

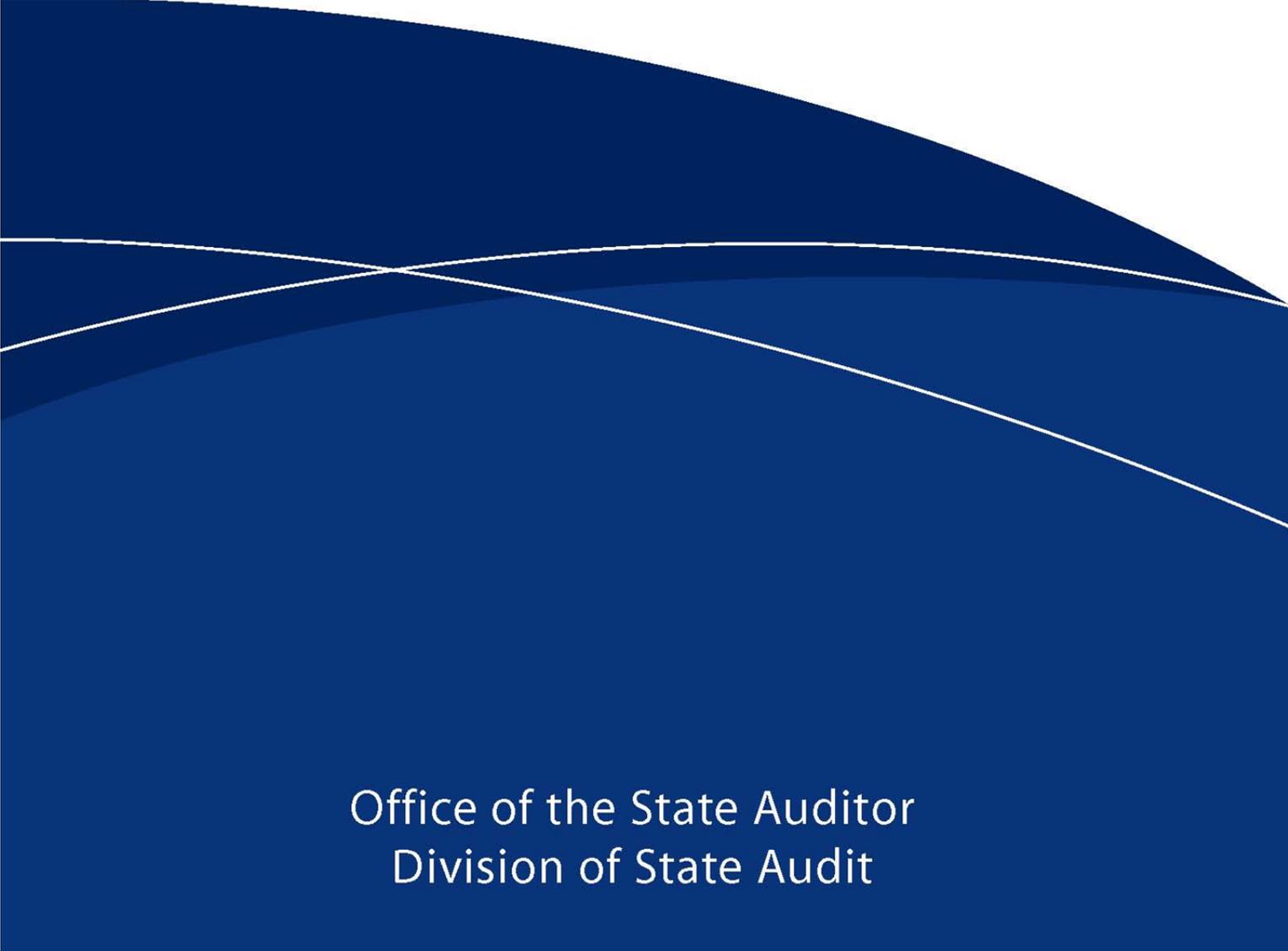
# Mayville State University

Mayville, 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*

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April 3, 2012

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

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

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

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

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

The Legislative Audit and Fiscal Review Committee (LAFRC) requested that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

## *Responses to LAFRC Audit Questions*

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

An unqualified opinion was issued on the annual financial report of the North Dakota University System. The financial statements for Mayville State University included in this report were taken 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.

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

Yes.

### *3. Was internal control adequate and functioning effectively?*

Yes.

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

No.

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

Yes.

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 included on page 15 of this report, along with management's response to the recommendations related to the allowance for doubtful accounts, report of carryover, surprise cash counts, daily deposit of bookstore receipts, gift documentation, code of conduct, purchase cards, and contracts and agreements.

### **LAFRC Audit Communications**

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

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

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Mayville State University 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 not reasonable in relation to the financial statements taken as a whole. See informal recommendation 11-1 on page 16 for further detail.

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 Mayville State University. No exceptions related to the operations of an information technology system were noted.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

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

## ***Audit Scope***

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

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

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

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared to present Mayville 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, 2011, operations of Mayville State University were primarily supported by state appropriations (30% - excluding capital assets), federal grants and contracts (21%), student tuition and fees (16%), and auxiliary enterprises (10%).

### ***Financial Summary***

Assets at Mayville State University increased \$4 million in fiscal year 2011 compared to fiscal year 2010. Total assets for fiscal year 2011 were \$30.6 million compared to \$26.6 million for fiscal year 2010. The increase was primarily due to capital improvements to the Science/Library Renovation and Education Addition and the Agassiz Hall Renovation. Liabilities remained fairly constant.

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, and auxiliary enterprises. Nonoperating revenues included mainly state appropriations and federal grants and contracts. Revenues remained fairly constant between fiscal years 2011 and 2010, except for federal grants and contracts, and state appropriations received for capital assets. Federal grants and contracts increased \$1.6 primarily due to \$1.1 million received in ARRA funds for Headstart and Early Headstart programs. State appropriations for capital assets increased \$1.6 million due to increased funding received for the Science/Library Renovation and Education Addition. Total revenues were \$22 million for the year ended June 30, 2011 as compared to \$18 million for the year ended June 30, 2010.

Total expenses for Mayville State University were \$17.6 million for the year ended June 30, 2011 as compared to \$15.7 million for the prior year. The increase in total expenses is primarily due to an increase in salaries and wages of \$1.4 million (which account for 61% of total expenses). All other expenditures remained fairly constant.

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

One of the biggest program additions was an additional location for their Head Start programs. This is in Grand Forks and is on UND's campus. The expansion was funded with ARRA money and has now been included in the main Head Start grant. This added about 15 employees.

They also added a grant referred to as AHEC. This is on a subcontract with UND and stands for Area Health Education Centers. There were a few other small subcontracts that came along with this grant. This grant as a whole added about three full-time employees.

They added a Development Office to assist in University relations and comprehensive fundraising efforts. This position is currently vacant, but a new person starts in about three weeks.

Another program that has begun is a STEM Initiative. In the previous biennium MASU was allocated \$250,000 of state funds for this and have received the same allocation for this biennium. They do various programs related to Science, Technology, Engineering, and Math on campus and in the area. They added one FT employee with this, but also have a part-time person working on this. They also have received a pass-through grant from NDUS and DPI (reimbursements come through both departments).

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

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

# Financial Statements

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## Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,283,621	\$ 1,821,878
Investments	712,559	2,638,316
Accounts receivable, net	437,886	390,857
Due from Component Units	14,026	28,069
Due from State General Fund	455,153	481,091
Grants & contracts receivables, net	754,998	300,236
Inventories	219,338	201,000
Notes receivable, net	615,837	643,960
Other assets	66,156	96,483
Unamortized Bond Discount	113,126	119,214
Capital assets, net	24,922,631	19,899,721
<b>Total assets</b>	<u>\$ 30,595,331</u>	<u>\$ 26,620,825</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 918,302	\$ 793,998
Accrued payroll	629,244	534,262
Deferred revenue	155,775	148,991
Deposits	148,119	149,900
Other liabilities		1,356
Due to others	12,837,257	13,499,142
<b>Total liabilities</b>	<u>\$ 14,688,697</u>	<u>\$ 15,127,649</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 12,816,660	\$ 8,862,206
Restricted for:		
Nonexpendable:		
Non exp Scholar & Fellow	17,524	17,524
Expendable:		
Scholarships and fellowships	3,852	1,522
Institutional	21,890	25,225
Loans	640,842	664,841
Debt service	110,618	99,837
Unrestricted	2,295,248	1,822,021
<b>Total net assets</b>	<u>\$ 15,906,634</u>	<u>\$ 11,493,176</u>

## Statement of Revenues and Expenditures

	June 30, 2011	June 30, 2010
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 3,343,347	\$ 3,013,921
Federal grants and contracts	3,366,246	2,129,420
State and local grants and contracts	54,975	72,289
Sales and services of educational departments	693,740	629,420
Auxiliary enterprises	2,010,920	1,952,234
Other	12,011	10,445
<b>Total operating revenues</b>	<u>\$ 9,481,239</u>	<u>\$ 7,807,729</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 10,471,247	\$ 9,101,278
Operating expenses	3,510,194	2,967,189
Data processing	123,819	102,404
Depreciation	1,057,231	1,047,687
Scholarships and fellowships	628,880	506,573
Cost of sales and services	762,214	732,898
<b>Total operating expenses</b>	<u>\$ 16,553,585</u>	<u>\$ 14,458,029</u>
<b>Operating loss</b>	<u>\$ (7,072,346)</u>	<u>\$ (6,650,300)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 6,130,856	\$ 5,748,760
Federal grants and contracts	1,588,835	1,270,873
Gifts	543,683	473,215
Investments income	108,201	156,960
Interest on capital asset-related debt	(710,537)	(486,807)
Loss on capital assets		(200,158)
Tax Revenues	193,788	184,811
Other nonoperating expenses	(363,277)	(571,223)
<b>Net nonoperating revenues</b>	<u>\$ 7,491,549</u>	<u>\$ 6,576,431</u>
<b>(Loss) Income before capital grants, gifts and transfers</b>	<u>\$ 419,203</u>	<u>\$ (73,869)</u>
State appropriations-capital assets	3,994,255	2,372,043
Capital grants and gifts		(21,888)
<b>Total other revenue</b>	<u>\$ 3,994,255</u>	<u>\$ 2,350,155</u>
<b>NET ASSETS</b>		
Net Assets-beginning of the year	11,493,176	9,216,890
Net Assets-end of the year	<u>\$ 15,906,634</u>	<u>\$ 11,493,176</u>

## Statement of Cash Flows

	June 30, 2011	June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 3,328,636	\$ 3,042,422
Grants and contracts	3,141,459	2,076,546
Payments to suppliers	(4,205,688)	(3,849,065)
Payments to employees	(10,350,461)	(9,020,707)
Payments for scholarships and fellowships	(628,880)	(506,573)
Loans issued to students	(96,269)	(32,075)
Collection of loans to students	92,219	
Auxiliary enterprise charges	1,996,188	1,944,449
Sales and service of educational departments	657,644	548,151
Cash paid on deposits	2,237	3,942
Other receipts	68,178	15,325
<b>Net cash used by operating activities</b>	<b>\$ (5,994,737)</b>	<b>\$ (5,777,585)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 6,130,856	\$ 5,748,760
Grants and gifts received for other than capital purposes	2,132,517	1,744,088
Direct Lending Receipts	4,188,195	
Direct Lending Disbursements	(4,352,204)	
Agency fund cash (decrease) increase	(40,555)	57,960
Tax Revenues	193,788	184,811
Other nonoperating receipts		16,925
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 8,252,597</b>	<b>\$ 7,752,544</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt		\$ 9,751,553
Capital appropriations	\$ 4,020,193	1,890,952
Capital grants and gifts received	(60,456)	(21,888)
Purchases of capital assets	(6,001,502)	(3,963,904)
Principal paid on capital debt and lease	(1,078,423)	(6,965,158)
Interest paid on capital debt and lease	(709,907)	(564,390)
<b>Net cash (used) provided by capital and related financing activities</b>	<b>\$ (3,830,095)</b>	<b>\$ 127,165</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 2,974,895	\$ 2,666,247
Interest on investments	108,221	156,938
Purchase of investments	(1,049,138)	(4,812,563)
<b>Net cash provided (used) by investing activities</b>	<b>\$ 2,033,978</b>	<b>\$ (1,989,378)</b>
<b>Net increase in cash</b>	<b>461,743</b>	<b>112,746</b>
CASH - BEGINNING OF YEAR	1,821,878	1,709,132
CASH - END OF YEAR	<b>\$ 2,283,621</b>	<b>\$ 1,821,878</b>

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating loss	\$ (7,072,346)	\$ (6,650,300)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,057,231	1,047,687
Other nonoperating revenues (expenses)	25,840	16,925
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(48,471)	(70,653)
Grant & contract receivables	(279,762)	(125,163)
Inventories	(18,338)	(11,158)
Notes Receivable	28,123	12,442
Other assets	33,374	(54,792)
Accounts payable and accrued liabilities adjusted for interest payable	149,805	(41,487)
Accrued payroll	94,720	61,499
Compensated absences	26,066	19,072
Deferred revenue	6,784	31,326
Deposits	2,237	3,942
<b>Net cash used by operating activities</b>	<u>\$ (5,994,737)</u>	<u>\$ (5,760,660)</u>

**SUPPLEMENTAL DISCLOSURE ON NONCASH  
TRANSACTIONS**

Net increases in value of investments	\$ 390,472	
Assets acquired through capital lease		\$ 3,997,589
Expenses paid by capital lease/special assessments		586,792
<b>Total non-cash transactions</b>	<u>\$ 390,472</u>	<u>\$ 4,584,381</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	\$ 11,629,616	\$ 250,000	\$ 11,879,616	\$11,879,616	
Capital Assets	8,835,819	(3,427,088)	5,408,731	4,260,483	\$ 1,148,248
Capital Improvements - Off system					
Northwest Hall Rehab		812,532	812,532	19,919	792,613
Agassiz Hall Renovation		3,668,500	3,668,500	3,594,027	74,473
Deferred Maintenance	1,910,120	(180,000)	1,730,120	1,650,661	79,459
<b>Totals</b>	<b>\$ 22,375,555</b>	<b>\$1,123,944</b>	<b>\$ 23,499,499</b>	<b>\$21,404,706</b>	<b>\$ 2,094,793</b>
<b>Expenses by source</b>					
General fund	\$ 18,707,055	\$ 311,412	\$ 19,018,467	\$17,790,760	\$ 1,227,707
Special fund	3,668,500	812,532	4,481,032	3,613,946	867,086
<b>Totals</b>	<b>\$ 22,375,555</b>	<b>\$1,123,944</b>	<b>\$ 23,499,499</b>	<b>\$21,404,706</b>	<b>\$ 2,094,793</b>

### Appropriation Adjustments:

#### Operating Expenses

The \$250,000 adjustment is a transfer from the NDUS to enhance science, technology, engineering, and mathematics (STEM) in teacher education pursuant to 2009 SB 2003, section 28.

#### Capital Assets

The (\$3,427,088) adjustment is comprised of the following:

- \$61,412 transfer from the NDUS for security and emergency preparedness needs pursuant to 2009 Senate Bill 2003, section 19;
- \$180,000 transfer from deferred maintenance to increase the project authorization for the Science and Library renovation approved by the June 22, 2010 Budget Section.
- (\$3,668,500) was a transfer to the Capital Improvement – off system line because spending for this project will not be abstracted through the state:

#### Capital Improvements – Off System

- Northwest Hall Renovation - \$812,532 is the amount carried over from the prior biennium.
- Agassiz Hall Renovation - \$3,668,500 was a transfer from the capital asset line.

#### Deferred Maintenance

The (\$180,000) adjustment was a transfer to the capital asset line for the Science and Library renovation.

## ***Internal Control***

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

### ***Internal Controls Subjected to Testing:***

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

The criteria used to evaluate internal control are published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we reported to management of Mayville State University in a management letter dated April 3, 2012, see page 15.

## *Compliance With Legislative Intent*

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

- Determine the North Dakota University System reported to the appropriations committees of the sixty-second Legislative Assembly on the use of this 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).
- 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).
- 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 legislative intent identified above. However, we did note other matters of noncompliance with legislative intent that we have reported to management of Mayville State University in a management letter dated April 3, 2012, see page 15.



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

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

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April 3, 2012

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

Dear Mr. Bensen:

We have performed an audit of Mayville State University for the biennium ended June 30, 2011, and have issued a report thereon. As part of our audit, we gained an understanding of Mayville State University's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations:

## ALLOWANCE FOR DOUBTFUL ACCOUNTS

### Informal Recommendation 11-1:

Mayville State University has been using percentages based on the aging category of the accounts receivable to estimate their allowance for doubtful accounts. In fiscal year 2011 and 2010, the allowance for doubtful accounts was (\$145,527) and (\$121,952), respectively. However, we noted in fiscal year 2011 MASU only wrote off \$9,647 of accounts receivable and in fiscal year 2010, they only wrote off \$4,506 of accounts receivable. It is our opinion that the estimate for the allowance for doubtful accounts is not based on prior results, percentages used are not relevant, and/or accounts receivable are not being written off timely.

Generally accepted accounting principles dictate that the allowance for doubtful accounts should be based on relevant, sufficient, and reliable data. Also, an adequate review of the allowance calculation should be done to ensure the assumptions used to calculate the allowance are reasonable.

We recommend Mayville State University evaluate the allowance for doubtful accounts to determine if the estimate is relevant, sufficient, and reliable.

#### **Mayville State University Response:**

*Agree. Mayville State University is in the process of reviewing its estimation of allowance for doubtful accounts. If it is found that the current estimation percentages are significantly different from those currently used we will adjust our amount.*

## REPORT OF CARRYOVER FUNDS

### Informal Recommendation 11-2:

Mayville State University did not present a complete report of carryover funds from the 2007-09 biennium to the subsequent appropriations committee of the legislative assembly. At the end of fiscal year 2009, Mayville State University carried over, but did not report \$812,532 of special funds from the Capital Improvement – Off System line for the Northwest Hall renovation.

Per NDCC 54-44.1-11, the North Dakota University System shall report on the amounts and uses of funds carried over from one biennium to the next to subsequent appropriations committee of the legislative assembly.

We recommend that MASU report on all general fund and special funds carried over from one biennium to subsequent appropriations committees of the legislative assembly.

#### **Mayville State University Response:**

*Agree. Mayville State University reported: Deferred Maintenance – General Fund \$1,730,120; Science – Library Building Renovation and Addition – General Fund \$5,138,328; Carryover 2007-2009 General Fund \$486,876; Agassiz Hall Housing Renovation – Revenue Bonds \$3,668,500. Mayville State University inadvertently omitted Northwest Hall Renovation – Local Funds \$812,532.*

## SURPRISE COUNTS

### **Informal Recommendation 11-3:**

MASU is not performing surprise counts of the \$300 Business Office petty cash or the \$800 Bookstore till funds.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework states that 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. An integral part of any internal control system is to ensure that assets are properly safeguarded from waste, loss, or abuse. Management is responsible for ensuring proper internal controls are in place to safeguard public assets, and current controls do not adequately safeguard petty or till fund cash.

We recommend MASU perform surprise counts of all petty cash and all till funds, including the bookstore, on at least an annual basis.

### ***Mayville State University Response:***

*Agree. Mayville State University will begin performing surprise counts of the \$300 Business Office petty cash and the \$800 Bookstore till funds.*

## DAILY RECEIPTS FOR BOOKSTORE

### **Informal Recommendation 11-4:**

The Bookstore is not depositing their receipts including cash, checks, and credits cards on a daily basis. They periodically bring them to the Business Office for deposit. The credit card receipts for the bookstore are entered into PeopleSoft at month end via a journal entry.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework states that 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. An integral part of any internal control system is to ensure that assets are properly safeguarded from waste, loss, or abuse. Current controls do not adequately safeguard bookstore money collected.

We recommend the Bookstore deposit their cash, checks, and credit card receipts with the Business Office on a daily basis.

### ***Mayville State University Response:***

*Agree. Mayville State University will receipt the Bookstore receipts daily going forward. Online credit card sales will continue to be booked monthly as the amount is immaterial.*

## PROPER DOCUMENTATION OF GIFTS

### Informal Recommendation 11-5:

We noted documentation for gifts is not being kept when Mayville State University receives gifts or scholarships from the Foundation that do not have any donor restrictions. Without supporting documentation, the client cannot document and we are unable to determine that the gift truly does not have any donor restrictions and is being spent in accordance to the donor's wishes.

An integral part of internal control is ensuring compliance with laws and regulations. The State Board of Higher Education, subject to limitations of section 15-10-12.1, may receive donations, gifts, grants, and bequests offered or tendered to or for the benefit of any institution of higher education under its control subject to administration, and all moneys coming into the hands of the Board for donations, gifts, grants, and bequests shall be used for the specific purpose for which they are donated or given.

We recommend MASU ensure gifts are being used for the specific purpose for which they are given, by retaining supporting documentation showing any donor restrictions that may or may not be put on gifts.

#### **Mayville State University Response:**

*Agree. The Mayville State University Foundation will document donor intentions going forward. In the past it had been considered that if no restrictions were noted, the gift was an unrestricted gift.*

## CODE OF CONDUCT

### Informal Recommendation 11-6:

In our review of signed code of conduct acknowledgement forms, we noted reviews were not being completed annually by all employees. We noted two out of six reviewed had not complied with the annual requirement.

SBHE policy 308.1 states each NDUS institution shall adopt and implement a code of conduct consistent with the Committee of Sponsoring Organization of the Treadway Commission (COSO) standards and that all benefitted employees annually certify in writing or electronically that they have read and are in compliance with the Code of Conduct.

We recommend MASU ensure all employees annually sign a code of conduct in compliance with SBHE Policy 308.1 by developing proper monitoring procedures.

#### **Mayville State University Response:**

*Agree. Mayville State University has spent much time and effort on compliance to our code of conduct and was disappointed to see that not all employees had complied with the annual sign off. The signature process will now be incorporated into each employee's year-end review.*

## PURCHASING CARD CONTROLS

### Informal Recommendation 11-7:

During the test of purchase cards, we noted the following:

- 7 of 32 items tested related to team travel did not have a clearly defined purpose for travel, did not include a roster of students or coaches in which the charges were incurred, or lacked support for additional charges. These items subjected to testing totaled \$5,938, of which \$1,252 lacked proper documentation. We project, based on our testing, that approximately \$347,155 of team travel purchase card transactions lacked proper documentation;
- 4 of 32 items were coded incorrectly. These items resulted in an error of \$135. We project, based on our testing, that approximately \$37,396 of purchase card transactions were coded incorrectly;
- 3 of 32 items were not reviewed or approved by the cardholder administrator.

Internal controls provide a reasonable assurance that risk of loss due to unauthorized purchases is minimized and financial statements are reliable, thus management must implement internal controls to provide reasonable assurance that purchase cards are used properly and that the transactions arising from purchase cards are reviewed and coded correctly.

We recommend management design and implement controls to provide reasonable assurance that MASU:

- Conduct and document a review for propriety and proper coding of all purchase card transactions prior to payment, and
- Maintain proper documentation as to business purpose and people incurring charges for each purchase card transaction.

### **Mayville State University Response:**

*Agree. The SBHE updated policy 806.1 "Payment or Reimbursement of Meals and Other Travel or Institutional Expenses" on January 19, 2012. This policy provides additional guidance on athletic team travel documentation, which will be followed. Also, paying greater attention to account coding will reduce the risk of additional miscoded expenses. The items that were not previously reviewed by the department head will now be reviewed by the department head in that department.*

## CONTRACTS AND AGREEMENTS

### Informal Recommendation 11-8:

When reviewing agreements, we noted an instance where there was lack of clarity in an agreement with the foundation. The foundation was considered to be a party to the contract, but the contract did not clearly identify the foundation.

Good business practices dictate that contracts or agreements should be straightforward, understandable and clear to anyone who reviews them. The language should be clear and specific as possible so that all parties know exactly to what terms they have agreed. Legalese that isn't understandable should be rewritten in language that is clear to all parties.

We recommend MASU ensure all agreements and/or contracts are written in clear and specific terms so that all parties are clearly identified and all parties are clear as to the agreed upon terms.

**Mayville State University Response:**

*Agree. In future contracts in which the Mayville State University Foundation is a party terms will be more clearly defined.*

I encourage you to call me at (701) 239-7285 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in black ink that reads "Tyson Lund, CPA". The signature is written in a cursive style with a horizontal line above the first name.

Tyson Lund, CPA  
Auditor In-charge

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