

DAKOTA COLLEGE
AT BOTTINEAU
BOTTINEAU, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

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
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

January 25, 2016

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
State Board of Higher Education
Dr. Jerry Migler, Campus Dean

We are pleased to submit this audit of Dakota College at Bottineau for the biennium ended June 30, 2015. 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. Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Dr. Migler 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

A referendum in 1894 stated that a school of forestry should be located in Bottineau, North Dakota, to provide, in addition to forestry, comprehensive junior college curricula. Additional one and two-year programs were continually developed, expanding the educational base. The North Dakota Century Code identified the role of Dakota College at Bottineau as offering programs in agriculture, forestry, and horticulture. This, in turn, encouraged the institution to specialize and expand upon its offerings in the natural resources.

The relationship between the School of Forestry and North Dakota State University was first established in 1968 when the Board of Higher Education approved the "administrative attachment" of the two institutions. The School of Forestry became known as North Dakota State University-Bottineau Branch and Institute of Forestry at that time. In 1987, the name was again modified to North Dakota State University-Bottineau.

In April of 1996, the North Dakota State Board of Higher Education affiliated the college with Minot State University. The name of the school was changed to Minot State University-Bottineau Campus at that time. In August 2009, while still maintaining the affiliation with Minot State University, the name was again changed to Dakota College at Bottineau.

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 responses are noted below.

Responses to LAFRC Audit Questions

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

The financial statements for Dakota College at Bottineau were included in the annual financial report of the North Dakota University System; an unmodified 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?

No, internal controls surrounding expenditures was not adequate (page 12).

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, all recommendations from the prior audit were 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 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 2015, Dakota College at Bottineau changed accounting policies related to pensions by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions*. There were no management conflicts of interest or significant unusual transactions noted.

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 Dakota College at Bottineau include useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the estimated useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

Dakota College at Bottineau had no significant audit adjustments recorded during the fiscal year 2014 and 2015 audits of the North Dakota University System.

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 Campus Solutions are high-risk information technology systems critical to Dakota College at Bottineau. 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 Dakota College at Bottineau for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of Dakota College at Bottineau is for the biennium ended June 30, 2015. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Dakota College at Bottineau's sole location is its Bottineau 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 2015 and 2014 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.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Dakota College at Bottineau'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 in a condensed form to present Dakota College at Bottineau's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. Also, the related note disclosures have not been included in this report. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2015, operations of Dakota College at Bottineau were primarily supported by appropriations from the state's general fund. This was supplemented by student tuition and fees and auxiliary enterprises.

Financial Summary

Total assets increased \$1.1 million primarily due to capital assets and grants and contracts receivable. The increase in capital assets include additions to Thatcher hall (\$384,000), Ag building (\$109,000), and the Entrepreneurial Center for Horticulture (\$326,000). The increase in grants and contracts receivable was primarily due to a state agency receivable from Career and Technical Education (\$260,000).

The increase in total liabilities was due to the implementation of GASB 68, which recognizes pension liabilities and expense and deferred outflows and inflows of resources. Dakota College at Bottineau recorded a \$524,000 pension liability for fiscal year 2015.

Total revenues increased \$1.7 million in fiscal year 2015 primarily due to the timing of state appropriations for capital assets for the campus backup generator, Thatcher Hall, and deferred maintenance projects.

Total expenses for Dakota College at Bottineau were \$9,443,358 for the year ended June 30, 2015, as compared to \$9,312,943 for the prior year. All expenses remained fairly constant.

Analysis of Significant Changes in Operations

There were no significant changes in operations.

Analysis of Significant Variances - Budgeted and Actual Expenditures

There were no significant variances between budget and actual expenditures.

Financial Statements

Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
ASSETS		
Cash & cash equivalents	\$ 788,543	\$ 1,037,772
Accounts receivable, net	326,654	354,906
Due from state general fund	25,063	
Due from other NDUS institutions	1,616	
Grants and contracts receivable, net	598,565	306,913
Inventories	161,604	161,604
Notes receivable, net	175,625	195,431
Other assets	14,512	15,612
Capital assets, net	7,340,087	6,244,825
Total Assets	<u>\$ 9,432,269</u>	<u>\$ 8,317,063</u>
Deferred outflows of resources	\$ 118,871	
LIABILITIES		
Accounts payable	\$ (153,409)	\$ 96,221
Accrued payroll	257,840	249,782
Deferred revenue	38,894	38,940
Deposits	301,877	276,543
Pension liability	524,153	
Due to others	215,864	221,794
Total Liabilities	<u>\$ 1,185,219</u>	<u>\$ 883,280</u>
Deferred inflows of resources	\$ 102,317	
NET POSITION		
Invested in capital assets	\$ 7,330,700	\$ 5,526,167
Restricted for:		
Expendable:		
Scholarships and fellowships	16,510	12,925
Institutional	72,186	208,185
Loans	249,535	250,556
Debt service	5,251	2,664
Unrestricted	589,422	1,433,286
Total Net Position	<u>\$ 8,263,604</u>	<u>\$ 7,433,783</u>

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2015	June 30, 2014
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 3,915,492	\$ 3,945,846
Student tuition and fees	1,787,195	1,313,107
Auxiliary enterprises	1,626,859	1,478,461
State appropriations-capital assets	1,346,435	359,486
Federal grants and contracts	1,364,113	1,331,952
Gifts	296,748	285,631
State and local grants and contracts	254,327	235,609
Sales and services of educational departments	195,245	123,919
Nongovernmental grants and contracts	45,138	2,500
Other	13,707	6,673
Endowment investment income	796	13,385
Other non operating revenue	317	2,935
Total revenues and other additions	\$ 10,846,372	\$ 9,099,504
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 5,849,212	\$ 5,618,973
Operating expenses	2,576,766	2,359,260
Data processing	115,821	144,523
Depreciation	362,578	329,808
Scholarships and fellowships	299,691	442,988
Cost of sales and services	234,153	412,311
Interest on capital asset-related debt	4,661	2,108
Gain on disposal of capital assets	476	2,972
Total expenses and other deductions	\$ 9,443,358	\$ 9,312,943
Revenues over (under) expenses	\$ 1,403,014	\$ (213,439)
NET POSITION		
Net position - beginning of year, as restated	\$ 6,860,590	\$ 7,647,222
Net position - end of year	\$ 8,263,604	\$ 7,433,783

Statement of Cash Flows

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 1,787,155	\$ 1,285,370
Grants and contracts	581,262	646,999
Payments to suppliers	(3,245,311)	(2,995,432)
Payments to employees	(6,015,384)	(5,628,559)
Payments for scholarships and fellowships	(299,691)	(442,988)
Loans issued to students	(44,914)	(41,858)
Collection of loans to students	63,217	46,630
Auxiliary enterprise charges	1,618,850	1,456,283
Sales and service of educational departments	263,541	71,413
Cash received (paid) on deposits	(118,386)	425,478
Other receipts	15,125	33,613
Net cash used by operating activities	<u>\$ (5,394,536)</u>	<u>\$ (5,143,051)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 3,915,492	\$ 3,945,846
Grants and gifts received for other than capital purposes	1,087,411	1,388,484
Agency fund cash increase	273,477	(85,045)
Net cash flows provided by noncapital financing activities	<u>\$ 5,276,380</u>	<u>\$ 5,249,285</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 1,321,372	\$ 359,486
Purchases of capital assets	(1,434,728)	(601,202)
Principal paid on capital debt and lease	(13,852)	(25,399)
Interest paid on capital debt and lease	(4,661)	(2,108)
Net cash used by capital and related financing activities	<u>\$ (131,869)</u>	<u>\$ (269,223)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	\$ 796	\$ 13,448
Net cash provided by investing activities	<u>\$ 796</u>	<u>\$ 13,448</u>
Net decrease in cash	\$ (249,229)	\$ (149,541)
Cash-Beginning of Year	\$ 1,037,772	\$ 1,187,313
Cash-End of Year	<u>\$ 788,543</u>	<u>\$ 1,037,772</u>

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	June 30, 2015	June 30, 2014
Operating loss	\$ (4,942,300)	\$ (5,918,494)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	362,578	329,808
Other nonoperating revenues	317	3,040
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	14,859	(49,138)
Grant & contract receivables	(291,652)	179,791
Inventories		6,958
Notes receivable	19,806	9,528
Other assets	1,100	23,900
Accounts payable and accrued liabilities adjusted for interest payable	(274,639)	(136,337)
Pension liability	36,282	
Net change in deferred outflows	(101,877)	
Accrued payroll	(108,500)	40,403
Compensated absences	7,922	(49,989)
Deferred revenue	(46)	(8,000)
Deposits	(118,386)	425,478
Net cash used by operating activities	\$ (5,394,536)	\$ (5,143,052)

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 7,920,543	\$ 340,795	\$ 8,261,338	\$ 7,861,338	\$ 400,000
Capital Assets	8,860,116	(7,107,568)	1,752,548	1,663,874	88,674
Capital Assets-Carryover		57,277	57,277	57,277	
Capital Assets-Off System					
Gross hall updates		732,460	732,460		732,460
Mead hall updates		1,171,586	1,171,586		1,171,586
Milligan hall updates		896,743	896,743		896,743
Old Main building reno		4,800,000	4,800,000		4,800,000
Capital Project Off System - Carryover					
Entrepreneurial Center		455,679	455,679	451,269	4,410
Totals	\$16,780,659	\$ 1,346,972	\$18,127,631	\$10,033,758	\$ 8,093,873
Expenses by source					
General fund	\$ 9,179,870	\$ 891,293	\$10,071,163	\$ 9,582,489	\$ 488,674
Special fund	7,600,789	455,679	8,056,468	451,269	7,605,199
Totals	\$16,780,659	\$ 1,346,972	\$18,127,631	\$10,033,758	\$ 8,093,873

Appropriation Adjustments:

Operating Expenses

This adjustment includes:

- \$57,705 transfer to Capital Assets pursuant to 2013 SB 2003, section 35;
- \$1,500 decrease by OMB for a posting error; and
- \$400,000 transfer from the NDUS for the performance funding pool, pursuant to 2015, HB 103, section 33. This was an emergency measure.

Capital Assets

This adjustment includes:

- \$7,600,789 transfer to Capital Assets Off System; funding for these projects will not be received from the state but from other sources, and the expenses for these projects are reported separately (Off System) to OMB;
- \$281,933 transfer from the NDUS for deferred maintenance allocation, pursuant to 2013 SB 2003, section 21;
- \$1,500 increase by OMB for a posting error;
- \$57,705 transfer from Operating Expense pursuant to 2013 SB 2003, section 35;
- \$52,083 transfer from the NDUS for the capital projects contingency pool. This funding was designated for the campus backup generator (\$50,818) and software upgrades (\$1,265);
- \$100,000 transfer from the NDUS for the performance funding pool pursuant to 2015 HB 1003, section 33. This was an emergency measure.

Capital Assets Carryover

This was the prior biennium's unspent general funds carried over pursuant to NDCC 54-44.1-11. This funding was designated for major repairs.

Capital Assets Off System

The \$7,600,789 transfer from capital assets was appropriated in 2013 SB 2003 for the following projects:

- Gross hall updates \$732,460
- Mead hall updates \$1,171,586
- Milligan hall updates \$896,743
- Old Main building renovation \$4,800,000

Capital Off System Carryover

This adjustment was for the prior biennium unspent special funds, carryover pursuant to NDCC 54-44.1-11. These funds were designated for the Entrepreneurial Center for Horticulture.

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of Dakota College at Bottineau's internal control as being the highest risk:

- 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.
- Controls surrounding capital construction and improvements.

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 that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to the management of Dakota College at Bottineau in a management letter dated January 25, 2016.

Lack of Controls Surrounding Expenditures (Finding 15-1)

Condition:

Dakota College at Bottineau has weak controls in place surrounding expenditures. The following was noted:

- Student finance expenditures were lacking proper approval (45%);
- Direct general ledger transactions (ONL's) were lacking proper approval (90%);
- No support was found for ONL's (17%);
- Refunds were lacking proper approval (60%); and
- Travel vouchers did not have departmental approval (20%), incorrect amounts reimbursed (30%), and improper coding (10%).

Criteria:

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Cause:

Dakota College at Bottineau has experienced turnover during our audit period and has not reviewed and revised its internal controls to eliminate or mitigate its internal control risk.

Effect or Potential Effect:

Dakota College at Bottineau is susceptible to an increased risk of error, theft, or fraud occurring and going undetected or not being caught in a timely manner.

Recommendation:

We recommend Dakota College at Bottineau implement controls surrounding expenditures to ensure there is:

- A standardized approval process for expenditures, refunds, and ONL's;
- Adequate supporting documentation maintained to ensure a complete audit trail;
- Proper reimbursement of travel vouchers according to NDCC; and
- Proper coding of expenditures.

Dakota College at Bottineau Response:

Dakota College agrees with the finding and with the help of a consultant we have changed our process to ensure we have a paper trail with proper vouchers, coding and approval.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, we identified and tested Dakota College at Bottineau's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- North Dakota University System reported to the appropriations committees of the sixty-third legislative assembly on the use of one-time funding for the biennium ending June 30, 2015 (2013 SB 2003, chapter 34, section 2).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Gifts, grants, and scholarship expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC 1-08-02, 15-10-12).
- Fixed asset requirements were followed including surplus property, record keeping, and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 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 and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 07, 09, 10, 13, 18, 21, 25, 54-44.7)
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- 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 requires 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to the management of Dakota College at Bottineau in a management letter dated January 25, 2016.

Operations

In our audit for the biennium ended June 30, 2015, we identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding capital improvement projects greater than \$250,000:

- Are capital construction and improvement contracts authorized and awarded in compliance with applicable rules and regulations?
- Are project expenses within the approved amounts, and are revisions properly supported and approved?
- Are payments to the contractor properly approved and in accordance with the contract?
- Are construction in progress and capital assets properly reported and managed by qualified personnel?

We concluded the operational objectives for capital improvement projects greater than \$250,000 was operating efficiently and effectively. However, we noted an insignificant matter involving operations that we have reported to management of Dakota College at Bottineau in a management letter dated January 25, 2016.

Management Letter (Informal Recommendations)

January 25, 2016

Laura Pfeifer
Director of Business Affairs
Dakota College at Bottineau
105 Simrall Blvd.
Bottineau, ND 58318

Dear Ms. Pfeifer:

We have performed an audit of Dakota College at Bottineau for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of Dakota College at Bottineau'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.

LACK OF CONTROLS SURROUNDING PURCHASE CARD EXPENDITURES

Condition:

Dakota College at Bottineau has weak controls in place surrounding purchase card expenditures. The following was noted in our test of 32 items:

- 19% of the individual purchase card statements could not be found;
- 66% of the receipts were not reconciled to the individual statement;
- 38% did not have a master/agency-wide statement;
- 47% did not have a reconciliation between the individual and the master/agency-wide statements; and
- A roster was not attached for athletic team meals to show who was in attendance.

Criteria:

ND OMB's Purchasing Card General Policy and User's Manual:

- Maintain accurate records for auditing.
- Verify totals on cardholder statements, monthly cardholder/company statement report, PeopleSoft query, and your screen print from the Payments Tab on the voucher in PeopleSoft.

The NDUS Human Resource Policy Manual, Section 31, states: Employees who are authorized to travel at institutional expense are required to submit a detailed record of travel expenses on a travel reimbursement voucher. However, coaches and other authorized employees may detail and document athletic team and other organized group travel expenses, including expenses of coaches, trainers, and other employees, on a team or group travel expense report. Employees are not required to submit separate individual travel reimbursement vouchers for expenses detailed and documented on a team or other organized group report.

And, NDCC 44-08-04 (1), in part, states: If a higher education athletic team or other organized institution organization group meal is attended at the request of and on behalf of the institution, actual expenses for the entire group, including coaches, trainers, and other employees, may be paid or submitted for payment on a team or group travel expense report.

Cause:

Adequate supporting documentation for purchase card transactions is not being maintained for accountability and for compliance with the NDUS Human resource Policy Manual, Section 31, NDCC 44-08-04, and ND OMB's Purchasing Card Manual.

Effect or Potential Effect:

The risk of misstatement, fraud, and noncompliance is increased with a lack of proper controls to reduce risk of asset loss and compliance with laws and regulations, and Dakota College at Bottineau exposes itself to risk of loss, potential liabilities, and damage to the College's reputation, whether due to error, theft, or fraud.

Informal Recommendation 15-1:

We recommend that management design and implement controls to reasonably ensure:

- Receipts are being reconciled to the purchase card statement;
- Maintain adequate audit trail to ensure all support and statements are properly retained;
- Individual purchasing card statements are being reconciled and signed off to the master purchasing card statement; and
- Team roster and supporting documentation is attached to team travel expenses.

Dakota College at Bottineau's Response:

Dakota College agrees with the finding and with the help of a consultant we have changed our process. Each statement is reconciled to the receipts, the master purchasing card statement is reconciled to the individual statement and signed off by authorized personal. Team rosters have been requested and are attached to payment vouchers.

OVERSIGHT ON CONSTRUCTION IMPROVEMENTS

Condition:

We noted the contract amount for the Campus Generator, a capital improvement project, was increased with an unapproved change order totaling \$2,249.

Criteria:

NDUS Procedure 902.5, part 10.2; states in part, a change order shall be issued for any change in the work, adjustment to the contract sum, or in the contract time. The budget for the project must have sufficient funds to support any changes in contract amounts. Change orders are not to be utilized as a procedure for substantially increasing the scope of the project. The A/E shall prepare all change orders and submit three copies to the institutional representative for review. The institutional representative shall obtain approval of the change order. Change orders must be signed by 1) the contractor; 2) the A/E; and 3) the institutional representative.

Cause:

There was turnover with the business office personnel during this time period.

Effect or Potential Effect:

Inadequate controls surrounding the monitoring of capital projects can unnecessarily increase the cost of the project, misstate the financial statements, and increase the risk of fraud, waste, and abuse.

Informal Recommendation 15-2:

We recommend Dakota College at Bottineau monitor change orders to ensure that all change orders are documented and signed by all the appropriate personnel before allowing the contract amount to be adjusted.

Dakota College at Bottineau's Response:

Dakota College agrees with the findings and will monitor future capital project more closely to ensure that all change orders are reviewed and signed off by authorized personal.

INADEQUATE MONITORING OF ACCESS ROLES

Condition:

We were unsuccessful in obtaining the documented results of Dakota College at Bottineau's monitoring activities for access roles performed in fiscal year 2015, for the Financial, Human Capital Management, and Campus Solutions Environments of PeopleSoft.

Criteria:

Proper internal controls should provide reasonable assurance that operations are effective and efficient and financial reporting is reliable. An integral part of operational effectiveness and efficiency as well as ensuring the reliability of financial information is requiring that proper restrictions on the different levels of access are continuously monitored to ensure the integrity of the data. Additionally, proper internal controls also provide reasonable assurance of compliance with applicable laws and regulations. NDUS Procedure 1912.1 identifies risks and requires coordinators to review procedures, keep current on potential threats, and conduct regular risk assessment and an annual evaluation to ensure ongoing compliance. System access and security is an identified risk in NDUS Procedure 1912.1.

Cause:

No documented review of Financial, Human Capital Management, and Campus Solution Environments of PeopleSoft could be produced when requested.

Effect or Potential Effect:

There is noncompliance with NDUS procedure 1912.1. Lack of monitoring an individual's access roles to PeopleSoft increases the risk of unauthorized access which increases the risk of financial statement misstatement and fraud. It also increases the risk that too much control rests in one individual's hands knowingly or unknowingly leading to internal control issues

surrounding segregation of duties. If adequate monitoring of access rights does not exist, the following could occur:

- Misappropriation of assets;
- Misstated financial statements;
- Incomplete and inaccurate financial documentation (i.e. errors or irregularities);
- Improper use of funds or modification of data could go undetected.

Informal Recommendation 15-3:

We recommend Dakota College at Bottineau continuously monitor the access roles to the Financial, Human Capital Management, and Campus Solutions Environments of PeopleSoft to ensure:

- the proper level of access is granted and/or removed in a timely manner to warrant proper segregation of duties; and
- that one of these continuous monitoring of access roles be documented at least yearly.

Dakota College at Bottineau's Response:

Dakota College agrees with the finding and will monitor access roles yearly.

NONCOMPLIANCE WITH THE UNCLAIMED PROPERTY ACT

Condition:

We noted Dakota College at Bottineau did not comply with the Unclaimed Property Act for fiscal year 2015 by not submitting all outstanding checks that are dated two years old or prior as of June 30, 2015 to Unclaimed Property.

Criteria:

North Dakota Century Code (NDCC) 47-30.1-02.1 Uncashed checks - paragraph 1 states "...any checks held, issued, or owing in the ordinary course of the holder's business which remain uncashed by the owner for more than two years after becoming payable are presumed abandoned." NDCC 47-30.1-17 Report and delivery of abandoned property - paragraph 4 states "The report and property must be delivered by November first of each year for property deemed abandoned as of the preceding June thirtieth."

Cause:

There is a lack of compliance and familiarity with the Unclaimed Property Act.

Effect or Potential Effect:

Dakota College at Bottineau is not in compliance with NDCC 47-30.1-02.1 and NDCC 47-30.1-17.

Informal Recommendation 15-4:

We recommend Dakota College at Bottineau submit to unclaimed property all outstanding checks that have been uncashed or shown no interest for two years or more as of the fiscal year end to be in compliance with the Unclaimed Property Act.

Dakota College at Bottineau's Response:

Dakota College agrees with the finding and will submit outstanding items as stated in the instructions by November 1st of each year.

I encourage you to call me at 701-239-7296 or an audit manager at 701-239-7291 if you have any questions about the implementation of recommendations included in this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Cory Wigdahl', with a long horizontal flourish extending to the right.

Cory Wigdahl, CFE
Auditor in-charge

You may obtain audit reports on the internet at:

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