

VALLEY CITY STATE UNIVERSITY
VALLEY CITY, 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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Transmittal Letter

April 7, 2010

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Members of the North Dakota State Board of Higher Education
Dr. Steven W. Shirley, President, Valley City State University

We are pleased to submit this audit of the Valley City 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 Mary Feltman, CPA. John Grettum, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Shirley 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

Valley City State University (VCSU) has served the state and region for nearly 120 years. Founded in 1890 as a teachers college, VCSU is widely regarded as a long-time leader in teacher education. Over the years, we have also developed innovative programs in business, information technology, health, and science, plus an outstanding portfolio of programs in the liberal arts. More recently, VCSU has established an impressive national reputation for being a leader in implementing technology into our teaching delivery methods. Every VCSU student and faculty member has a laptop computer, and technology is embedded in everything they do.

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 on the fiscal years 2008 and 2009 annual financial reports of the North Dakota University System. The financial statements for Valley City State University were obtained 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?

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?

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.

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 VCSU 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 \$777,869.

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

9. *Identify any significant audit adjustments.*

All of the material adjustments we proposed for Valley City State University were recorded. In fiscal year 2009 a \$366,501 adjustment was recorded to restrict investment in plant funds. In fiscal year 2008 an entry for \$949,102 was recorded to reclass Oil Tax Trust funds.

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 Valley City State University.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of Valley City 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 Valley City 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 Valley City State University and are they in compliance with these laws?
3. Are there areas of Valley City State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Valley City 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.

Valley City 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 years 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 Valley City 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 Valley City State University'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 Valley City State University were primarily supported by state appropriations (40%, excluding capital assets), student tuition and fees (22%) and auxiliary enterprises (13%). This is supplemented by federal, state, and local grants and contracts, gifts, sales and services, and investment income.

Financial Summary

Total assets for fiscal year 2009 were \$15,131,301 compared to \$14,469,684. The increase was mainly in capital assets and was due to the construction of the steam distribution system.

Liabilities remained fairly constant between fiscal years 2009 and 2008. Total liabilities were \$5,877,916 for fiscal year 2009 as compared to \$5,994,377 for fiscal year 2008.

Operating revenues consisted primarily of student tuition and fees, as well as auxiliary enterprises and federal grants and contracts. Nonoperating revenues included state appropriations, federal grants and contracts, and capital grants and gifts. Revenues remained fairly constant between fiscal years 2009 and 2008 except state appropriations and tuition and fees. Appropriations increased \$576,671 in fiscal year 2009 mainly due to timing of drawdowns. Student tuition and fees increased \$473,073 primarily due to an increase in rates and enrollment. Total revenues were \$17,447,582 for the year ended June 30, 2009 as compared to \$16,543,577 for the year ended June 30, 2008.

Total expenditures for Valley City State University were \$16,670,507 for the year ended June 30, 2009 as compared to \$15,921,263 for the prior year. The increase in total expenditures for the audited period is primarily due to the increase in salaries and wages of \$504,000 (which account for 61% of total expenditures). All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

Valley City State University did not have any significant changes in operations.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

Valley City State University did not have any significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

Statement of Net Assets

	June 30, 2009	June 30, 2008
ASSETS		
Cash & cash equivalents	\$ 3,923,983	\$ 3,751,784
Investments	835,767	988,452
Accounts receivable, net	120,760	140,002
Receivable from component units	31,185	25,459
Due from State General Fund	332,193	251,218
Grants & contracts receivables, net	259,133	217,651
Inventories	149,907	158,153
Notes receivable, net	712,460	732,254
Other assets	50,447	39,796
Unamortized bond discount	61,659	64,315
Capital assets, net	8,653,807	8,100,600
Total assets	\$ 15,131,301	\$ 14,469,684
LIABILITIES		
Accounts payable	\$ 582,297	\$ 583,388
Accrued payroll	753,004	725,795
Deferred revenue	264,570	218,792
Deposits	110,767	79,254
Other liabilities	104,069	120,310
Due to others	4,063,209	4,266,838
Total liabilities	\$ 5,877,916	\$ 5,994,377
NET ASSETS		
Invested in capital assets, net of related debt	\$ 5,044,850	\$ 4,272,481
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	451,711	446,202
Expendable:		
Scholarships and fellowships	63,193	150,813
Institutional	309,378	499,866
Loans	734,180	751,790
Debt service	413,278	447,357
Other		36,450
Unrestricted	2,236,795	1,871,348
Total net assets	\$ 9,253,385	\$ 8,476,307

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
OPERATING REVENUES		
Student tuition and fees	\$ 3,935,945	\$ 3,462,872
Federal grants and contracts	656,668	1,413,143
State and local grants and contracts	65,004	95,809
Nongovernmental grants and contracts	38,385	50,901
Sales and services of educational departments	222,823	250,585
Auxiliary enterprises	2,246,691	2,197,226
Other	11,781	15,268
Total operating revenues	<u>\$ 7,177,297</u>	<u>\$ 7,485,804</u>
OPERATING EXPENSES		
Salaries and wages	\$ 10,149,203	\$ 9,645,261
Operating expenses	4,150,088	4,110,526
Data processing	337,304	294,780
Depreciation	692,292	764,930
Scholarships and fellowships	576,554	466,798
Cost of sales and services	553,350	400,009
Total operating expenses	<u>\$ 16,458,791</u>	<u>\$ 15,682,304</u>
Operating loss	<u>\$ (9,281,494)</u>	<u>\$ (8,196,500)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 7,121,904	\$ 6,545,233
Federal grants and contracts	835,960	
Gifts	817,977	795,297
Investments income	86,820	156,082
Interest on capital asset-related debt	(211,716)	(222,652)
Gain on capital assets	6,100	300
Insurance proceeds	9,915	
Other nonoperating revenues	8	588
Net nonoperating revenues	<u>\$ 8,666,968</u>	<u>\$ 7,274,848</u>
(Loss) before capital grants, gifts, and transfers	<u>\$ (614,526)</u>	<u>\$ (921,652)</u>
State appropriations-capital assets	\$ 397,638	\$ 611,171
Capital grants and gifts	993,963	949,102
Total other revenue	<u>\$ 1,391,601</u>	<u>\$ 1,560,273</u>
Increase in net assets	<u>\$ 777,075</u>	<u>\$ 638,621</u>
NET ASSETS		
Net Assets-beginning of the year	8,476,309	7,837,686
Net Assets-end of the year	<u>\$ 9,253,384</u>	<u>\$ 8,476,307</u>

Statement of Cash Flows

	June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 3,972,247	\$ 3,574,978
Grants and contracts	759,315	1,556,850
Payments to suppliers	(4,766,725)	(4,910,869)
Payments to employees	(10,105,530)	(9,565,799)
Payments for scholarships and fellowships	(576,554)	(466,798)
Loans issued to students	(107,306)	(143,065)
Collection of loans to students	88,875	105,481
Auxiliary enterprise charges	2,252,243	2,200,373
Sales and service of educational departments	217,766	279,825
Cash paid on deposits	(1,030)	(3,591)
Other (payments) receipts	(15,100)	8,896
Net cash used by operating activities	\$ (8,281,799)	\$ (7,363,719)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 7,056,122	\$ 6,294,015
Grants and gifts received for other than capital purposes	1,613,198	795,297
Agency fund cash increase (decrease)	46,392	(13,831)
Other nonoperating (expenses)		(26,127)
Net cash flows provided by noncapital financing activities	\$ 8,715,712	\$ 7,049,354
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 382,445	\$ 1,565,304
Capital grants and gifts received	930,298	-
Proceeds from sale of capital assets	6,100	
Purchases of capital assets	(1,401,172)	(1,243,685)
Insurance proceeds	9,915	-
Principal paid on capital debt and lease	(221,817)	(215,884)
Interest paid on capital debt and lease	(211,716)	(222,652)
Net cash used by capital and related financing activities	\$ (505,947)	\$ (116,917)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 426,338	\$ 339,016
Interest on investments	91,548	193,404
Purchase of investments	(273,653)	(202,035)
Net cash provided by investing activities	\$ 244,233	\$ 330,385
Net increase (decrease) in cash	172,199	(100,897)
CASH - BEGINNING OF YEAR	3,751,784	3,852,681
CASH - END OF YEAR	\$ 3,923,983	\$ 3,751,784

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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	\$ (9,281,494)	\$ (8,196,502)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	692,292	764,930
Other nonoperating expense	(16,230)	
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	1,483	(4,876)
Grant & contract receivables	(743)	(3,003)
Inventories	8,246	4,934
Notes receivable	19,795	(17,972)
Other assets	(7,996)	(4,297)
Accounts payable and accrued liabilities adjusted for interest payable	214,426	(139,326)
Accrued payroll	25,486	50,629
Compensated absences	18,188	28,833
Deferred revenue	45,778	156,522
Deposits	(1,030)	(3,591)
Net cash used by operating activities	<u>\$ (8,281,799)</u>	<u>\$ (7,363,719)</u>

**SUPPLEMENTAL DISCLOSURE ON NONCASH
TRANSACTIONS**

Assets acquired through special assessment		\$ 5,084
Gifts of capital assets	<u>\$ 63,665</u>	<u>-</u>
Total non-cash transactions	<u>\$ 63,665</u>	<u>\$ 5,084</u>

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenses by line item	Original		Adjusted		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating expenses	\$ 13,350,137	\$ 317,000	\$ 13,667,137	\$ 13,667,137	
Capital assets	2,996,235	320,690	3,316,925	2,872,717	\$ 444,208
Totals	\$ 16,346,372	\$ 637,690	\$ 16,984,062	\$ 16,539,854	\$ 444,208
Expenses by source					
General fund	\$ 14,146,372	\$ 637,690	\$ 14,784,062	\$ 14,434,182	\$ 349,880
Special fund	2,200,000		2,200,000	2,105,672	94,328
Totals	\$ 16,346,372	\$ 637,690	\$ 16,984,062	\$ 16,539,854	\$ 444,208

Appropriation Adjustments:

Operating expenses

The \$317,000 is an increase in spending authority pursuant to 2009 SB2003, section 40.

Capital assets

The \$320,690 is comprised of a \$49,318 transfer from the NDUS contingency fund, \$276,569 Emergency Commission request approved for increased spending authority from 2007/2009 state contingency funds less a \$5,197 decrease per a prior year adjustment recommended by the North Dakota University System.

Capital assets carryover

Even though not shown above, this line item included an OMB adjustment for \$10,377 from the prior biennium for unspent general funds. However, this amount was reversed per a year-end adjustment recommended by the North Dakota University System.

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of Valley City 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 is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested Valley City 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 \$4,109,515, or so much of the sum as may be necessary, from the permanent oil tax trust fund is used as follows: for Steamline projects at the State College of Science, Valley City State University, and Minot State University – Bottineau for the biennium beginning July 1, 2007, and ending June 30, 2009 (2007 HB 1003, chapter 3, section 10).
- 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

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