

Office of the State Auditor

Division of State Audit

Bismarck State College Bismarck, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 22700

Robert R. Peterson
State Auditor



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Transmittal Letter

January 10, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. Larry C. Skogen, President, Bismarck State College

We are pleased to submit this audit of Bismarck State College for the biennium ended June 30, 2007. 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. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Skogen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

Since its founding in 1939, Bismarck State College has evolved from a locally based junior college to a state college whose mission fits within system and core missions of institutions governed by the North Dakota State Board of Higher Education. The institution emphasizes the necessity of remaining open to evolutionary change to best fulfill present and future demands, which will be placed upon it.

The purpose of Bismarck State College is to provide an educational environment of the highest caliber at a reasonable cost; to maintain a warm and wholesome social atmosphere; to provide opportunities for advanced knowledge, improved skills, high ideals, and ethical standards; and to make learning an enjoyable, rewarding experience.

More information may be obtained from Bismarck State College's home page at: <http://www.bsc.nodak.edu/>.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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

Unqualified.

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

Other than our finding addressing "bidding" (see page 18) Bismarck State College was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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

Other than our findings addressing "Segregation of Duties" (see page 15), we determined internal control was adequate.

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.

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

Yes, a management letter containing three informal recommendations was issued and is included on page 20 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

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

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *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 Bismarck State College include: useful lives of capital assets, and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

In our fiscal years 2007 and 2006 North Dakota University System audit reports, all of the material adjustments we proposed for Bismarck State College were recorded. Other non-material audit adjustments were proposed and Bismarck State College was given the option to record or not record. A listing of Posted Audit Adjustments and Passed Audit Adjustments were included in the 2007 and 2006 North Dakota University System audit reports.

4. *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.

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

None.

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

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

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

None.

8. *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 Student Administration are high-risk information technology systems critical to Bismarck State College.

Background Information

The North Dakota State Board of Higher Education and Bismarck State College mutually subscribe to the following philosophy, mission, role, and scope:

Philosophy

Bismarck State College is committed to exceeding the expectations of the people we serve. A nation of responsible, educated citizens can only be obtained by giving all people equal educational opportunities, regardless of their background.

Mission

Bismarck State College, an innovative community college, offers high quality education, workforce training, and enrichment programs reaching local and global communities.

Role

The Bismarck State College service areas include the immediate, contiguous geographical region for most programs, and statewide, regional or nationwide areas for select, unique programs. The college places primary emphasis on high quality, student-oriented teaching, but it recognizes the importance of promoting research, public service, economic development, and cultural awareness.

Programs and Activities:

Transfer Programs

Bismarck State College provides the first two years of education toward a bachelor's degree in nearly every field. Students earn an associate in arts or an associate in science degree.

Technical Programs

Students can choose from more than 35 technical programs that prepare them for entry-level placement in specific careers. Completion leads to a certificate, diploma, or associate in applied science degree.

Continuing Education, Training, and Innovation

CETI extends the resources of BSC by providing excellent service for lifelong learning and training opportunities through quality, needs-based educational programs for community and professional development, economic growth, and personal enrichment. CETI also provides workforce training for the southwest region of North Dakota.

Cooperative 4-Year Degrees

Area residents can earn more than 20 different bachelor degrees on the Bismarck State College campus through cooperative programs with other universities within the ND University System.

More information can be obtained from the institution's home page at: <http://www.bsc.nodak.edu/>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of Bismarck State College for the biennium ended June 30, 2007 were to provide reliable, audited, financial statements and to answer the following questions:

1. What are the most important areas of Bismarck 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 Bismarck State College and are they in compliance with these laws?
3. Are there areas of Bismarck State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Bismarck State College for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Tested and analyzed samples of expenses, direct general ledger transactions (ONL's), and receipts.
- Performed detailed analytical procedures related to statement of net asset items, revenue and expenses, and statement of cash flow items.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed Bismarck State College written plans and applicable manuals.
- Observed Bismarck State College's processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Reviewed applicable meeting minutes.

Discussion And Analysis

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

For the biennium ended June 30, 2007, operations of Bismarck State College were primarily supported by student tuition and fees (32%); appropriations from the state's general fund (31%); federal grants and contracts (14%); and auxiliary enterprises (10%). This is supplemented by sales and services, gifts, state, local, and nongovernmental grants and contracts and investment income.

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, auxiliary enterprises, and sales and services of educational departments. Nonoperating revenues during the audited period included state appropriations, gifts, and investment income. These revenues remained fairly consistent between fiscal years 2007 and 2006, except for tuition and fees - which increased 15%; federal grants - which decreased 12%; and sales and services of educational departments - which increased 35%. Total revenues were \$28,739,548 for the year ended June 30, 2007 as compared to \$27,100,475 for the year ended June 30, 2006.

The increase in tuition and fees is due to a 10% increase in the credit hour rate and an increase in enrollment. The federal grants decrease was in the National Science Foundation grant and the Carl Perkins Career and Technical Education grant. The increase in sales and services is primarily due to an increase in continuing education.

Total expenses for Bismarck State College were \$28,013,841 for the year ended June 30, 2007 as compared to \$26,518,281 for the prior year. The increase in total expenses for the audit period reflects primarily an overall increase in operations, in depreciation due to increased capital assets, and cost of sales and services because of an increase in purchases for resale of books.

***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL
BUDGETED AND ACTUAL EXPENSES***

Bismarck State College had no significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

STATEMENT OF NET ASSETS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
ASSETS		
Cash and cash equivalents	\$ 7,471,213	\$ 5,216,464
Investments	3,011,000	3,711,000
Accounts receivable, net	864,703	787,167
Receivable from component units		37,560
Grants and contracts receivables, net	697,243	942,498
Inventories	471,095	685,125
Notes receivable, net	530,702	495,124
Other assets	395,906	352,798
Capital assets, net	19,963,156	19,036,399
Total assets	<u>\$ 33,405,018</u>	<u>\$ 31,264,135</u>
LIABILITIES		
Accounts payable	\$ 1,131,510	\$ 864,398
Accrued payroll	1,122,555	1,122,137
Deferred revenue	362,568	351,880
Deposits	167,674	170,952
Other liabilities	160,557	180,492
Due to component units	1,400,000	
Due to others	6,323,677	6,563,506
Total liabilities	<u>\$ 10,668,541</u>	<u>\$ 9,253,365</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 16,456,553	\$ 16,781,738
Restricted for:		
Expendable:		
Scholarships and fellowships	48,065	18,198
Institutional	36,891	33,892
Loans	597,623	599,612
Debt service	543,195	624,054
Unrestricted	5,054,150	3,953,276
Total net assets	<u>\$ 22,736,477</u>	<u>\$ 22,010,770</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
OPERATING REVENUES		
Student tuition and fees	\$ 9,603,728	\$ 8,325,904
Federal grants and contracts	3,629,302	4,134,866
State and local grants and contracts	387,489	278,979
Nongovernmental grants and contracts	330,864	229,274
Sales and services of educational departments	2,332,869	1,730,451
Auxiliary enterprises	2,858,981	2,613,169
Other	8,253	9,918
Total operating revenues	<u>\$ 19,151,486</u>	<u>\$ 17,322,561</u>
OPERATING EXPENSES		
Salaries and wages	\$ 16,378,864	\$ 16,387,848
Operating expenses	6,750,253	6,100,040
Data processing	325,808	327,367
Depreciation	1,008,390	725,889
Scholarships and fellowships	1,267,572	1,204,165
Cost of sales and services	1,765,342	1,405,272
Total operating expenses	<u>\$ 27,496,229</u>	<u>\$ 26,150,581</u>
Operating loss	<u>\$ (8,344,743)</u>	<u>\$ (8,828,020)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 8,515,125	\$ 8,753,000
Gifts	577,731	458,562
Investments income	341,927	258,293
Interest on capital asset-related debt	(357,216)	(307,151)
Loss on capital assets	(800)	
Insurance proceeds	34,530	21,395
Other nonoperating expenses	(159,596)	(60,549)
Net nonoperating revenues	<u>\$ 8,951,701</u>	<u>\$ 9,123,550</u>
Income before capital grants, gifts, and transfers	<u>\$ 606,958</u>	<u>\$ 295,530</u>
State appropriations-capital assets		\$ 286,664
Capital grants and gifts	\$ 118,749	
Total other revenue	<u>118,749</u>	<u>286,664</u>
Increase in net assets	<u>\$ 725,707</u>	<u>\$ 582,194</u>
NET ASSETS		
Net Assets-beginning of the year	22,010,770	21,428,576
Net Assets-end of the year	<u>\$ 22,736,477</u>	<u>\$ 22,010,770</u>

STATEMENT OF CASH FLOWS

	June 30, 2007	June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 9,695,619	\$ 8,355,974
Grants and contracts	4,592,910	4,704,401
Payments to suppliers	(8,238,929)	(8,601,514)
Payments to employees	(16,297,825)	(16,112,329)
Payments for scholarships and fellowships	(1,267,572)	(1,204,165)
Loans issued to students	(181,155)	(141,353)
Collection of loans to students	125,954	118,413
Auxiliary enterprise charges	2,869,002	2,613,348
Sales and service of educational departments	2,297,001	1,685,550
Cash (paid) received on deposits	(16,383)	24,069
Other receipts (payments)	(46,533)	148,670
Net cash used by operating activities	\$ (6,467,911)	\$ (8,408,936)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 8,515,125	\$ 8,753,000
Grants and gifts received for other than capital purposes	577,731	394,587
Agency fund cash (decrease) increase	(232,752)	84,764
Other nonoperating expenses	(19,515)	(112,100)
Net cash flows provided by noncapital financing activities	\$ 8,840,589	\$ 9,120,251
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations		\$ 286,664
Capital grants and gifts received	\$ 118,749	
Purchases of capital assets	(474,699)	(1,481,881)
Insurance proceeds	34,530	21,395
Principal paid on capital debt and lease	(508,074)	(528,514)
Interest paid on capital debt and lease	(337,310)	(286,995)
Net cash used by capital and related financing activities	\$ (1,166,804)	\$ (1,989,331)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 3,605,000	\$ 4,191,748
Interest on investments	348,875	220,297
Purchase of investments	(2,905,000)	(3,200,000)
Net cash provided by investing activities	\$ 1,048,875	\$ 1,212,045
Net increase (decrease) in cash	2,254,749	(65,971)
CASH - BEGINNING OF YEAR	5,216,464	5,282,435
CASH - END OF YEAR	\$ 7,471,213	\$ 5,216,464

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating loss	\$ (8,344,743)	\$ (8,828,020)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,008,390	725,889
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	55,356	(55,225)
Grant and contract receivables	245,255	61,282
Inventories	214,030	(151,717)
Notes receivable	(35,578)	18,681
Other assets	124,616	140,736
Accounts payable and accrued liabilities adjusted for interest payable	189,419	(695,172)
Accrued payroll	(7,207)	248,075
Compensated absences	88,246	27,444
Deferred revenue	10,688	75,022
Deposits	(16,383)	24,069
Net cash used by operating activities	<u>\$ (6,467,911)</u>	<u>\$ (8,408,936)</u>

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital leases	\$ 6,419,321	
Expenses paid by capital lease/special assessments	160,678	\$ 66,390
Gifts of capital assets		63,975
Total non-cash transactions	<u>\$ 6,579,999</u>	<u>\$ 130,365</u>

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 16,865,548	\$ 402,577	\$ 17,268,125	\$ 17,268,125	
Capital assets	746,281		746,281	243,481	\$ 502,800
Capital assets - carryover		43,183	43,183	43,183	
Capital improvements - Off system					
Student apartments	3,242,500	1,705,385	4,947,885	625,211	4,322,674
Totals	\$ 20,854,329	\$ 2,151,145	\$ 23,005,474	\$ 18,180,000	\$ 4,825,474

Expenses by source					
General fund	\$ 17,109,029	\$ 445,760	\$ 17,554,789	\$ 17,554,789	
Special fund	3,745,300	1,705,385	5,450,685	625,211	\$ 4,825,474
Totals	\$ 20,854,329	\$ 2,151,145	\$ 23,005,474	\$ 18,180,000	\$ 4,825,474

Appropriation Adjustments:

Operating expenses

The \$402,577 includes \$400,000 equity pool allocation per Senate Bill 2003, section 9, and \$2,577 transfer from North Dakota University System for disabled student services.

Capital assets – carryover

\$43,183 was prior biennium unspent general fund.

Capital improvements – off system

\$1,705,385 is the prior biennium unspent balance for this project. It was originally approved during the 2003 session and was carried forward pursuant to NDCC 54-44.1-11.

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of Bismarck State College's internal control as being the most important:

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 laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

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 significant. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Bismarck State College's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of Bismarck State College in the management letter on page 20 of this report.

Finding 07-1

SEGREGATION OF DUTIES

Bismarck State College's assistant business office manager has access to cash, opens mail, restrictively endorses checks received, writes receipts, and reconciles daily receipts to daily deposits.

Good internal control requires adequate segregation of duties between cash functions including receiving cash payments, writing receipts, and reconciling receipts to deposits.

Recommendation:

We recommend that BSC review the status of internal control surrounding cash, revenue, and receivables and provide the proper segregation of duties to ensure adequate safeguards of its assets.

Bismarck State College Response:

Agree. The assistant business office manager's primary cash duties include reconciling daily receipts to deposits that have been prepared by the cashiers. He does not reconcile the bank statement. In a small office, segregation of duties is not always possible. When the cashier's are out of the office for a day, he serves as back-up to the cashiers, and therefore he accesses cash, endorses checks and writes receipts. When this happens, the business office manager will reconcile the receipts to the deposit as an added control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested Bismarck State College's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Determine if indebtedness issued during the biennium beginning July 1, 2005 ending June 30, 2007 was used for the purpose of financing Bismarck State College residence hall for \$2,617,500 and any unexpended balance resulting from the proceeds of the evidences of indebtedness were placed in a sinking fund to be used for the retirement of the indebtedness. (05 SB 2003, chapter 31, section 14)
- Determine if Bismarck State College obtained and utilized special funds of \$625,000 to assist in the construction of a new residence, for the biennium beginning July 1, 2005, and ending June 30, 2007. (05 SB 2003, chapter 31, section 14)
- Determine if the State Board of Higher Education entered an agreement or agreements with the Bismarck State College foundation or other private entity and did all things necessary and proper to authorize construction by the foundation or other private entity of a building on the Bismarck State College campus, using state funds, federal funds, donations, gifts, or other private funds. (05 SB 2003, chapter 31, section 21)
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, Section 1 of the North Dakota Constitution; Attorney General's opinion dated September 13, 1963; NDCC 1-08-02, 08-04, 15-10-12, 15-67-01, 15-67-04, 15-67-05 and 15-67-07).
- Fixed asset requirements including record-keeping, lease and financing arrangements in budget requests, and lease analysis requirements (NDCC 54-44.1-06, 54-27-21 and 54-27-21.1).
- Inventory records (NDCC 44-04-07).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-5, 48-08-04.3 and 54-06-09).

- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-05, 54-44.4-06, 54-44.7-02, 54-44.4-02, and 44-08-01).
- Conflict of Interest (NDCC 12.1-13-03 and 48-02-12).
- 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 and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than that finding, we concluded there was compliance with the legislative intent identified above.

BIDDING

Finding 07-2

In fiscal year 2006 Bismarck State College purchased laptops for \$29,547 with a capital lease. The purchase was treated as sole source with the explanation, "In order to avoid having to go through the process of the SBHE approve yet another lending company, BSC opted to order the laptop leases for the electronics program through University Lease as well."

NDCC 54-44.4-01 states it is state policy to provide comprehensive purchasing services based upon sound procurement practices and principles wherein, through full competition with fair and equal opportunity to all qualified persons and firms to sell to the state; each state agency and institution shall obtain its necessary supplies and equipment at competitive cost, consistent with quality, time, and performance requirements.

NDCC 54-44.4-05 states that purchasing contracts must be awarded to the lowest responsible bidder considering conformity with specifications, terms of delivery, quality, and serviceability.

SBHE policy 803.1 #6 states "Items that do not require competitive bidding are items possessing unique characteristics or properties which because of those characteristics or properties are essential to the conduct of particular research projects, instructional, other critical functions, or sole source services. Purchase of an item or service under this exception is permitted only with the written approval of the purchasing officer or other official delegated that authority based upon documentation of the unique characteristics of the product, and specifically what task is to be performed requiring the unique characteristics of the product."

Recommendation:

We recommend Bismarck State College bid purchases in compliance with NDCC 54-44.4-05 and sole source purchases in compliance with SBHE police 803.1 part 6.

Bismarck State College Response:

Agree. The previous Director of Finance made the decision to utilize the existing leasing company as a time saving measure. We agree this was not in compliance with Century Code or SBHE Policy. Since then, we have entered into another lease agreement and have followed NDCC and SBHE Policy as required, and will continue to do so with future lease arrangements.

Management Letter (Informal Recommendations)

January 10, 2008

Mr. Dave Clark
Executive Vice President
Bismarck State College
1500 Edwards Avenue
Bismarck, ND 58501

Dear Mr. Clark:

We have performed an audit of Bismarck State College for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of Bismarck 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 as non-reportable conditions.

The following present our informal recommendations.

TRAVEL

Informal Recommendation 07-1:

Bismarck State College includes in student travel account 521105 the expenditures for the team's coaches.

Travel expenditures should be charged to their respective accounts. Students should be charged to student travel account and Bismarck State College employees should charge their respective expenditures to the correct travel accounts.

We recommend that only student travel is charged to account 521105. BSC employees should charge travel related expenditures to employee travel accounts and complete travel vouchers.

Bismarck State College Response:

Agree. Initial travel advances will still be coded to 521105, but once travel reimbursement vouchers are processed, the expenses will be appropriately allocated between student travel and employee travel accounts.

CONFLICT OF INTEREST

Informal Recommendation 07-2:

Bismarck State College (BSC) had purchases approved in a way that violates the BSC Conflict of Interest Policy. An employee with a stated business interest had approved purchases from that business.

We recommend BSC review the conflict of interest policy with all existing employees and new employees as they are hired. We also recommend the accounting department ensure the conflict of interest policy has been complied with before giving final approval to purchases.

Bismarck State College Response:

Agree. Our Grants Accountant is currently reviewing BSC's conflict of interest procedures and will take this recommendation under advisement. In addition, the Controller will regularly obtain an updated list of employees who have completed a conflict of interest form for review when approving expenditures.

USE, TRANSFER, AND DISPOSAL OF PUBLIC PROPERTY

Informal Recommendation 07-3:

BSC has adopted SBHE policies and they do not contain a policy prohibiting the disposal, use, or transfer of (any) public property in an unauthorized manner. Although SBHE policy 611.5 is regarding the disposal or transfer of real property and the use of state vehicles, there is no policy that requires written approval and acknowledgement of responsibilities before any equipment can leave the campus.

We recommend that BSC create and implement policies and procedures regarding the proper disposal, use and transfer of public property, as well as requiring written approval and acknowledgement of responsibilities regarding equipment that leaves the campus.

Bismarck State College Response:

BSC currently has unwritten procedures, including authorization for disposal and transfer of property. These procedures will be documented and formalized as an official campus procedure by September 2008.

I encourage you to call me at (701) 239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

John Grettum, CPA
Audit Manager