

MAYVILLE STATE UNIVERSITY
MAYVILLE, 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

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

Transmittal Letter

April 13, 2010

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Members of the North Dakota State Board of Higher Education
Dr. Gary Hagen, President, Mayville State University

We are pleased to submit this audit of Mayville State University 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 Dave Feltman. 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 Hagen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

Robert R. Peterson
State Auditor

Executive Summary

Introduction

Mayville State University is one of North Dakota's original colleges, since its establishment was provided in the state constitution of 1889. Teachers Colleges (then called "Normal Schools") had grown rapidly since their introduction into the field of American higher education soon after the Civil War. Three times the legislature of the Dakota Territory had moved toward the establishment of colleges for teacher education, but none of these efforts bore fruit for the people of the area, which became North Dakota.

Classes of the Mayville Normal School began in 1890, with funds for a building ("Old Main") provided by the Second Legislative Assembly in early 1891, where classes were initially held in 1893. Since then, Mayville State has steadily grown and progressed. In 1925, the State Board of Higher Education (SBHE) authorized Mayville State to grant a Bachelor of Arts in Education. The Mayville Normal School thus became a "teacher's college," providing general education and offering a four-year degree. Successive additions strengthened the curriculum, and as enrollment grew, new buildings appeared.

In 1948, the B.A. in Education became a B.S. in Education and the first non-teaching Bachelor of Arts was offered in 1961. In 1973 and 1982, the college established programs in business administration and computer studies, respectively. In the early 1980's, the Bachelor of Science and Bachelor of General Studies became available. The present name, Mayville State University, was approved by the legislature in 1987.

The Legislative Audit and Fiscal Review Committee (LAFRC) requested 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?

The financial statements for Mayville State University 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?

Other than our finding addressing "Departmental Equipment Inventory" (page 14), Mayville State University 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?

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?*

Mayville State University has implemented two of three recommendations included in the prior audit report. They have not implemented the timely completion of the departmental equipment inventory (page 15).

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 16 of this report, along with management's response.

LAFRC Audit Communications

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

In fiscal year 2009 MaSU 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 \$655,269.

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

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 Mayville 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 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 they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All significant audit adjustments we proposed for Mayville State University were recorded during the fiscal years 2009 and 2008 audits of the North Dakota University System. In fiscal year 2008, an entry was made to adjust notes receivable for the incorrect allowance percentage provided by the SLSC (\$40,447). In fiscal year 2009, an entry was made to reclassify retirement of indebtedness and investment in plant net assets (\$305,996).

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 System, Human Resource Management System (HRMS), and Campus Solutions System are high-risk information technology systems critical to Mayville State University. None of the exceptions noted directly relate to the operation of an information technology system.

Audit Objectives, Scope, and Methodology

Audit Objectives

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

Audit Scope

This audit of Mayville State University 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.

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

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal year 2008 and 2009 Annual Financial Reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Mayville State University's processes and procedures.

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

Discussion and Analysis

The accompanying financial statements have been prepared to present Mayville State University's revenues and expenses 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 Mayville State University were primarily supported by state appropriations (35% - excluding capital assets), student tuition and fees (20%), federal grants and contracts (16%), and auxiliary enterprises (11%). This is supplemented by state appropriations for capital assets, sales and services, gifts, tax proceeds and investment income.

Financial Summary

Assets increased in fiscal year 2009 primarily due to coal plant improvements. Total assets for fiscal year 2009 were \$16,252,511 compared to \$14,050,203 for fiscal year 2008.

Liabilities increased also because of the coal plant. Long-term liabilities increased \$2 million mainly due to a new capital lease to finance coal plant improvements. Total liabilities for fiscal year 2009 were \$7,035,621 compared to \$5,611,794 from fiscal year 2008.

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, and auxiliary enterprises. Nonoperating revenues included mainly state appropriations, federal grants, and contracts and gifts. Revenues remained constant between fiscal years 2009 and 2008. Total revenues were \$14,410,159 for the year ended June 30, 2009 as compared to \$14,410,106 for the year ended June 30, 2008.

Total expenditures for Mayville State University were \$13,631,680 for the year ended June 30, 2009 as compared to \$13,502,006 for the prior year. The increase in total expenditures for the audited period is primarily due to the increase in salaries and wages of \$519,000 (which account for 59% of total expenditures) and the \$396,000 decrease in operating expenses. All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

Mayville State University did not have any significant changes in operations.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

The most significant variance was for the Northwest Hall project. In fiscal year 2009 the final appropriation resulted in \$824,533 of special fund authority. Expenses for the biennium ended June 30, 2009 were \$12,001.

Financial Statements

Statement of Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS		
Cash and cash equivalents	\$ 1,709,132	\$ 1,643,171
Investments	532,000	92,000
Accounts receivable, net	339,225	286,474
Receivable from component units		10,864
Due from state general fund		113,345
Grants and contracts receivable, net	175,073	356,308
Inventories	189,842	205,721
Notes receivable, net	656,402	681,478
Unamortized bond discount and cost of issuance		416
Other assets	101,363	81,159
Capital assets, net	12,549,474	10,579,267
Total Assets	<u>\$ 16,252,511</u>	<u>\$ 14,050,203</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 172,084	\$ 443,943
Accrued payroll	470,899	473,126
Deferred revenue	117,665	74,402
Deposits	165,679	203,187
Due to others	6,109,294	4,417,136
Total Liabilities	<u>\$ 7,035,621</u>	<u>\$ 5,611,794</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 6,792,996	\$ 6,470,106
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	17,524	4,000
Expendable:		
Scholarships and fellowships	8,729	5,164
Instructional department uses	37,104	15,192
Loans	699,583	718,296
Debt service	56,408	103,232
Unrestricted	1,604,546	1,122,419
Total Net Assets	<u>\$ 9,216,890</u>	<u>\$ 8,438,409</u>

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2009	June 30, 2008
OPERATING REVENUES		
Student tuition and fees	\$ 2,820,500	\$ 2,876,397
Federal grants and contracts	1,785,269	2,260,570
State and local grants and contracts	25,272	36,682
Nongovernmental grants and contracts	950	3,390
Sales and services of educational departments	699,479	723,319
Auxiliary enterprises	1,534,177	1,613,650
Other	13,849	11,401
Total operating revenues	\$ 6,879,496	\$ 7,525,409
OPERATING EXPENSES		
Salaries and wages	\$ 8,196,686	\$ 7,677,740
Operating expenses	2,899,997	3,296,055
Data processing	100,902	127,432
Depreciation	780,181	718,272
Scholarships and fellowships	392,361	460,476
Cost of sales and services	588,631	645,252
Total operating expenses	\$ 12,958,758	\$ 12,925,227
Operating loss	\$ (6,079,262)	\$ (5,399,818)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 5,105,266	\$ 5,011,399
Federal grants and contracts	659,269	
Gifts	432,216	634,523
Investment income	114,891	111,741
Interest on capital asset-related debt	(290,120)	(227,458)
Loss on disposal of capital assets	(2,594)	(6,234)
Tax proceeds	188,718	183,530
Other nonoperating expenses	(380,208)	(343,087)
Net nonoperating revenues	\$ 5,827,438	\$ 5,364,414
Loss before capital grants, gifts, and transfers	\$ (251,824)	\$ (35,404)
State appropriations-capital assets	\$ 1,018,594	\$ 821,369
Capital grants and gifts	11,709	122,135
Total other revenue	\$ 1,030,303	\$ 943,504
Increase in net assets	\$ 778,479	\$ 908,100
NET ASSETS		
Net Assets-beginning of the year	8,438,411	7,530,309
Net Assets-end of the year	\$ 9,216,890	\$ 8,438,409

Statement of Cash Flows

	June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 2,871,722	\$ 2,831,449
Grants and contracts	1,992,726	2,152,505
Payments to suppliers	(3,650,217)	(4,084,506)
Payments to employees	(8,176,847)	(7,608,712)
Payments for scholarships and fellowships	(392,361)	(460,476)
Loans issued to students	(119,495)	(95,728)
Collection of loans to students	97,482	88,275
Auxiliary enterprise charges	1,520,035	1,590,487
Sales and service of educational departments	640,531	630,199
Cash collected on deposits	9,762	7,819
Other receipts (payments)	2,935	(32,353)
Net cash used by operating activities	\$ (5,203,727)	\$ (4,981,041)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 5,105,266	\$ 5,011,399
Grants and gifts received for other than capital purposes	1,091,485	634,523
Agency fund cash decrease	(103,326)	(95,732)
Tax proceeds	188,718	183,530
Other nonoperating revenues		170,220
Net cash flows provided by noncapital financing activities	\$ 6,282,143	\$ 5,903,940
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 1,131,939	\$ 708,024
Capital grants and gifts received	11,709	122,135
Purchases of capital assets	(844,915)	(936,267)
Principal paid on capital debt and lease	(803,084)	(684,192)
Deposits with capital debt payment trustees		145,247
Interest paid on capital debt and lease	(222,995)	(227,983)
Net cash used by capital and related financing activities	\$ (727,346)	\$ (873,036)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$ 114,891	\$ 111,739
Purchase of investments	(400,000)	-
Net cash provided (used) by investing activities	\$ (285,109)	\$ 111,739
Net increase in cash	65,961	161,602
CASH - BEGINNING OF YEAR	1,643,171	1,481,569
CASH - END OF YEAR	\$ 1,709,132	\$ 1,643,171

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

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Operating loss	\$ (6,079,262)	\$ (5,399,814)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	780,181	718,272
Other nonoperating revenues (expenses)	9,290	
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(36,176)	(82,700)
Grant & contract receivables	181,235	(148,137)
Inventories	15,879	2,900
Notes receivable	25,076	22,333
Other assets	(20,204)	(43,754)
Accounts payable and accrued liabilities adjusted for interest payable	(152,610)	(113,684)
Accrued payroll	3,561	32,079
Compensated absences	16,278	36,949
Deferred revenue	43,263	(13,300)
Deposits	9,762	7,815
Net cash used by operating activities	<u>\$ (5,203,727)</u>	<u>\$ (4,981,041)</u>

**SUPPLEMENTAL DISCLOSURE ON NONCASH
TRANSACTIONS**

Assets acquired through capital leases	\$ 2,089,464	
Expenses paid by capital lease/special assessments	389,500	\$ 513,307
Total non-cash transactions	<u>\$ 2,478,964</u>	<u>\$ 513,307</u>

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 10,115,065	\$ 1,600	\$ 10,116,665	\$ 10,116,665	
Capital assets	1,989,963	(900,000)	1,089,963	1,089,963	
Capital improvements - off system					
Northwest Hall		824,533	824,533	12,001	\$ 812,532
Totals	\$ 12,105,028	\$ (73,867)	\$ 12,031,161	\$ 11,218,629	\$ 812,532
Expenses by source					
General fund	\$ 11,205,028	\$ 1,600	\$ 11,206,628	\$ 11,206,628	
Special fund	900,000	(75,467)	824,533	12,001	\$ 812,532
Totals	\$ 12,105,028	\$ (73,867)	\$ 12,031,161	\$ 11,218,629	\$ 812,532

Appropriation Adjustments:

Operating expenses

The \$1,600 transfer from the NDUS operating pool carryover funds was approved by the SBHE at their June 19, 2008 meeting.

Capital assets

The \$900,000 special fund authority for the Northwest Hall project was transferred to the Capital improvements off system line because expenditures were not abstracted through the state.

Capital improvements – off system

Northwest Hall - \$900,000 was transferred from the Capital asset line less \$75,467 expenses from the prior biennium.

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of Mayville State University's internal control as being the highest risk:

Internal Controls Subjected to Testing:

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

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 Mayville State University in a management letter dated April 13, 2010, see page 16.

Compliance With Legislative Intent

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

- Determine that \$750,000, or so much of the sum as may be necessary, included in the capital assets line item in subdivision 1 of section 3, was used for the development of a master capital plan and for deferred maintenance projects at Mayville State University as approved by the board (2007 House Bill 1003, chapter 3, section 8).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's letter 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, 15-10-12, 15-67-01, 15-67-02, 15-67-04, 15-67-05 and 15-67-07).
- Surplus property (54-44-04.6, parts 1, 3, 4, and 5).
- Fixed asset requirements including record keeping and lease analysis requirements (NDCC 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 and 54-06-09).
- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-02, 54-44.4-05, 54-44.4-06, 54-44.7-02, 48-01.2-25 and 44-08-01).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08 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 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of Mayville State University in a management letter dated April 13, 2010, see page 16.

Departmental Equipment Inventory (Finding 09-1)

Procedures surrounding annual departmental equipment inventories need improvement in the following areas:

1. The year-end inventories were not completed timely. For example, equipment deletions of \$45,862 reported on the June 30, 2009 financial statements came from the June 30, 2008 departmental inventories.
2. Equipment deletions were usually shown as “gone” on the annual departmental equipment inventory because separate deletion forms (properly approved) were not used.
3. The June 30, 2009 annual departmental equipment inventory total of \$1,030,784 was not reconciled to the June 30, 2009 general ledger equipment total of \$768,570 or the June 30, 2009 asset history total of \$985,577.

NDCC 44-04-07 states that the person in charge of any state institution shall maintain, or cause to be maintained, a complete and current inventory record of all property of sufficient value and permanence as to render such inventory record practical.

Recommendation:

We recommend MaSU improve annual departmental equipment inventories by:

1. Completing the inventories timely,
2. Using properly approved deletion forms to document equipment disposals, and
3. Reconciling the annual departmental equipment inventory values to the general ledger and asset history totals.

Mayville State University Response:

Agree. Beginning in the fiscal year ending June 30, 2010 the annual equipment inventory will be taken for all items with an original cost of \$5,000 or greater prior to year end. The records will be updated after this inventory is taken and disposals will be recorded in the correct year. There will be a new disposal sheet created that will be used for assets being disposed of. Custodians will be made aware of this sheet and will be required to use it when disposing of assets. Further, a journal entry will be made at year end to tie the equipment amount on the general ledger to that on the equipment inventory listing.

Prior Recommendations Not Implemented

Two of three prior recommendations have been implemented. The exception is the following:

Physical Inventory of Property (Finding 07-3)

Recommendation:

We recommend MaSU comply with NDCC 44-04-07 and complete a physical inventory of property each year, with the person's approval thereto attached.

Status:

This recommendation was partially implemented, but improvement was still needed, see Finding 09-1 on page 14.



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

Management Letter (Informal Recommendations)

April 13, 2010

Mr. Steven Bensen
Vice President of Business Affairs
Mayville State University
330 Third Street NE
Mayville, ND 58257

Dear Mr. Bensen:

We have performed an audit of Mayville State University for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of Mayville State University'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 state or 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:

OPERATING LEASES

Informal Recommendation 09-1:

As of June 30, 2009, two of three operating leases and one of three leases where MaSU was the lessor needed improvement as to documentation and/or approval. One lease for building space rental of \$3,600 per year was not supported by a written agreement and another lease for building space rental of \$9,000 per year was not properly approved. In addition, one lease was not properly approved where MaSU was the lessor of building space.

NDUS procedure 804 states that all leases shall be on file in the office of the chief financial officer or designee. In addition, all lease agreements concerning equipment or personal property must be executed by an authorized institution officer.

We recommend all leases be documented in writing and be approved by the proper designated official.

Mayville State University Response:

Agree. Mayville State University now has signed copies of all operating and capital leases on file as of January 2010.

CLEARING ACCOUNT

Informal Recommendation 09-2:

Two checks totaling \$114.22 were written on the clearing account to correct for cash longs/shorts on the business office till fund. In addition, one debit memo for \$1,395 was written on the account to temporarily increase the food service till fund for a music contest. The cash was returned to the clearing account four days later.

NDCC 54-06-08.1 states that institutions may maintain an account for clearing or cashing of checks and making change. Any check written on the account may be used only to transfer funds to the Bank of North Dakota or the State Treasurer.

We recommend MaSU use their local bank account for clearing or cashing of checks and making change.

Mayville State University Response:

Agree. Mayville State University will write checks against the clearing account only as transfers from that account into the Bank of North Dakota account.

INVOICE PAYMENT ERRORS

Informal Recommendation 09-3:

Two of 32 expense test items were not paid correctly. For one of the items, an overpayment of \$230 was made when a credit memo for \$115 was paid, instead of being used to reduce the amount owed; and the other item was overpaid by \$.30 because of a data input error that went undetected.

Good internal controls require that expense transactions be carefully reviewed for accuracy prior to payment.

We recommend that expense approving officials exercise more care and place greater emphasis on payment accuracy to ensure that invoices are paid at the proper amount.

Mayville State University Response:

Agree. Mayville State University will pay greater attention to payment accuracy to ensure that invoices are paid at the proper amount.

USE, TRANSFER AND DISPOSAL OF PUBLIC PROPERTY

Informal Recommendation 09-4:

MaSU adopted SBHE policies, but these policies do not contain a policy prohibiting the disposal, use or transfer of any public property in an unauthorized manner, except for the disposal or transfer of real property and the use of state vehicles. Also, there is no policy that requires written approval and acknowledgement of responsibilities before any equipment can leave campus.

NDCC 12.1-23-07 states, "A person is guilty of misapplication of entrusted property if the person disposes of, uses, or transfers any interest in property that has been entrusted to the person as a fiduciary, or in the person's capacity as a public servant or an officer, director, agent, employee of, or a person controlling a financial institution, in a manner that the person knows is not authorized and that the person knows to involve a risk of loss or detriment to the owner of the property or to the government or other person for whose benefit the property was entrusted."

Two of the objectives of internal control are to: 1) provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and 2) provide reasonable assurance that laws and regulations are followed. Proper policies and procedures aid in meeting both these objectives.

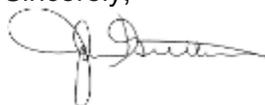
We recommend MaSU create and implement policies and procedures regarding the proper disposal, use, and transfer of public property; as well as requiring written approval and acknowledgment of responsibilities regarding equipment that leaves the campus.

Mayville State University Response:

Agree. Mayville State University will be draft a policy on the use, transfer and disposal of public property. This policy will incorporate written approval and acknowledgement of responsibilities prior to equipment leaving campus.

I encourage you to call me at 239-7285 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



John Grettum, CPA
Auditor Manager, Division of State Audit

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