

NORTH DAKOTA STATE  
COLLEGE OF SCIENCE  
WAHPETON, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2011

ROBERT R. PETERSON  
STATE AUDITOR

Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Representative Dan Ruby – Chairman  
Senator Terry M. Wanzek – Vice Chairman***

Representatives

*Dick Anderson  
Tracy Boe  
Patrick R. Hatlestad  
RaeAnn G. Kelsch  
Keith Kempenich  
Gary Kreidt  
Joe Kroeber  
Andrew Maragos  
Cory Mock  
David Monson  
Chet Pollert  
Bob Skarphol  
Lonny Winrich  
Dwight Wrangham*

Senators

*Randall Christmann  
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>7</i>
<i>Analysis of Significant Variances - Budgeted and Actual Expenditures</i>	<i>7</i>
<i>Financial Statements</i>	<i>8</i>
<i>Statement of Net Assets</i>	<i>8</i>
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>	<i>9</i>
<i>Statement of Cash Flows</i>	<i>10</i>
<i>Statement of Appropriations</i>	<i>12</i>
<i>Internal Control</i>	<i>13</i>
<i>Compliance With Legislative Intent</i>	<i>14</i>
<i>Management Letter (Informal Recommendations)</i>	<i>15</i>



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

## *Transmittal Letter*

---

March 22, 2012

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
North Dakota State Board of Higher Education  
Dr. John Richman, President, North Dakota State College of Science

We are pleased to submit this audit of the North Dakota State College of Science for the biennium ended June 30, 2011. 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. 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 Richman 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*

NDSCS is a two-year, comprehensive, residential college with its main campus located in Wahpeton, ND, and a second site, referred to as NDSCS-Fargo located on 19th Avenue North in Fargo, ND. NDSCS offers degrees, certificates, and diplomas in over 80 academic options in traditional career and technical studies as well as the liberal arts. The college also offers a variety of distance education and online courses.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that auditors performing audits of state agencies address certain items. 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?*

The financial statements for the North Dakota State College of Science were obtained from the Annual Financial Report of the North Dakota University System; however, the related note disclosures are not included in accordance with generally accepted accounting standards, so an opinion is not applicable. An unqualified 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, the recommendation was implemented.

### *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 15 of this report, along with management's response to the 3 recommendations related to journal entries; petty and till fund cash; and fund classification.

## **LAFRC Audit Communications**

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

There were no management conflicts of interest noted, no contingent liabilities were identified or significant unusual transactions. However, there was a significant change in accounting policy. As of June 30, 2011, North Dakota State College of Science began reporting the receipt and disbursement of student financial aid on the Statement of Cash Flows as Direct Lending Receipts and Direct Lending Disbursements. Prior to June 30, 2011 these amounts were included net on the Statement of Cash Flows as Agency Fund Cash Increases/Decreases.

- 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 the North Dakota State College of Science include the 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.

- 9. Identify any significant audit adjustments.*

All significant audit adjustments we proposed for the North Dakota State College of Science were recorded during the fiscal year 2010 and 2011 audits of the North Dakota University System. The adjustments can be seen in the fiscal year 2010 and fiscal year 2011 NDUS audit reports.

- 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 the North Dakota State College of Science. 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 the North Dakota State College of Science for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

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

## ***Audit Scope***

This audit of the North Dakota State College of Science is for the biennium ended June 30, 2011. 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.

The North Dakota State College of Science has operations at the Wahpeton campus and the Skills and Technology Training Center in Fargo. Each location was included in the audit scope:

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2011 and 2010 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial information in 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 the North Dakota State College of Science's processes and procedures.

## ***Discussion and Analysis***

---

The accompanying financial statements have been prepared to present the North Dakota State College of Science'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, 2011, operations of the North Dakota State College of Science were primarily supported by appropriations from the state's general fund. This is supplemented by student tuition and fees, auxiliary enterprises and federal grants and contracts.

### ***Financial Summary***

Assets increased \$1 million in fiscal year 2011 from \$35.2 million in fiscal year 2010 to \$36.2 million in fiscal year 2011. This is primarily due to an increase in grant and contract receivables of \$535,000 and an increase in inventory of \$356,000. The increase in receivables was due to timing of grants and contracts payments, several were received after year end. Inventories increased in fiscal year 2011 because it was not included in the fiscal year 2010 records.

Liabilities remained fairly constant, increasing only slightly. Total liabilities were \$4.6 million in fiscal year 2011 compared to \$4.2 million in fiscal year 2010.

Revenues consisted primarily of state appropriations, as well as student tuition and fees, federal grants, and contracts and auxiliary enterprises. These all remained fairly constant for the North Dakota State College of Science except for a decrease in auxiliary enterprises of \$1.6 million, a decrease in state appropriations \$2.7 million and an increase in federal grants and contracts of \$.9 million. The decrease in auxiliary enterprises was due to reduction in bookstore revenue. In June, 2010, NDSCS contracted with Validis to operate their bookstore, selling their bookstore inventory to them at that time. The decrease in state appropriations was due to timing of revenue received from the state and the increase in federal grants was due to an increase in Pell grants. Total revenues were \$40,856,279 million for the year ended June 30, 2011 as compared to \$44,019,823 million for the year ended June 30, 2010.

Total expenditures for the North Dakota State College of Science were \$40,222,249 for the year ended June 30, 2011 as compared to \$38,736,970 for the prior year. The increase in total expenditures for the audited period is due to an increase in salaries and wages and operating expenses of \$1.1 million and \$1.8 million, respectively, and a decrease in the cost of sales and services of \$1.7 million. The increase in salaries and wages, which account for 58% of total expenditures in both years, reflected the average salary increase of 5% per the SBHE budget summary. Operating expense increase was primarily due to an increase in other equipment under \$5,000 and normal operating expenses. The decrease in the cost of sales and services was because NDSCS did not purchase books for their bookstore in fiscal year 2011. All other expenditures remained fairly constant.

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

The North Dakota State College of Science had the following academic changes in fiscal year 2010 and fiscal year 2011:

- Terminate the para-educator program;
- Offer an A.A.S. degree and a program certificate in Paramedic (EMT) Technology and to offer this program through distance education on an ongoing basis;
- Terminate the Skills and Technology Training Center Partnership Agreement with NDSU; and
- Offer an A.A.S in Dental Assisting.

In June, 2010 the North Dakota State College of Science contracted with Validis to operate their bookstore.

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

The North Dakota State College of Science did not have any significant variances for the general or special fund expenses as reflected on the statement of appropriations, except the Robertson Hall and Parking Lot projects show no expenses because the projects were discontinued by the institution.

# Financial Statements

---

## Statement of Net Assets

	June 30, 2011	June 30, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,536,517	\$ 10,756,905
Investments	808,415	907,728
Accounts receivable, net	1,558,313	1,473,031
Due from state General Fund	263,482	210,508
Grants and contracts receivables, net	1,417,477	882,251
Inventories	379,678	23,294
Notes receivable, net	2,250,301	2,388,684
Other assets	28,635	
Capital assets, net	19,000,532	18,576,017
<b>Total assets</b>	<b>\$ 36,243,350</b>	<b>\$ 35,218,418</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 895,406	\$ 356,294
Accrued payroll	1,504,667	1,439,456
Deferred revenue	121,318	140,161
Deposits	221,194	190,932
Other liabilities	8,835	17,620
Due to others	1,831,468	2,047,522
<b>Total liabilities</b>	<b>\$ 4,582,888</b>	<b>\$ 4,191,985</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 18,144,672	\$ 17,440,249
Restricted for:		
Expendable:		
Institutional	363,240	1,248,084
Loans	3,681,650	3,443,993
Debt service	512,534	512,574
Unrestricted	8,958,366	8,381,533
<b>Total net assets</b>	<b>\$ 31,660,462</b>	<b>\$ 31,026,433</b>

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

	June 30, 2011	June 30, 2010
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 7,863,378	\$ 7,785,834
Federal grants and contracts	1,261,918	1,491,239
State and local grants and contracts	922,598	749,512
Nongovernmental grants and contracts	60,000	67,241
Sales and services of educational departments	2,452,307	2,294,233
Auxiliary enterprises	4,612,260	6,232,634
Other	240,569	165,031
<b>Total operating revenues</b>	<b>\$ 17,413,030</b>	<b>\$ 18,785,724</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 23,587,376	\$ 22,523,279
Operating expenses	11,606,017	9,836,683
Data processing	836,954	567,968
Depreciation	2,028,939	1,834,995
Scholarships and fellowships	1,369,946	1,275,180
Cost of sales and services	732,773	2,443,803
<b>Total operating expenses</b>	<b>\$ 40,162,005</b>	<b>\$ 38,481,908</b>
<b>Operating loss</b>	<b>\$ (22,748,975)</b>	<b>\$ (19,696,184)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 15,549,402	\$ 15,769,000
Federal grants and contracts	3,998,718	3,055,039
Gifts	748,691	512,340
Investments income	261,313	340,196
Interest on capital asset-related debt	(60,244)	(85,908)
Gain (loss) on capital assets	53,201	(169,154)
Other nonoperating income	68,310	15,450
<b>Net nonoperating revenues</b>	<b>\$ 20,619,391</b>	<b>\$ 19,436,963</b>
<b>Loss before capital grants, gifts and transfers</b>	<b>\$ (2,129,584)</b>	<b>\$ (259,221)</b>
State appropriations-capital assets	\$ 2,340,453	\$ 5,097,080
Capital grants and gifts	423,161	444,994
<b>Total other revenue</b>	<b>\$ 2,763,614</b>	<b>\$ 5,542,074</b>
<b>NET ASSETS</b>		
Net Assets-beginning of the year	\$ 31,026,432	\$ 25,743,579
Net Assets-end of the year	<b>\$ 31,660,462</b>	<b>\$ 31,026,432</b>

## Statement of Cash Flows

	June 30, 2011	June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 7,711,592	\$ 7,692,661
Grants and contracts	1,709,290	2,812,492
Payments to suppliers	(13,159,610)	(12,653,442)
Payments to employees	(23,460,285)	(22,527,335)
Payments for scholarships and fellowships	(1,369,946)	(1,275,180)
Loans issued to students	(135,655)	(382,170)
Collection of loans to students	365,980	362,191
Auxiliary enterprise charges	4,500,415	6,188,178
Sales and service of educational departments	2,850,262	1,936,824
Cash paid on deposits	15,452	10,004
Other receipts	271,462	210,618
<b>Net cash used by operating activities</b>	<b>\$ (20,701,043)</b>	<b>\$ (17,625,159)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 15,496,428	\$ 16,065,364
Grants and gifts received for other than capital purposes	4,747,409	3,567,379
Direct Lending Receipts	9,522,474	
Direct Lending Disbursements	(9,522,474)	
Agency fund cash decrease	(138,998)	(271,099)
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 20,104,839</b>	<b>\$ 19,361,644</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	\$ 2,340,453	\$ 4,886,572
Capital grants and gifts received	363,707	437,994
Proceeds from sale of capital assets	316,994	10,500
Purchases of capital assets	(2,377,263)	(5,022,985)
Principal paid on capital debt and lease	(461,135)	(619,481)
Interest paid on capital debt and lease	(68,253)	(85,908)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ 114,503</b>	<b>\$ (393,308)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments		\$ 99,085
Interest on investments	\$ 261,313	340,196
<b>Net cash provided by investing activities</b>	<b>\$ 261,313</b>	<b>\$ 439,281</b>
<b>Net increase (decrease) in cash</b>	<b>\$ (220,388)</b>	<b>\$ 1,782,458</b>
CASH - BEGINNING OF YEAR	10,756,905	8,974,447
CASH - END OF YEAR	<b>\$ 10,536,517</b>	<b>\$ 10,756,905</b>

(Continued on next page)

(Continued from previous page)

**RECONCILIATION OF NET OPERATING REVENUES TO  
NET CASH USED BY OPERATING ACTIVITIES**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating loss	\$ (22,748,975)	\$ (19,696,184)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation expense	2,028,939	1,834,995
Other nonoperating revenues (expenses)	59,528	(6,754)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	71,542	(490,564)
Grant & contract receivables	(535,226)	504,500
Inventories	(356,384)	393,254
Notes receivable	138,383	78,683
Other assets	(28,635)	52,341
Accounts payable and accrued liabilities adjusted for interest payable	546,085	(279,569)
Accrued payroll	63,232	(90,849)
Compensated absences	63,859	86,793
Deferred revenue	(18,843)	(21,809)
Deposits	15,452	10,004
<b>Net cash used by operating activities</b>	<u><u>\$ (20,701,043)</u></u>	<u><u>\$ (17,625,159)</u></u>

## Statement of Appropriations

### For The Biennium Ended June 30, 2011

Expenses by line item	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 31,607,155	\$ (288,753)	\$ 31,318,402	\$ 31,318,402	
Capital Assets	13,589,332	(6,461,000)	7,128,332	6,353,335	\$ 774,997
Capital Improvements - Off system					
Robertson Hall		6,000,000	6,000,000		6,000,000
Parking Lot		1,136,000	1,136,000		1,136,000
Deferred Maintenance	1,034,143		1,034,143	1,034,143	
<b>Totals</b>	<b>\$ 46,230,630</b>	<b>\$ 386,247</b>	<b>\$ 46,616,877</b>	<b>\$ 38,705,880</b>	<b>\$ 7,910,997</b>
<b>Expenses by source</b>					
General fund	\$ 39,094,630	\$ 61,412	\$ 39,156,042	\$ 38,705,880	\$ 450,162
Special fund	7,136,000	324,835	7,460,835		7,460,835
<b>Totals</b>	<b>\$ 46,230,630</b>	<b>\$ 386,247</b>	<b>\$ 46,616,877</b>	<b>\$ 38,705,880</b>	<b>\$ 7,910,997</b>

#### Appropriation Adjustments:

##### Operating Expenses

The decrease of (\$288,753) is comprised of:

- \$61,412 transfer from the NDUS for security and emergency preparedness needs pursuant to 2009 Senate Bill 2003, section 19.
- (\$350,165) transfer to the capital asset line to partially fund a \$675,000 increase in authorization for Horton Hall renovation. This was approved by the March 11, 2010 Budget Section.

##### Capital Assets

The decrease of (\$6,461,000) is comprised of:

- (\$7,136,000) was a transfer to the Capital Improvement – Off system line because spending for the Robertson Hall (\$6,000,000) and Parking Lot (\$1,136,000) projects will not be abstracted through the state.
- Increase in project authorization for the Horton Hall renovation of \$675,000, approved by the March 11, 2010 Budget Section.

##### Capital Improvements – Off system

\$7,136,000 was a transfer from the Capital Asset line because spending for the Robertson Hall (\$6,000,000) and Parking Lot (\$1,136,000) projects will not be abstracted through the state.

## ***Internal Control***

---

In our audit for the biennium ended June 30, 2011, we identified the following areas of the North Dakota State College of Science'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 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. However, we noted other matters involving internal control that we have reported to management of the North Dakota State College of Science in a management letter dated March 22, 2012.

## *Compliance With Legislative Intent*

---

In our audit for the biennium ended June 30, 2011, we identified and tested the North Dakota State College of Science's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Determine the North Dakota State College of Science reported on the use of the one-time funding of deferred maintenance (\$1,034,143), capital projects general fund (\$5,700,000), and capital projects special funds (\$7,136,000). [09 SB 2003, section 7]
- 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, Attorney General's letter dated September 11, 1987)
- BND used as credit card processing depository. (NDCC 54-06-08.2)
- Gifts are used in compliance with the wishes of the donor. (Article IX, Section 1 of the ND Constitution, NDCC section 1-08-02, and NDCC section 15-10-12 ).
- Fixed asset requirements were followed including record-keeping and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 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 (NDCC 44-08-01, 54-44.4-01, 05, 06, 54-44.7-02).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08, 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).
- 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.

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

---

March 22, 2012

Mr. Mike Renk  
Vice President for Business Affairs  
North Dakota State College of Science  
800 North 6th Street  
Wahpeton, North Dakota 58076-0002

Dear Mr. Renk:

We have performed an audit of the North Dakota State College of Science for the biennium ended June 30, 2011, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota State College of Science'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.

### **JOURNAL (ONLINE) ENTRIES**

#### Informal Recommendation 11-1

During our test of journal entries we noted:

- 12 of 32 (38%) of the journal entries tested were only being signed off on by the person who prepared the journal entry, and therefore not being properly approved.
- 1 of 32 (3%) of the journal entries were incorrectly recorded. Revenue was debited, while expense was credited.

Internal control over transactions requires that proper approvals be obtained on supporting documentation to help ensure controls are not circumvented. Proper internal controls are achieved by segregating the duties of preparation and approval of journal entries.

We recommend NDSCS:

- Segregate the duties of preparation and approval of journal entries, and obtain at least one approval by an individual other than the preparer.
- Management exercise more care when reviewing journal entries prior to approval to ensure that journal entry is proper.

#### ***North Dakota State College of Science Response***

*Agree. NDSCS has implemented this change immediately and additional training will be provided to ensure proper recording.*

### **PETTY AND TILL CASH FUNDS**

#### Informal Recommendation 11-2

Per review of the surprise cash counts done for fiscal year 2010 and fiscal year 2011:

- No surprise count was not done in fiscal year 2010 or fiscal year 2011 for the dining services petty cash (101001) fund (10400). The general ledger shows a balance of \$300 to-date. Per discussion with business office personnel, those funds were spent on various items and copies were sent of the receipts. Some of those receipts date back to 2002. The fund was not replenished or closed.
- The general ledger showed \$5,000 for the Student Union till fund (account 102001, fund 10200), but the surprise count was only \$4,300 in fiscal year 2010. We were told that \$700 was stolen several years ago, but the amount was not replenished nor was the general ledger adjusted. In fiscal year 2011 the student union till fund surprise count showed only \$2,500. Per review of the general ledger activity and discussion business office personnel, \$1,800 was turned in by the student union to reduce the till fund. However, at year end, the till fund cash was debited \$1,800 and other services were credited to "correct cash on hand" however no cash was received. The general ledger still shows \$5,000, but the actual cash in the student union is only \$2,500.
- The game room till fund (account 102001, fund 10350) was \$500 per the general ledger in fiscal year 2010, but the surprise count showed only \$203. Per discussion with business office personnel, \$200 was stolen and \$100 of the fund was turned in to the business office, leaving a \$200 balance. At year cash was debited and other services (462110) credited for \$100 to "correct cash on hand". No adjustment was made for the \$200 stolen. In fiscal year 2011, an additional \$200 was turned into the BO to close this fund, however, at the end of the year, cash was debited and other services credited for \$200 and no cash was received. The general ledger shows \$500, but the game room has no actual cash in the till fund.
- No surprise count was done of the \$20,000 business office till fund in fiscal year 2010 or fiscal year 2011.

Good internal controls require that assets, especially liquid assets such as cash, be safeguarded from theft and/or loss.

We recommend NDSCS

- Perform surprise counts of all petty and till funds at least annually;
- Review and update all petty and till fund policies and procedures to ensure the safeguard of assets and reduce the likelihood of theft; and
- Make corrections to the petty and till fund accounts so actual amounts of cash agree to the general ledger.

**North Dakota State College of Science Response**

*Agree. NDSCS will update all procedures regarding petty cash and till funds and provide additional training regarding the proper care and reconciliation of these funds with all parties involved prior to June 30, 2012. General ledger will be adjusted accordingly as of June 30, 2012.*

**FUND CLASSIFICATION**

Informal Recommendation 11-3

NDSCS had one fund out of the thirteen we tested in our test of private gifts, grants, and contracts classified as restricted, but there was no external restriction on the fund. The fund was 55675 – Green, Paul C. Memorial Scholarship and was money set aside by the institution from the memorial and interest received and was used for scholarships.

GASB Statement 34, paragraph 34, states that: *net assets should be reported as restricted when constraints placed on net asset use are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.* Internally established constraints are designations and do not meet the GASB definition for restrictions.

Non-endowed scholarship funds (55675) are to be used only for funds restricted by a donor for the purpose of providing scholarships for the institution's students.

We recommend NDSCS reclassify the Green, Paul C. Memorial Scholarship fund into an unrestricted fund since there is no external restriction on the gift to the campus and review all other funds currently classified as restricted to ensure that they meet the GASB definition of restricted funds.

**North Dakota State College of Science Response**

*Agree. NDSCS will review all scholarship fund classifications on the general ledger and properly record according to GASB 34, effective as of June 30, 2012.*

I encourage you to call myself at 701-239-7296 or John Grettum, CPA, audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter, as applicable.

Sincerely,



Cory Wigdahl, CFE  
Auditor in-charge

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