



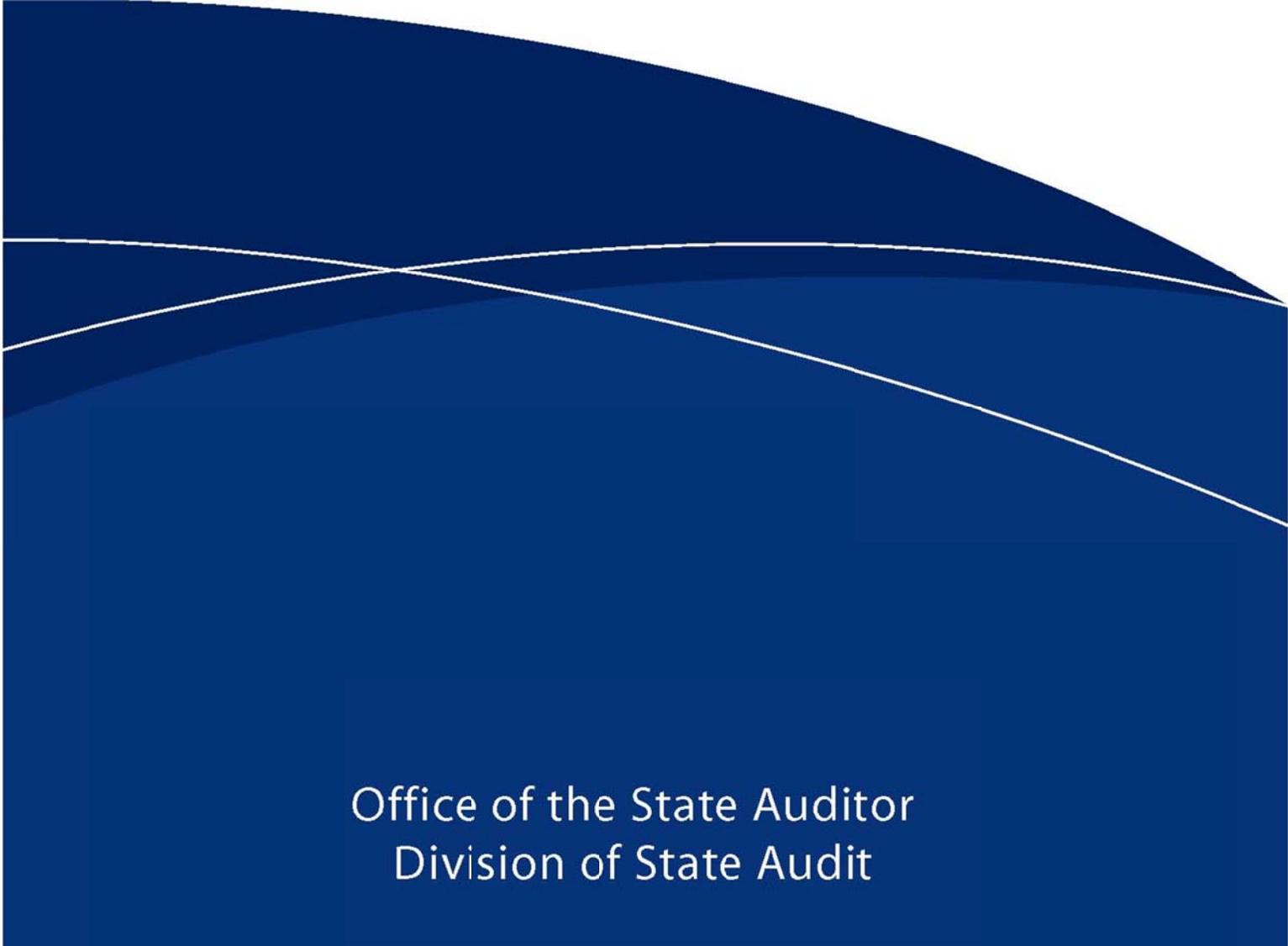
LAKE REGION STATE  
COLLEGE

DEVILS LAKE, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2009

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Senator Randel Christmann – Chairman***  
***Representative RaeAnn G. Kelsch – Vice Chairman***

Representatives

*Rick Berg*  
*Merle Boucher*  
*Jeff Delzer*  
*Patrick R. Hatlestad*  
*Jerry Kelsh*  
*Keith Kempenich*  
*Gary Kreidt*  
*Louis Pinkerton*  
*Chet Pollert*  
*Bob Skarphol*  
*Blair Thoreson*  
*Benjamin A. Vig*  
*Lonny Winrich*

Senators

*Joan Heckaman*  
*Jerry Klein*  
*Judy Lee*

# 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>5</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Analysis of Significant Changes in Operations</i>	<i>6</i>
<i>Analysis of Significant Variances Between Final Budgeted and Actual Expenditures</i>	<i>6</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Net Assets</i>	<i>7</i>
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>	<i>8</i>
<i>Statement of Cash Flows</i>	<i>9</i>
<i>Statement of Appropriations</i>	<i>11</i>
<i>Internal Control</i>	<i>12</i>
<i>General Ledger Entry Approval (Finding 09-1)</i>	<i>12</i>
<i>Daily Deposits and Proper Support for Receipts (Finding 09-2)</i>	<i>13</i>
<i>Purchase Cards (Finding 09-3)</i>	<i>13</i>
<i>Compliance With Legislative Intent</i>	<i>16</i>

STATE AUDITOR  
ROBERT R. PETERSON



PHONE  
(701) 328 - 2241  
FAX  
(701) 328 - 1406

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

---

July 28, 2010

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
North Dakota State Board of Higher Education  
Dr. Mike Bower, President, Lake Region State College

We are pleased to submit this audit of Lake Region State College for the biennium ended June 30, 2009. 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 Robyn Hoffmann, CPA. Mary Feltman, CPA was the staff auditor. 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 Bower and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

---

## *Introduction*

Lake Region State College is a student-centered, open access, comprehensive community college within the North Dakota University System. The College provides quality academic education, vocational/technical training, workforce training, educational outreach opportunities, and life-long learning.

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 response are noted below.

## *Responses to LAFRC Audit Questions*

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

An unqualified opinion was issued in the fiscal years 2008 and 2009 annual financial reports of the North Dakota University System. The financial statements for Lake Region State College were obtained and condensed from the Annual Financial Reports 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?*

Other than our findings addressing "general ledger entry approval" (page 12), "daily deposits and support for receipts" (page 13), and "purchase cards" (page 13), 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?*

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.*

No, a management letter was not issued.

## **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 2009, Lake Region State College began reporting Pell receipts as nonoperating rather than operating revenue in the financial statements. This was done to comply with GASB's Comprehensive Implementation Guide, which states that Pell grant receipts should be reported as nonoperating revenues because they are nonexchange transactions. The total amount for fiscal year 2009 was \$865,470.

There were no management conflict of interest noted, no contingent liabilities or significant unusual transactions were identified.

- 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 University 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 doubtful accounts 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.

- 9. Identify any significant audit adjustments.*

All significant audit adjustments we proposed for Lake Region State College were recorded during the fiscal year 2008 audit of the North Dakota University System. No entries were proposed during the fiscal year 2009 audit of the North Dakota University System. In fiscal year 2008, an entry was made to adjust notes receivables for the incorrect allowance percentage provided by the SLSC (\$25,338).

- 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 Student Administration are high-risk information technology systems critical to Lake Region State College. None of the exception noted were directly related to the operations of an information technology system.

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

---

## ***Audit Objectives***

The objectives of this audit of Lake Region State College for the biennium ended June 30, 2009 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, 2009. 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 that 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 and 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 2008 and 2009 Annual audited 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.
- 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***

---

The accompanying financial statements have been prepared to present Lake Region State College's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2009, operations of Lake Region State College were primarily supported by student tuition and fees (32%); appropriations from the state's general fund (30%); federal grants and contracts (13%); and auxiliary enterprises (11%). This is supplemented by gifts, state and local grants and contracts and sales and services of educational departments.

### ***Financial Summary***

Total net assets were fairly consistent during the two-year period ended June 30, 2009 only decreasing slightly by approximately \$62,000.

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, state and local grants and contracts, sales and services of educational departments and auxiliary enterprises. Nonoperating revenues during the audit period included state appropriations, federal grants and contracts, and gifts. Total revenues were \$11,160,744 for the year ended June 30, 2009 as compared to \$10,520,130 for the year ended June 30, 2008. The major revenue increases are as follows:

- State grants for workforce training (\$116,000), wind energy technician program (\$113,000);
- Gifts received from the Community College Foundation (\$50,000), for the theater playhouse (\$49,000), and general scholarships (\$34,000).

Total expenses for Lake Region State College were \$11,098,290 for the year ended June 20, 2009 as compared to \$10,840,359 for the year ended June 30, 2008. The largest expense fluctuation was for salaries and wages which is due to a 4.4% salary increase for fiscal year 2009.

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

Lake Region State College did not have any significant changes in operations.

### ***Analysis of Significant Variances Between Final Budgeted and Actual Expenditures***

Lake Region State College did not have any significant variances for the general fund expenses as reflected on the statement of appropriations.

# Financial Statements

---

## Statement of Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,179,430	\$ 3,133,908
Investments	105,000	105,000
Accounts receivable, net	376,077	345,255
Due from state general fund	20,000	
Grants and contracts receivables, net	460,341	278,814
Inventories	251,178	164,730
Notes receivable, net	430,394	480,418
Other assets	15,463	9,465
Capital assets, net	<u>3,743,050</u>	<u>4,065,976</u>
<b>Total assets</b>	<b>\$ 8,580,933</b>	<b>\$ 8,583,566</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 238,336	\$ 175,534
Accrued payroll	314,368	295,183
Deferred revenue	224,982	268,328
Deposits	221,108	221,772
Due to others	<u>1,646,048</u>	<u>1,749,112</u>
<b>Total liabilities</b>	<b>\$ 2,644,842</b>	<b>\$ 2,709,929</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 2,432,746	\$ 2,610,430
Restricted for:		
Expendable:		
Scholarships and fellowships		
Research	50,604	150,388
Instructional department uses		
Loans	446,553	475,295
Debt service	70,164	82,305
Unrestricted	<u>2,936,024</u>	<u>2,555,219</u>
<b>Total net assets</b>	<b>\$ 5,936,091</b>	<b>\$ 5,873,637</b>

## Statement of Revenues, Expenses and Changes in Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 3,555,403	\$ 3,430,842
Federal grants and contracts	571,801	1,390,961
State and local grants and contracts	591,820	361,287
Nongovernmental grants and contracts		56,370
Sales and services of educational departments	403,480	332,294
Auxiliary enterprises	1,247,554	1,145,348
Other	7,974	9,291
<b>Total operating revenues</b>	<u>\$ 6,378,032</u>	<u>\$ 6,726,393</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 6,894,224	\$ 6,431,020
Operating expenses	2,503,266	2,573,137
Data processing	195,943	311,756
Depreciation	493,582	474,695
Scholarships and fellowships	509,833	440,446
Cost of sales and services	439,836	539,407
<b>Total operating expenses</b>	<u>\$ 11,036,684</u>	<u>\$ 10,770,461</u>
<b>Operating loss</b>	<u>\$ (4,658,652)</u>	<u>\$ (4,044,068)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 3,251,348	\$ 3,260,000
Federal grants and contracts	888,745	
Gifts	540,980	428,740
Investments income	30,858	37,860
Interest on capital asset-related debt	(61,606)	(69,898)
Other nonoperating revenues	8,840	3,474
<b>Net nonoperating revenues</b>	<u>\$ 4,659,165</u>	<u>\$ 3,660,176</u>
<b>Income (loss) before capital grants, gifts, and transfers</b>	<u>\$ 513</u>	<u>\$ (383,892)</u>
State appropriations-capital assets	\$ 61,941	\$ 63,663
<b>Total other revenue</b>	<u>\$ 61,941</u>	<u>\$ 63,663</u>
<b>Increase (decrease) in net assets</b>	<u>\$ 62,454</u>	<u>\$ (320,229)</u>
<b>NET ASSETS</b>		
Net Assets-beginning of the year	\$ 5,873,637	\$ 6,193,866
Net Assets-end of the year	<u>\$ 5,936,091</u>	<u>\$ 5,873,637</u>

## Statement of Cash Flows

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 3,525,357	\$ 3,742,097
Grants and contracts	1,037,079	1,787,352
Payments to suppliers	(3,118,723)	(3,392,701)
Payments to employees	(6,832,583)	(6,405,006)
Payments for scholarships and fellowships	(509,833)	(440,446)
Loans issued to students	(48,747)	(103,910)
Collection of loans to students	50,419	60,518
Auxiliary enterprise charges	1,250,154	1,144,764
Sales and service of educational departments	345,238	328,790
Cash received/(paid) on deposits	10,866	(3,828)
Other receipts	10,815	3,013
<b>Net cash used by operating activities</b>	<u>\$ (4,279,958)</u>	<u>\$ (3,279,357)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 3,231,348	\$ 3,260,000
Grants and gifts received for other than capital purposes	1,429,725	428,740
Agency fund cash decrease	(58,940)	(16,351)
Other nonoperating revenues		3,476
<b>Net cash flows provided by noncapital financing activities</b>	<u>\$ 4,602,133</u>	<u>\$ 3,675,865</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	\$ 61,941	\$ 63,663
Capital grants and gifts received	(35)	305
Purchases of capital assets	(162,569)	(215,994)
Principal paid on capital debt and lease	(145,242)	(148,923)
Interest paid on capital debt and lease	(61,606)	(69,898)
<b>Net cash used by capital and related financing activities</b>	<u>\$ (307,511)</u>	<u>\$ (370,847)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	\$ 30,858	\$ 37,855
<b>Net cash provided by investing activities</b>	<u>\$ 30,858</u>	<u>\$ 37,855</u>
<b>Net increase in cash</b>	<u>\$ 45,522</u>	<u>\$ 63,516</u>
CASH - BEGINNING OF YEAR	<u>\$ 3,133,908</u>	<u>\$ 3,070,392</u>
CASH - END OF YEAR	<u>\$ 3,179,430</u>	<u>\$ 3,133,908</u>

(Continued on next page)

(Continued from previous page)

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO**

<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Operating loss	\$ (4,658,652)	\$ (4,044,118)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	493,582	474,695
Other nonoperating revenues	8,839	
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(35,790)	227,916
Grant & contract receivables	(126,542)	(21,266)
Inventories	(86,448)	(2,802)
Notes receivable	50,024	(20,172)
Other assets	(5,998)	(6,281)
Accounts payable and accrued liabilities adjusted for interest payable	51,866	31,915
Accrued payroll	19,462	1,840
Compensated absences	42,179	24,174
Deferred revenue	(43,346)	58,567
Deposits	10,866	(3,825)
<b>Net cash used by operating activities</b>	<u>\$ (4,279,958)</u>	<u>\$ (3,279,357)</u>

**Statement of Appropriations**

**For The Biennium Ended June 30, 2009**

<b>Expenses by line item</b>	Original Appropriation	Adjustments	Adjusted Appropriation	Expenses	Remaining Appropriation
Operating expenses	\$ 6,511,348		\$ 6,511,348	\$ 6,511,348	
Capital assets	3,133,204	\$ (3,007,600)	125,604	125,604	
Capital improvements - off system					
Wind Energy Project		3,007,600	3,007,600		\$ 3,007,600
<b>Totals</b>	<b>\$ 9,644,552</b>	<b>\$ -</b>	<b>\$ 9,644,552</b>	<b>\$ 6,636,952</b>	<b>\$ 3,007,600</b>
<b>Expenses by source</b>					
General fund	\$ 6,636,952		\$ 6,636,952	\$ 6,636,952	
Special fund	3,007,600		3,007,600		\$ 3,007,600
<b>Totals</b>	<b>\$ 9,644,552</b>	<b>\$ -</b>	<b>\$ 9,644,552</b>	<b>\$ 6,636,952</b>	<b>\$ 3,007,600</b>

**Appropriation Adjustments:**

Capital assets:

The \$3,007,600 adjustment transferred authority for the Wind Energy Project to the Capital improvement off system line because expenditures for these projects are not abstracted through the state.

Capital improvements – off system:

\$3,007,600 was transferred from the capital assets line as described above.

## ***Internal Control***

---

In our audit for the biennium ended June 30, 2009, 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.

The criteria used to evaluate internal control are 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 that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

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 identified the following significant deficiencies in internal control.

### ***General Ledger Entry Approval (Finding 09-1)***

During our test of 32 documents used to enter transactions directly to the general ledger, we noted 10 exceptions. Six (6) of 32 test items (19%) were entered by the Vice President for Administrative Services and had no approval noted and 4 of 32 test items (12%) were approved by an individual that is not authorized to approve general ledger transactions for the respective fund.

According to the COSO framework on proper internal controls, it is management's responsibility to put proper controls in place to provide reasonable assurance of accurate financial reporting. Such controls should help ensure that transactions are valid, properly authorized, and completely and accurately processed.

#### **Recommendation:**

We recommend that all general ledger input documents be properly reviewed and approved by an authorized individual.

**Lake Region State College Response:**

*Agree. Proper approvals by authorized individuals will be noted on documents used to enter transactions directly to the general ledger. In addition to VP for Administrative Services approval, the Controller will indicate her/his approval for transactions entered by the VP for Administrative Services. Implementation of the recommendation regarding joint Controller/VP approval was in place for FY10 and full implementation of the recommendation regarding approval by authorized individuals is in place for FY11.*

**Daily Deposits and Proper Support for Receipts (Finding 09-2)**

During our test of 32 receipts, we noted the following problems with the receipting process at the Grand Forks Air Force Base:

- 4 of 32 (13%) did not have a daily cash proof sheet or summary of credit card receipts attached.
- 2 of 32 (6%) were deposited late. One was 11 days late and the other was 33 days late. The total of the two deposits was \$1,062. We also noted that from February 23 to March 31, 2009, no deposits were made until March 31, 2009 after an overdraft occurred at the bank. The total of those deposits was \$7,736.

Effective internal controls should provide that cash be deposited daily and supported by an accurate accounting record to minimize potential of loss by natural causes or theft and to ensure an adequate audit trail should loss or theft occur.

**Recommendation:**

We recommend that Lake Region State College:

- Make daily deposits at the Grand Forks Air Force Base; and
- Maintain accurate and complete records including daily cash proof sheets and credit card summaries.

**Lake Region State College Response:**

*Agree. Issues regarding the maintenance of complete records and the deficiencies in timely bank deposits were addressed with LRSC Staff at the GFAFB location at the end of March 2009. The importance of daily deposits, as applicable, was again stressed to the Staff members. The Controller reviews deposit records for accuracy and timeliness on an ongoing basis. Any deficiencies will be brought to the attention of the VP for Administrative Services for further action.*

**Purchase Cards (Finding 09-3)**

In the test of 32 purchase card transactions we noted the following:

- Other college departments are using the athletic department's purchase card for lodging and meals.(1/32)

- Meals for the team and coaches were not detailed or documented to distinguish the student or coach amounts as required by NDUS Human Resource Policy Manual #31.1. This detail is necessary so that the coach (employee) can demonstrate they are not exceeding allowable daily per diem amounts as established by state law. (5/32)
- Team travel did not include a roster or list of students or coaches included in the trip. Good internal controls dictate that adequate support be obtained for all payments to ensure that payments are for actual business-related purpose to authorized individuals. (2/32 )
- Credit card receipt (not itemized/detailed) was accepted as support for charge. LRSC credit card policy states that detailed receipts/invoices are required for support and that the charge slip from the credit card system is not acceptable. (2/32)
- Credit cards are being used by persons other than the card holder. LRSC credit card policy and sound business practices do not allow the transfer of assignment of the card to another individual. (2/32)
- Credit card purchasing records are not all being completed properly. The card holder should write his/her name in the top left hand corner and sign his/her name in the bottom left hand corner when completed. Good internal controls require the purchase card record be properly completed and approved to ensure that transactions are valid and properly authorized. (4/32)
- Most cardholders on the state's credit card do not allow purchases of travel, lodging, cash, entertainment, food or liquor. Exceptions are made at some institutions to allow athletics to charge travel costs but restrict cash, entertainment, and liquor. LRSC credit cards restrict only cash. Effective purchase card internal controls should restrict purchases to ensure that only valid transactions are initiated or entered into.

**Recommendation:**

We recommend Lake Region State College follow or update its purchase card policies to:

- Not allow the purchase card to be used for lodging, but use direct billing and only allow the athletic department to charge meals with the purchase card;
- Ensure team travel is well documented and in compliance with NDUS Human Resource policy manual #31.1;
- Ensure a roster of all students and coaches is included with the team travel documentation;
- Accept only original detailed receipts as support for purchase cards;
- Only allow the cardholder to use the purchase card; and
- Ensure all cardholders submit a properly completed and approved purchase card record.

**Lake Region State College Response:**

*Agree. LRSC policy regarding purchasing card use will be revised, by September 1, 2010, to follow OMB Purchasing Card policies as they pertain to lodging expenses. More care will be taken to ensure all details of team travel documentation comply with NDUS and LRSC policies. LRSC administrative affairs personnel will continue to require full compliance with our purchasing card policy and procedures. Cardholders unable to comply with LRSC policy and procedures will lose their purchasing card privileges.*

## *Compliance With Legislative Intent*

---

In our audit for the biennium ended June 30, 2009, we identified and tested Lake Region State College's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Article X, Section 12, part 1 of the North Dakota Constitution 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 01-08-02, 15-10-12, 15-67-01, 15-67-02, 15-67-04, 15-67-05, and 15-67-07).
- Fixed asset requirements including record keeping and lease analysis requirements (NDCC 54-27-21.1 and 54-27-21).
- Inventory records (NDCC 44-04-07).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of the North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-5, and 54-06-08 parts 1a, 1b, 3, 4, 5, and 6).
- Conflict of interest (NDCC 12.1-13-03 and 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 and 47-30.1-03.1).
- 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 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.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241