash</b>	<b>\$ 65,354</b>	<b>\$ 652,116</b>
CASH - BEGINNING OF YEAR	\$ 3,159,467	\$ 2,507,349
CASH - END OF YEAR	<b>\$ 3,224,821</b>	<b>\$ 3,159,465</b>

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<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Operating loss	\$ (8,235,032)	\$ (7,934,276)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	957,485	925,562
Other nonoperating revenues	585	1,196,750
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(42,788)	(75,828)
Grant & contract receivables	(50,527)	(214,177)
Inventories	48,923	(15,443)
Notes receivable	7,769	23,654
Other assets	8,884	8,595
Accounts payable and accrued liabilities adjusted for interest payable	(2,105,576)	2,068,211
Pension liability	211,984	
Net change in deferred outflows	(223,776)	
Accrued payroll	13,339	527
Compensated absences	15,642	385
Deferred revenue	(340,909)	493,750
Deposits	22,120	(11,758)
<b>Net cash used by operating activities</b>	<b>\$ (9,711,877)</b>	<b>\$ (3,534,048)</b>

**Statement of Appropriations**

**For The Biennium Ended June 30, 2015**

<b>Expenses by line item</b>	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	\$ 12,429,097		\$ 12,429,097	\$ 12,429,097	
Capital Assets	5,805,551	\$ 507,692	6,313,243	6,262,209	\$ 51,034
<b>Totals</b>	<b>\$ 18,234,648</b>	<b>\$ 507,692</b>	<b>\$ 18,742,340</b>	<b>\$ 18,691,306</b>	<b>\$ 51,034</b>
<b>Expenses by source</b>					
General fund	\$ 18,234,648	\$ 507,692	\$ 18,742,340	\$ 18,691,306	\$ 51,034
Special fund					
<b>Totals</b>	<b>\$ 18,234,648</b>	<b>\$ 507,692</b>	<b>\$ 18,742,340</b>	<b>\$ 18,691,306</b>	<b>\$ 51,034</b>

**Appropriation Adjustments:**

The \$507,692 adjustment for capital assets included:

- \$251,433 transfer from the NDUS for capital projects contingency pool pursuant to 2013 SB 2003, section 24. These fund were designated for the Bergstrom Technical Center remodel and addition.
- \$256,259 transfer from the NDUS for deferred maintenance allocation pursuant to 2013 SB 2003, section 21.

## ***Internal Control***

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In our audit for the biennium June 30, 2015, we identified the following areas of Lake Region State College's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding capital construction and improvements.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2015, we identified and tested Lake Region State College's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- North Dakota University System reported to the appropriations committees of the sixty-third legislative assembly on the use of one-time funding for the biennium beginning July 1, 2013, and ending June 30, 2015 (2013 SB 2003, chapter 34, section 2).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Gifts, grants, and scholarship expenses were proper (Article IX, Section 1 of the North Dakota Constitution; NDCC section 1-08-02)
- Fixed asset requirements were followed including surplus property, record keeping, and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 06, 13, 18, 19, 20, 21, 22, 23, 25, 54-44.7).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of Lake Region State College in a management letter dated March 15, 2016.

## *Operations*

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In our audit for the biennium ended June 30, 2015, we identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding capital improvement projects greater than \$250,000:

- Are capital construction and improvement contracts authorized and awarded in compliance with applicable rules and regulations?
- Are project expenses within the approved amounts and are revisions properly supported and approved?
- Are payments to the contractor properly approved and in accordance with the contract?
- Are construction in progress and capital assets properly reported and managed by qualified personnel?

We concluded that the operational objectives for capital improvement projects greater than \$250,000 was operating efficiently and effectively. However, we noted an insignificant matter involving operations that we have reported to the management of Lake Region State College in a management letter dated March 15, 2016.

## ***Management Letter (Informal Recommendations)***

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March 15, 2016

Mr. Corry Kenner  
Vice President of Administrative Affairs  
Lake Region State College  
1801 North College Drive  
Devils Lake, ND 58301

Dear Mr. Kenner:

We have performed an audit of Lake Region State College for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of Lake Region State College's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives, including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **INADEQUATE MONITORING OF CAPITAL IMPROVEMENT PROJECTS**

#### **Condition:**

Lake Region State College does not have adequate controls in place to ensure that capital improvement projects are adequately monitored. Specifically we noted that:

- The proper amount of retainage from the general contractor once the project reached 50% completion;
- The retainage payable was not properly recorded as a liability at the end of fiscal years 2014 and 2015; and

- A formal bid, or change order adjusting the contract price, was not performed for built-in desks and lockers.

**Criteria:**

NDCC 48-01.2-13, states in part that a partial payment estimate must include retentions or retainage as follows: ten percent of each estimate until the project is fifty percent completed with no further retainage on estimates during the continuance of the contract unless unsatisfactory progress or performance is documented. The governing body may, upon completion of ninety-five percent of the contract, pay to the contractor up to ninety-five percent of the amount retained from previous estimates.

NDUS Accounting Manual, page 28, states in part that construction contracts typically will have a provision for an amount that is retained and paid at the end of the contract, after all final inspection of the work is completed. The cumulative amount the institution has retained on payments to contractors should be recorded in the accounting records at fiscal year-end.

LRSC Policy and Procedure 400.13.01 section 5 (b) iii states in part that purchases of \$25,000 or more require formal bids or requests for proposals (RFP) issued by a procurement officer.

NDUS Procedure 803.1 (2) states in part that personal property, equipment, or supplies estimated at \$25,000 or more must be purchased from formal bids.

SBHE Policy 902.3 (9) states that the contract sum and contract time may be changed only by change order. Change orders may not be utilized to significantly change or expand a project or increase expenditures beyond what has been approved by the Board or legislature or to evade competitive bidding laws or policies. A "change order" means a written order to the contractor signed by the owner and architect and issued after execution of the contract, authorizing a change in the work or an adjustment in the contract sum or contract time.

**Cause:**

Lake Region State College is inexperienced with capital improvement projects and policies. Also for the equipment that was not bid, these items were completed by the general contractor, however, were not included in the guaranteed maximum price with the general contractor.

**Effect or Potential Effect:**

There is noncompliance with NDCC when an inadequate retainage is being withheld. Awarding a job without bidding could result in not receiving the lowest possible price and noncompliance with policies and procedures.

**Informal Recommendation 15-1:**

We recommend that Lake Region State College ensure:

- Retainage is properly maintained and held for the remainder of the project;
- Retainage is properly recorded at year end as a liability on the general ledger; and
- A change order is performed for any adjustments to the contract price, or if separate from the contract, formal bids are obtained for any purchase over the amount stipulated in policy.

**Lake Region State College's Response:**

*Agree. LRSC will review the retainage requirements to ensure the calculations are correct on future projects and, if applicable, record the proper retainage liability. In addition, LRSC will properly utilize the Change Order process to change the total of a construction contract and, if applicable, follow the proper bidding requirements for items removed from, and purchased outside of, the construction contract.*

## SOLE SOURCE PURCHASES

**Condition:**

Lake Region State College did not provide proper written justification for all sole source purchases.

**Criteria:**

NDCC 44-08-01 states that when it is advantageous that the purchase be of a particular brand of product or products of a particular manufacturer to the exclusion of competitive brands or manufacturers, the purchasing board or entity must document those circumstances and provide written justification for the proprietary specification or purchase.

NDUS Procedure 803.1 (effective through December 31, 2015) states that items possessing unique characteristics or properties may be exempt from competitive bidding requirements provided approval is based on documentation of the unique characteristics and tasks to be performed requiring the unique characteristics of the product.

**Cause:**

Lake Region State College was not up to date on the NDCC or SBHE procurement policies.

**Effect or Potential Effect:**

There is noncompliance with state law and SBHE policy.

**Informal Recommendation 15-2:**

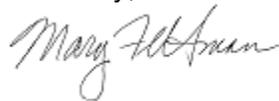
We recommend Lake Region State College document and provide proper written justification for sole source purchases in compliance with NDCC 44-08-01 and NDUS Procedure 803.1.

***Lake Region State College's Response:***

*Agree. LRSC procurement officers have now completed Level I, II, & III Procurement training. Training to the staff has begun and will be completed by June 30, 2016.*

I encourage you to call me at 701-239-7290 or an audit manager at 701-239-7291 if you have any questions about the implementation of recommendations included in this letter.

Sincerely,



Mary Feltman, CPA  
Auditor in-charge

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