

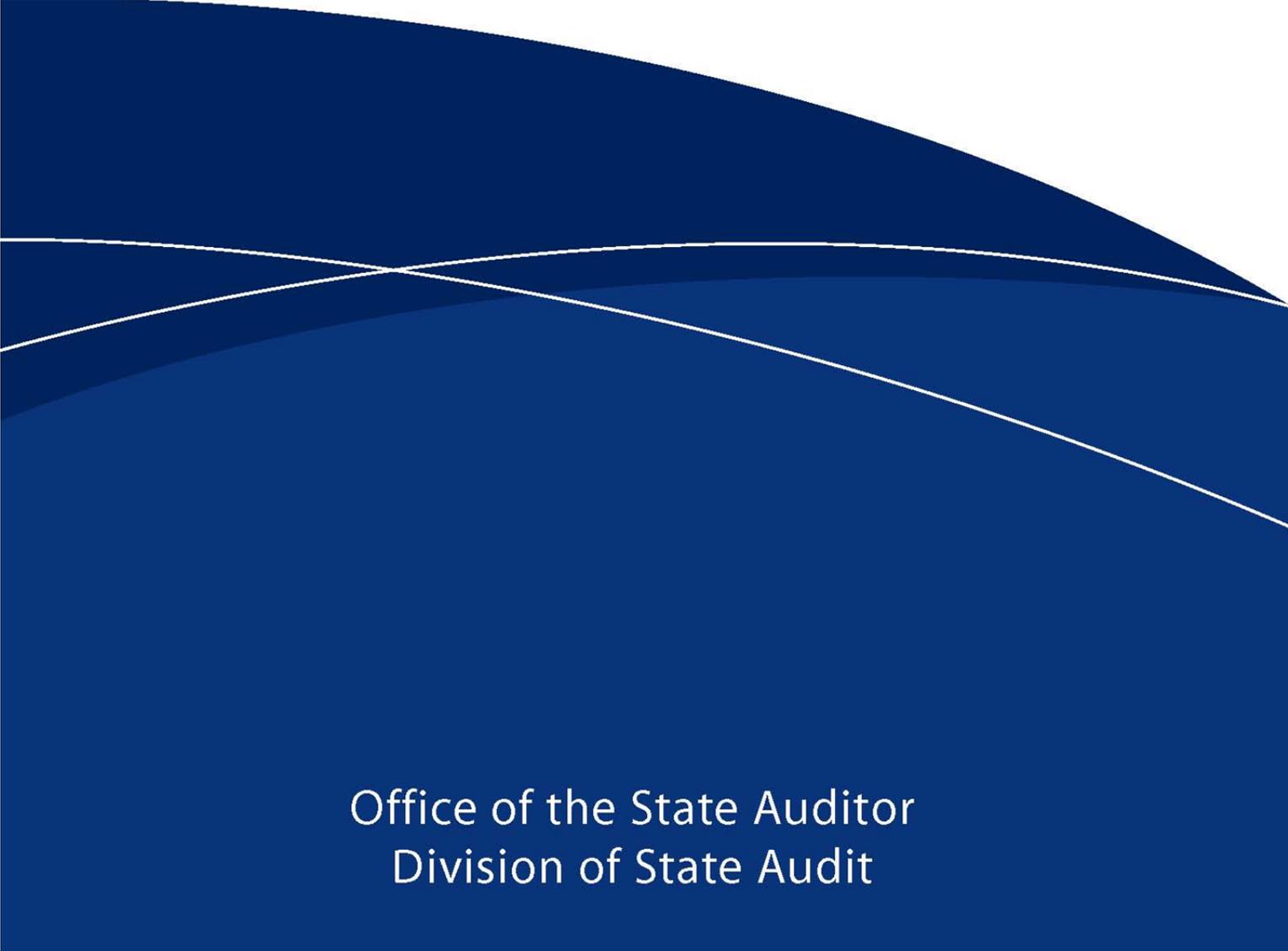
Bismarck State College

Bismarck, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

January 11, 2012

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. Larry C. Skogen, President, Bismarck State College

We are pleased to submit this audit of Bismarck State College for the biennium ended June 30, 2011. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was 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 Skogen 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

Since its founding in 1939, Bismarck State College has evolved from a locally based junior college to a state college whose mission fits within system and core missions of institutions governed by the North Dakota State Board of Higher Education. The institution emphasizes the necessity of remaining open to evolutionary change to best fulfill present and future demands, which will be placed upon it.

The purpose of Bismarck State College is to provide an educational environment of the highest caliber at a reasonable cost; to maintain a warm and wholesome social atmosphere; to provide opportunities for advanced knowledge, improved skills, high ideals and ethical standards; and to make learning an enjoyable, rewarding experience.

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?

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

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

There were indications of lack of efficiency in financial operations and management of the Bismarck State College including "Controls for Non-Cash Credit Adjustments" (page 15), "Controls for Tuition Waivers" (page 16), and "Controls for Student Residency Determination" (page 17). See referenced pages for additional detail and institutional response.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

Bismarck State College has implemented the recommendation 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.*

As of June 30, 2011, Bismarck State College began reporting the receipt and disbursement of student financial aid on the Statement of Cash Flows as Direct Lending Receipts and Direct Lending Disbursements. Prior to June 30, 2011 these amounts were not included on the Statement of Cash Flows. Further, there were no management conflicts of interest noted, no contingent liabilities identified, or any 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 Bismarck State College include the useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. Identify any management consultations with other accountants about auditing and accounting matters.

None.

14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to Bismarck State College. 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 Bismarck State College for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of Bismarck State College is for the biennium ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2011 and 2010 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial information in the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Bismarck State College's processes and procedures.

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

Discussion and Analysis

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

For the biennium June 30, 2011, operations of Bismarck State College were primarily supported by student tuition and fees (27%); appropriations from the state's general fund (27%); federal grants and contracts (17%); auxiliary enterprises (9%); and capital grants and gifts (6%). This is supplemented by sales and services, gifts, state and local grants and contracts, investment income, and insurance proceeds.

Financial Summary

Total net assets increased by \$5.0 million (17%) over the two-year period ending June 30, 2011. The increase is attributable to the Tech Center renovation, equipment purchases, and remodeling of Mystic Hall and National Energy Center of Excellence.

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 2011 and 2010, except federal grants and contracts, state appropriations, and sales and services of educational departments. Federal grants and contracts increased \$753,480, mainly due to an increase in Title IV Financial Aid. State appropriations increased \$3,157,818, primarily due to the funding received for the Technical Center Renovation. Sales and services of educational departments increased by \$777,381, primarily due to \$409,500 of local matching funds raised for Technical Center Renovation, and \$256,721 additional revenues earned by Continuing Education, Training, and Innovation program. Total revenues were \$47,458,043 for the year ended June 30, 2011, as compared to \$41,286,966 for the year ended June 30, 2010.

Total expenditures for Bismarck State College were \$44,365,566 for the year ended June 30, 2011, as compared to \$39,360,771 for the prior year. The increase in total expenditures for the audited period is primarily due to the increase in salaries and wages of \$1.7 million (which account for 56% of total expenditures) and operating expenses of \$1.9 million (which account for 25% of total expenditures). Also, BSC had other nonoperating expenses in the amount of \$676,985 for the year ended June 30, 2011 as compared to \$0 in the prior year. Significant improvements were made to land on or around BSC's campus. Therefore, these expenses were due to special assessments for city owned streets, sidewalks, sewers, street lighting, etc. All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

Bismarck State College added the following new programs:

- Renewable Generation Technology
- Electronics Technology
- Petroleum Production Technology
- Petroleum Engineering Technology

- Sustainable Construction Technology
- Water and Wastewater Technology – currently in approval process

Bismarck State College added the following new distance sites:

- Dakota Nursing Practical Nursing – Hazen and Harvey

Bismarck State College terminated the following programs:

- Para-education
- Hospitality Management
- Basic Hotel Management
- Basic Restaurant Management

Bismarck State College terminated the following distance sites:

- (EMT) Paramedic Program – FM Ambulance – Fargo, ND
- Welding – Halliday, ND
- Carpentry – Williston, ND
- Welding – Williston, ND

Bismarck State College reactivated the following program:

- Supply Chain Management

Analysis of Significant Variances - Budgeted and Actual Expenditures

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

Financial Statements

Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS		
Cash and cash equivalents	\$ 3,018,697	\$ 5,239,201
Investments	3,966,000	2,266,000
Accounts receivable, net	787,797	688,990
Receivable from component units	125,268	85,120
Due from state General Fund	1,206,849	36,053
Grants and contracts receivables, net	1,790,826	1,311,550
Inventories	689,924	696,952
Notes receivable, net	485,829	540,433
Other assets	359,737	694,154
Unamortized bond discount	78,508	82,640
Capital assets, net	34,419,011	31,383,270
Total assets	<u>\$ 46,928,446</u>	<u>\$ 43,024,363</u>
LIABILITIES		
Accounts payable	\$ 1,790,538	\$ 1,217,472
Payable to component unit		45,194
Accrued payroll	1,415,087	1,228,146
Deferred revenue	548,245	642,349
Deposits	271,720	267,371
Other liabilities	18,327	44,670
Due to component units	2,071,138	2,171,176
Due to others	5,935,710	5,622,782
Total liabilities	<u>\$ 12,050,765</u>	<u>\$ 11,239,160</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 27,296,266	\$ 24,436,775
Restricted for:		
Expendable:		
Scholarships and fellowships	77,559	58,835
Institutional	75,674	26,182
Loans	553,298	572,274
Debt service	455,907	456,640
Unrestricted	6,418,977	6,234,497
Total net assets	<u>\$ 34,877,681</u>	<u>\$ 31,785,203</u>

Statement of Revenues and Expenditures and Changes in Net Assets

	June 30, 2011	June 30, 2010
OPERATING REVENUES		
Student tuition and fees	\$ 12,002,729	\$ 12,140,055
Federal grants and contracts	3,042,790	2,289,310
State and local grants and contracts	1,772,610	1,455,503
Nongovernmental grants and contracts	5,081	1,000
Sales and services of educational departments	3,655,332	2,877,951
Auxiliary enterprises	4,178,941	3,913,981
Other	8,172	8,286
Total operating revenues	\$ 24,665,655	\$ 22,686,086
OPERATING EXPENSES		
Salaries and wages	\$ 24,126,465	\$ 22,433,002
Operating expenses	11,310,810	9,398,314
Data processing	966,078	567,552
Depreciation	1,693,958	1,610,983
Scholarships and fellowships	3,176,881	2,884,799
Cost of sales and services	2,067,040	2,068,255
Total operating expenses	\$ 43,341,232	\$ 38,962,905
Operating loss	\$ (18,675,577)	\$ (16,276,819)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 12,633,649	\$ 11,593,768
Federal grants and contracts	5,012,919	4,551,326
Gifts	1,014,268	997,997
Investments income	41,559	49,283
Interest on capital asset-related debt	(347,349)	(372,660)
Loss on capital assets		(25,206)
Insurance proceeds	1,552	4,371
Other nonoperating expenses	(676,985)	
Net nonoperating revenues	\$ 17,679,613	\$ 16,798,879
(Loss) Income before capital grants, gifts and transfers	\$ (995,964)	\$ 522,060
State appropriations-capital assets	\$ 2,685,336	\$ 567,399
Capital grants and gifts	1,403,105	836,736
Total other revenue	\$ 4,088,441	\$ 1,404,135
NET ASSETS		
Net Assets-beginning of the year	\$ 31,785,203	\$ 29,859,008
Net Assets-end of the year	\$ 34,877,680	\$ 31,785,203

Statement of Cash Flows

	<u>June 30, 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	\$ 12,091,541
Grants and contracts	4,341,205
Payments to suppliers	(13,701,356)
Payments to employees	(23,902,342)
Payments for scholarships and fellowships	(3,176,881)
Loans issued to students	(88,300)
Collection of loans to students	115,808
Auxiliary enterprise charges	4,178,214
Sales and service of educational departments	3,455,821
Cash received/(paid) on deposits	955
Other receipts (payments)	331,106
Net cash used by operating activities	<u>\$ (16,354,229)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	\$ 11,556,213
Grants and gifts received for other than capital purposes	6,041,776
Direct lending receipts	12,230,949
Direct lending disbursements	(12,235,945)
Agency fund cash (decrease) increase	(95,949)
Net cash flows provided by noncapital financing activities	<u>\$ 17,497,044</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations	\$ 2,591,976
Capital grants and gifts received	1,351,232
Purchases of capital assets	(4,781,324)
Insurance proceeds	1,552
Principal paid on capital debt and lease	(523,503)
Interest paid on capital debt and lease	(345,090)
Net cash used by capital and related financing activities	<u>\$ (1,705,157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	\$ 2,041,000
Interest on investments	41,838
Purchase of investments	(3,741,000)
Net cash provided by investing activities	<u>\$ (1,658,162)</u>
Net increase (decrease) in cash	<u>(2,220,504)</u>
CASH - BEGINNING OF YEAR	5,239,201
CASH - END OF YEAR	<u>\$ 3,018,697</u>

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

	June 30, 2011	June 30, 2010
Operating loss	\$ (18,675,577)	\$ (16,276,819)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,693,958	1,610,983
Other nonoperating revenues (expenses)	(11,483)	2,905
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(41,062)	39,903
Grant and contract receivables	(479,276)	260,511
Inventories	7,028	(74,305)
Notes receivable	54,604	(19,116)
Other assets	389,902	(284,040)
Accounts payable and accrued liabilities adjusted for interest payable	576,703	(418,820)
Accrued payroll	187,483	113,620
Compensated absences	36,640	95,163
Deferred revenue	(94,104)	39,492
Deposits	955	(41,798)
Net cash used by operating activities	<u>\$ (16,354,229)</u>	<u>\$ (14,952,321)</u>

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital lease	\$ 7,908	
Expenses paid by capital lease/special assessments	700,161	
Gifts of capital assets	39,048	\$ 5,000
Total non-cash transactions	<u>\$ 747,117</u>	<u>\$ 5,000</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 24,204,005	\$ 23,412	\$ 24,227,417	\$ 24,227,417	
Capital Assets	3,652,981	(371,500)	3,281,481	2,917,154	\$ 364,327
Capital Improvements - Off system					
Technical Center		526,138	526,138	475,804	50,334
Deferred Maintenance	340,637		340,637	206,168	134,469
Totals	\$ 28,197,623	\$ 178,050	\$ 28,375,673	\$ 27,826,543	\$ 549,130
Expenses by source					
General Fund	\$ 27,788,123	\$ 61,412	\$ 27,849,535	\$ 27,350,739	\$ 498,796
Special Fund	409,500	116,638	526,138	475,804	50,334
Totals	\$ 28,197,623	\$ 178,050	\$ 28,375,673	\$ 27,826,543	\$ 549,130

Appropriation Adjustments:

Operating Expenses:

The \$23,412 was a transfer from the NDUS for security and emergency preparedness needs pursuant to 2009 Senate Bill 2003, section 19.

Capital Assets:

The \$371,500 decrease is comprised of the following:

- Increase of \$38,000 was from the NDUS for security and emergency preparedness needs pursuant to 2009 Senate Bill 2003, section 19;
- Increase of \$116,638 was approved by the Budget Section 12/8/10 to install a new paint station within the Technical Center.
- Decrease of \$526,138 was a transfer to the Capital Improvement – off system line for the Technical Center. Expenditures for this project will not be abstracted through the state but will be spent off-system.

Capital Improvement – off system:

The increase of \$526,138 was a transfer from the capital asset line for the Technical Center project.

Internal Control

In our audit for the biennium ended June 30, 2011, we identified the following areas of the Bismarck State College's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls related to non-cash credit adjustments.
- Controls related to tuition waivers.
- Controls related to student residency determination.
- 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 identified significant deficiencies in internal control that are addressed in the operations section.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested Bismarck State College'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-second legislative assembly on the use of one-time funding for the biennium beginning July 1, 2009, and ending June 30, 2011 [09 SB2003, chapter 31, section 7].
- 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).
- Surplus Property (54-44-04.6, parts 1, 3, 4 and 5).
- 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).
- Fixed asset requirements including record keeping and lease analysis requirements (NDCC 44-04-07, 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, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Purchasing including bidding (NDCC 44-08-01, 48-01.2, 54-44.4-01, 05, 06, 54-44.7-02, and 54-44.4-02).
- 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 significant 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.

Operations

Our audit of the Bismarck State College identified the following areas of potential improvements to operations, as expressed by our operational objectives:

Non-Cash Credit Adjustments Controls (Finding 11-1)

Condition:

Controls surrounding non-cash credit adjustments and student refunds recorded in the ConnectND Student Financial System are inadequate. Specifically, we noted the following conditions:

- Processing policies and procedures have not been developed and documented.
- Segregation of duties are not properly restricted, allowing individuals with access to cash collections to also post to student accounts and change student addresses.
- Segregation of duties are not properly restricted allowing non-cash adjustments to be initiated, approved, and posted to student accounts by the same individual.
- Review and approval of all non-cash adjustments posted to student accounts is not performed by an individual independent of access to cash and data entry responsibilities.
- Monitoring policies and procedures have not been developed and documented.
- Verification of non-cash credit adjustments posted to student accounts is not performed by an independent individual, on a test basis, to ensure amounts are properly supported and authorized.

Criteria:

According to the 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 performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Cause:

Bismarck State College has not developed policies and procedures for non-cash credits to student accounts.

Effect or Potential Effect:

Bismarck State College lacks assurance regarding the propriety of non-cash credit adjustments recorded to student accounts and erroneous adjustments could be recorded without detection. Furthermore, unauthorized and improper refund payments could be processed without detection. During fiscal year 2010 and 2011, non-cash credit adjustment recorded to student accounts totaled approximately \$660,000.

Operational Improvement 11-1:

We recommend Bismarck State College strengthen controls for non-cash adjustments posted to student accounts to:

- Develop documented processing policies and procedures;
- Segregate duties to ensure non-cash credit adjustments are recorded to student accounts by an individual independent of access to handle cash, change student addresses, and initiate or approve adjustments;
- Ensure review and approval by an independent individual;
- Develop documented monitoring policies and procedures; and,
- Verify amounts posted to student accounts by an independent individual, on a test basis, for proper support and authorization.

Client's Response:

Given the staffing size of some of our departments, it is difficult to have 100% segregation of duties and to find the time to develop policies and procedures and as well as perform verifications. And in many cases, mitigation of the risk as opposed to elimination is our only feasible option. BSC has made an effort to improve controls in non-cash credit adjustments. Non-cash credits are now only posted by two individuals who are not on the frontline. In addition, a query has been developed that indicates who posted each credit, if follow-up review is needed. BSC will review the specific recommendations to determine if changes can be made that will strengthen controls or mitigate the risk. Identified changes will be implemented, where feasible, by June 30.

Tuition Waivers Controls (Finding 11-2)**Condition:**

Bismarck State College grants various tuition waivers, such as waivers for members of the ND National Guard, veteran dependents, cultural diversity, international students, athletics, senior citizens, and tuition remission for BSC employees. Controls over tuition waivers were not comprehensive. Specifically, we noted the following conditions:

- Awarding policies and procedures have not been developed and documented.
- Eligibility and award criteria and selection methods have not been developed and documented.
- Application forms have not been developed for the senior citizen and survivors of emergency personnel waiver types.
- Proof of eligibility is not required and obtained identifying age prior to awarding senior citizen waivers.
- Review and approval procedures are not performed for veteran dependent, survivors of emergency personnel, and senior citizen waiver types by an individual independent of access to post to student accounts.
- Monitoring policies and procedures have not been developed and documented.
- Verification of waiver amounts posted to student accounts is not performed by an independent individual, on a test basis, to ensure amounts are properly supported and authorized.

Criteria:

State law (NDCC 15-10-17 subpart 3) and the State Board of Higher Education policy section 820 authorize universities to set tuition and fees and to waive tuition for a variety of reasons, including:

- Dependent of resident veterans pursuant to NDCC 15-10-18.3;
- Survivors of firefighters, emergency personnel pursuant to NDCC 15-10-18.5; and,
- Qualified members of the National Guard pursuant to NDCC 37-07.1.
- Other partial waivers or waivers of non-resident or resident tuition (SBHE Section 820 subsection 1).

Cause:

Bismarck State College has not developed policies and procedures for awarding and monitoring of tuition waivers.

Effect or Potential Effect:

Possible improper waivers granted to students. Tuition waivers granted for the fall 2009 through summer 2011 totaled approximately \$440,000.

Operational Improvement 11-2:

We recommend Bismarck State College strengthen tuition waiver controls to:

- Develop documented awarding policies and procedures for all awards;
- Develop documented eligibility and award criteria and selection methods for all awards;
- Implement application forms senior citizen and survivors of emergency personnel waiver types;
- Require and obtain proof of eligibility prior to awarding senior citizen waivers awards;
- Ensure review and approval by an independent individual for veteran dependent, survivors of emergency personnel, and senior citizen waiver types;
- Develop documented monitoring policies and procedures for all awards; and,
- Verify amounts posted to student accounts by an independent individual, on a test basis, for proper support and authorization for all awards.

Client's Response:

Given the staffing size of some of our departments, it is difficult to have 100% segregation of duties and to find the time to develop policies and procedures as well as perform verifications. And in many cases, mitigation of the risk as opposed to elimination is our only feasible option. BSC has made an effort to improve controls in tuition waivers by transitioning the posting of all waivers to an individual that does not approve them. In addition, BSC will review the specific recommendations to determine if changes can be made that will strengthen controls or mitigate the risk. Identified changes will be implemented, where feasible, by June 30.

Student Residency Determination Controls (Finding 11-3)**Condition:**

Proper controls were not established over student residency status determinations and subsequent changes to student residency status. Consequently, initial student residency determinations could be inaccurate or unauthorized changes could be recorded without detection. Specifically, we noted the following conditions:

- Policies and procedures have not been developed and documented to include required supporting documentation and periodic assessment of students with in-state residency and out-of state addresses.
- Proof of residency status is not required for older than average students and students that obtained a general equivalency diploma.
- Comparison of high school transcripts to college admission applications for determining residency status is not consistently performed.
- Independent review and approval is not performed for student residency status changes.
- Verification of address information to supporting documents is not performed by an independent individual, on a test basis, to ensure student residency is properly supported and authorized.

Criteria:

Determination of residency for tuition purposes is governed by NDCC 15-10-19.1.

Cause:

Bismarck State College has not developed policies and procedures surrounding student residency status including documentation requirements, approval procedures, and verification methods.

Effect or Potential Effect:

Accurate student residency status determinations are critical because of differences between in-state and out-of-state student tuition rates. For the 2010-2011 academic year, Bismarck State College tuition and fees for a 12 credit semester totaled \$1,662 for ND residents compared to tuition and fees up to \$3,910 for non-residents.

Operational Improvement 11-3:

We recommend Bismarck State College strengthen student residency determination controls to:

- Develop documented policies and procedures for student residency determination and changes;
- Require, obtain, and compare proof of residency status for all students;
- Ensure review and approval of student residency changes by an independent individual;
- Verify student residency status by designating an independent individual to review student residency information, on a test basis, for proper support, and authorization.

Client's Response:

Given the staffing size of some of our departments, it is difficult to have 100% segregation of duties and to find the time to develop policies and procedures as well as perform verifications. And in many cases, mitigation of the risk as opposed to elimination is our only feasible option. BSC, as well as the NDUS, considers the application for admission to be a legal document. As such, we follow NDUS guidelines with respect to residency criteria, based on what is identified in the application. The admissions department has written residency procedures that are based on NDUS guidelines. If a red flag is raised, we do investigate and require follow-up documentation to prove residency. Staffing is an issue and the cost of requiring all students to provide proof of residency is greater than the loss of revenue of an incorrect residency charge. However, BSC will review the specific recommendations identified above to determine if any changes can be made that will strengthen controls or mitigate the risk. Identified changes will be implemented, where feasible, by June 30.

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