

DICKINSON STATE
UNIVERSITY
DICKINSON, 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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Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Discussion and Analysis</i>	<i>5</i>
<i>Financial Summary</i>	<i>5</i>
<i>Analysis of Significant Changes in Operations</i>	<i>5</i>
<i>Analysis of Significant Variances - Budgeted and Actual Expenditures</i>	<i>5</i>
<i>Financial Statements</i>	<i>6</i>
<i>Statement of Net Position</i>	<i>6</i>
<i>Statement of Revenues, Expenses, and Changes in Net Position</i>	<i>7</i>
<i>Statement of Cash Flows</i>	<i>8</i>
<i>Statement of Appropriations</i>	<i>10</i>
<i>Internal Control</i>	<i>11</i>
<i>Compliance With Legislative Intent</i>	<i>12</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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Transmittal Letter

January 21, 2016

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
State Board of Higher Education
Dr. Thomas Mitzel, President, Dickinson State University

We are pleased to submit this audit of Dickinson State University 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 Cory Wigdahl, CFE. 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 Dr. Mitzel 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

Introduction

Dickinson Normal School was created in 1916 by a constitutional amendment approved by North Dakota voters. Classes began in 1918 with a two-year program designed to train elementary and secondary teachers. In 1931, four-year degrees were offered for the first time under the school's new name, Dickinson State Teachers College. In recognition of the institution's broadened curriculum, Dickinson State Teachers College became Dickinson State College in 1963. University status was granted in 1987 as the progression of education in the West River region was recognized by the State Board of Higher Education.

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 Dickinson State University 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?

Yes, all recommendations were implemented.

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

No.

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, Dickinson State University 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 Dickinson State University 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.*

Dickinson State University had no significant audit adjustments recorded during the fiscal year 2014 and 2015 audits of the North Dakota University System.

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 Dickinson State University. No exceptions related to the operations of an information technology system were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of Dickinson State University 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 Dickinson State University's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Dickinson State University and are they in compliance with these laws?
3. Are there areas of Dickinson State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Dickinson State University 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.

Dickinson State University's sole location is its Dickinson campus which was included in the audit scope.

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 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 Dickinson State University'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

The accompanying financial statements have been prepared in a condensed form to present Dickinson State University'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 Dickinson State University were primarily supported by appropriations from the state's general fund, student tuition and fees, auxiliary enterprises, and federal grants and contracts.

Financial Summary

There was no significant change in total assets for the biennium.

Liabilities increased \$1.6 million due to the implementation of GASB 68, which recognizes pension liabilities and expense and deferred outflows and inflows of resources. Dickinson State University recorded \$1.7 million of pension liability in fiscal year 2015.

Revenues consisted primarily of state appropriations (\$27.7 million) and student tuition and fees (\$11.9 million). Other revenues during the audited period included auxiliary enterprises (\$5.8 million), federal grants and contracts (\$5.1 million), and gifts (\$2.3 million). These all remained fairly constant for Dickinson State University, increasing only slightly. Total revenues were \$27,797,859 for the year ended June 30, 2015 as compared to \$27,452,843 for the year ended June 30, 2014.

Total expenses for Dickinson State University were \$28,276,657 for the year ended June 30, 2015 as compared to \$28,109,037 for the prior year. All expenses remained fairly constant.

Analysis of Significant Changes in Operations

There were no significant changes in operations.

Analysis of Significant Variances - Budgeted and Actual Expenditures

There were no significant variances between budgeted and actual expenditures.

Financial Statements

Statement of Net Position

	June 30, 2015	June 30, 2014
ASSETS		
Cash and cash equivalents	\$ 5,024,979	\$ 5,193,643
Investments	9,655,000	9,655,000
Accounts receivable, net	405,679	403,519
Receivable from component units	532,492	6
Due from other NDUS	31,324	66,773
Due from state general fund		11,300
Grants and contracts receivable, net	398,394	352,413
Inventories	418,255	388,245
Notes receivable, net	945,765	1,078,540
Other assets	87,843	86,943
Capital assets, net	30,986,087	31,870,453
Total assets	\$ 48,485,818	\$ 49,106,835
Deferred outflows of resources	\$ 345,245	
LIABILITIES		
Accounts payable	\$ 595,674	\$ 506,114
Accrued payroll	1,040,851	1,063,874
Unearned revenue	75,841	97,192
Deposits	76,676	166,924
Due to others	660,303	697,508
Pension liability	1,713,698	
Other noncurrent liabilities	1,858	20,994
Total liabilities	\$ 4,164,901	\$ 2,552,606
Deferred inflows of resources	\$ 334,521	
NET POSITION		
Invested in capital assets	\$ 30,931,410	\$ 31,800,354
Restricted for:		
Expendable:		
Scholarships and fellowships	18,605	12,250
Institutional	52,505	186,394
Loans	1,220,897	1,207,055
Unrestricted	12,108,224	13,348,176
Total Net Position	\$ 44,331,641	\$ 46,554,229

Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 13,820,603	\$ 13,278,624
Student tuition and fees	5,978,716	5,894,390
Auxiliary enterprises	2,770,442	3,061,664
Federal grants and contracts	2,585,050	2,535,970
Gifts	1,101,708	1,244,510
Sales and services of educational departments	697,634	503,220
State and local grants and contracts	324,230	130,858
State appropriations-capital assets	227,340	366,829
Capital grants and gifts	181,937	1,130
Other	82,437	58,015
Investment income	39,479	41,532
Other nonoperating revenues	4,120	243
Nongovernmental grants and contracts	(45,837)	284,858
Gain on capital assets		1,000
Insurance proceeds		50,000
Total revenues and other additions	<u>\$ 27,767,859</u>	<u>\$ 27,452,843</u>
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 18,361,051	\$ 18,184,047
Operating expenses	6,991,283	7,140,550
Depreciation	1,506,132	1,538,340
Data processing	476,899	383,854
Cost of sales and services	474,567	537,035
Scholarships and fellowships	457,530	324,226
Loss on capital assets	6,863	
Interest on capital asset-related debt	2,332	985
Total expenses and other deductions	<u>\$ 28,276,657</u>	<u>\$ 28,109,037</u>
Revenues under expenses	\$ (508,798)	\$ (656,194)
NET POSITION		
Net position - beginning of year, as restated	\$ 44,840,439	\$ 47,210,423
Net position - end of year	<u>\$ 44,331,641</u>	<u>\$ 46,554,229</u>

Statement of Cash Flows

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 5,848,894	\$ 6,183,843
Grants and contracts	1,252,707	1,300,859
Payments to suppliers	(7,802,148)	(8,579,391)
Payments to employees	(18,401,812)	(18,078,273)
Payments for scholarships and fellowships	(457,530)	(324,226)
Loans issued to students	(151,952)	(286,248)
Collection of loans to students	263,558	197,828
Auxiliary enterprise charges	2,765,091	3,097,115
Sales and service of educational departments	199,154	459,005
Cash (paid) received on deposits	(101,645)	118,686
Other receipts	66,520	49,779
Net cash used by operating activities	<u>\$ (16,519,163)</u>	<u>\$ (15,861,023)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 13,820,603	\$ 13,278,624
Grants and gifts received for other than capital purposes	2,665,734	2,845,912
Direct lending receipts	4,229,238	4,255,976
Direct lending disbursements	(4,153,299)	(4,267,650)
Agency fund cash (decrease) increase	(14,309)	24,174
Net cash flows provided by noncapital financing activities	<u>\$ 16,547,967</u>	<u>\$ 16,137,036</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 238,640	\$ 459,447
Capital grants and gifts received	181,492	
Proceeds from sale of capital assets		1,000
Purchases of capital assets	(639,484)	(497,298)
Insurance proceeds		50,000
Principal paid on capital debt and lease	(15,421)	(3,339)
Interest paid on capital debt and lease	(2,332)	(985)
Net cash provided (used) by capital and related financing activities	<u>\$ (237,105)</u>	<u>\$ 8,825</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	\$ 39,637	\$ 41,675
Net cash provided used by investing activities	<u>\$ 39,637</u>	<u>\$ 41,675</u>
Net (decrease) increase in cash	<u>\$ (168,664)</u>	<u>\$ 326,513</u>
Cash-Beginning of Year	<u>\$ 5,193,643</u>	<u>\$ 4,867,129</u>
Cash-End of Year	<u>\$ 5,024,979</u>	<u>\$ 5,193,642</u>

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	<u>June 30, 2015</u>	<u>June 30, 2014</u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (17,438,815)	\$ (17,240,479)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,506,132	1,538,340
Other nonoperating revenues (expenses)	(15,015)	(19,958)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(566,643)	112,338
Grant & contract receivables	(46,711)	(49,425)
Inventories	(30,010)	724
Notes receivable	132,775	(32,231)
Other assets	(900)	11,722
Accounts payable and accrued liabilities adjusted for interest payable	103,783	(478,723)
Pension liability	278,865	
Net change in deferred outflows	(289,684)	
Net change in deferred inflows		
Accrued payroll	(8,159)	69,458
Compensated absences	(21,785)	36,316
Deferred revenue	(21,351)	72,208
Deposits	(101,645)	118,686
Net cash used by operating activities	<u>\$ (16,519,163)</u>	<u>\$ (15,861,024)</u>

**SUPPLEMENTAL DISCLOSURE ON NON-CASH
TRANSACTIONS**

Gifts of capital assets	\$ 445	\$ 3,060
Total non-cash transactions	<u>\$ 445</u>	<u>\$ 3,060</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 27,099,227	\$ 1,500,000	\$ 28,599,227	\$ 27,099,227	\$ 1,500,000
Capital Assets	409,078	437,527	846,605	205,845	640,760
Capital Assets-Carryover		388,323	388,323	388,323	
TR Presidential Library	6,000,000	6,000,000	12,000,000		12,000,000
Totals	\$ 33,508,305	\$ 8,325,850	\$ 41,834,155	\$ 27,693,395	\$ 14,140,760

Expenses by source

General fund	\$ 33,508,305	\$ 8,325,850	\$ 41,834,155	\$ 27,693,395	\$ 14,140,760
Special fund					
Totals	\$ 33,508,305	\$ 8,325,850	\$ 41,834,155	\$ 27,693,395	\$ 14,140,760

Appropriation Adjustments:

Operating Expenses

The \$1,500,000 transfer is from the NDUS for the performance funding pool pursuant to 2015 HB 1003, section 33. This was an emergency measure.

Capital Assets

The \$437,527 transfer is from the NDUS for the deferred maintenance allocation pursuant to 2013 SB 2003, section 21.

Capital Assets Carryover

\$388,323 is unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11. This funding was for extraordinary repairs.

TR Presidential Library

The \$6,000,000 adjustment is pursuant to 2013 SB 2003, section 3 and SB 2018, section 4.

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of Dickinson State University'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

In our audit for the biennium ended June 30, 2015, we identified and tested Dickinson State University'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 ended June 30, 2015 (13 SB 2003, chapter 34, section 2).
- Determine if DSU received \$6,000,000 general funds (one-time funding) for the purpose of awarding a grant for construction of the Theodore Roosevelt presidential library for the biennium ending June 30, 2015 (2013 SB 2003, chapter 34, section 3 and 2013 SB2018, chapter 49, sections 4 and 5).
- Determine that up to \$200,000 was used for the planning and design of the Theodore Roosevelt center (2013 SB 2003, chapter 34, section 29).
- 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 1-08-02, 15-10-12).
- 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).
- 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).
- 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.

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