

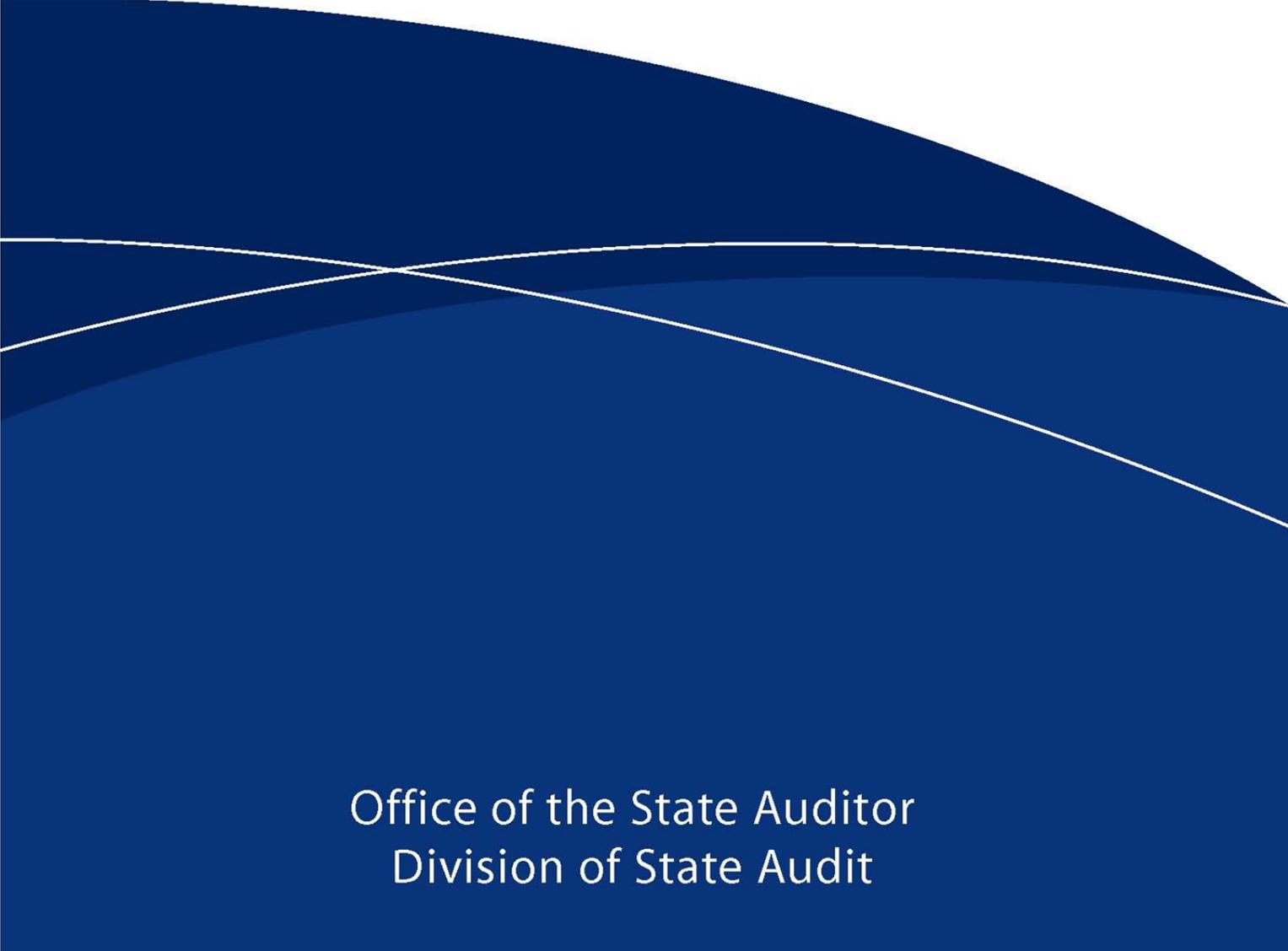
VALLEY CITY STATE
UNIVERSITY

VALLEY CITY, 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

March 20, 2012

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

We are pleased to submit this audit of Valley City 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 Mary Feltman, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Shirley and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

Robert R. Peterson
State Auditor

Executive Summary

Introduction

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

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

Responses to LAFRC Audit Questions

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

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

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

There were no recommendations included in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter containing three recommendations addressing receivable allowances, fund classifications, and purchase cards 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.*

As of June 30, 2011, Valley City 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. We noted no reportable management conflicts of interest, no contingent liabilities were 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 Valley City 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. 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 but procedures could be improved to recognize past history in the allowance computation and we have made a management letter comment to that effect.

- 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 Valley City State University. We noted no exceptions related directly to the operations of an information technology system.

Audit Objectives, Scope, and Methodology

Audit Objectives

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

Audit Scope

This audit of Valley City State University is for the biennium ended June 30, 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 statement information.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Valley City State University's processes and procedures.

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

Discussion and Analysis

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

For the biennium ended June 30, 2011, operations of Valley City State University were primarily supported by appropriations from the state's general fund and student tuition and fees. This is supplemented by auxiliary enterprises, federal grants, and contracts and gifts.

Financial Summary

Assets increased \$4.5 million in fiscal year 2011 from \$16 million in fiscal year 2010 to \$20.5 million in fiscal year 2011. This is primarily due to an increase in investments, grants and contracts receivables, and capital assets of \$1 million, \$500,000, and \$2.6 million respectively. The increase in investments included \$769,000 of bond reserve proceeds for the Snoeyenbos Hall renovation. The increase in grants and contracts receivables was due to additional grants receivable for academic instruction and an increase in federal direct loans. Capital assets increase was due to the renovations of Snoeyenbos Hall.

Liabilities increased \$4.1 million in fiscal year 2011 from \$5.4 million in fiscal year 2010 to \$9.5 million in fiscal year 2011. This was due to an increase in accounts payable of \$700,000 for contractor retainages, utilities infrastructure, the football field project, the bookstore, and an increase in due to others of \$3.2 million for the facility revenue bonds issued to finance the Snoeyenbos Hall renovation.

Revenues consisted primarily of state appropriations, student tuition, and fees. Other revenues during the audited period included auxiliary enterprises, federal grants and contracts, and gifts. These all remained fairly constant for Valley City State University except for student tuition and fees, and federal grants and contracts which increased \$501,000 and \$414,000, respectively. The increase in tuition and fees was due to 3.5% increase in tuition rates and a 7.7% increase in enrollment. Federal grants and contracts increased due to grants received for general academic instruction, including the federal FIPSE grants and the Prairie Waters Education and Research Center Department of Health Grant. Total revenues were \$21,201,008 for the year ended June 30, 2011, as compared to \$20,024,483 for the year ended June 30, 2010.

Total expenditures for Valley City State University were \$20,827,837 for the year ended June 30, 2011, as compared to \$18,690,490 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and wages (which also account for 59% of total expense in both years). The salaries and wages increase of \$1.4 million from fiscal year 2010 to fiscal year 2011 was due to the addition of a new psychology position, writing center coordinator, and an assistant coach for athletics. Additionally, an average salary increase of 5.8% was given to VCSU employees. All other expenses remained fairly constant.

Analysis of Significant Changes in Operations

Valley City State University had the following academic changes:

- New Prairie Waters Education and Research Center.
- Graduate Certificate in Library and Information Technologies both traditionally and at a distance.
- Graduate Certificate in Teaching English Language Learners both traditionally and at a distance.
- Institutional Organizational Change: Great Plains STEM Education Center.
- Terminated the Master of Science in Technology Education, which is a joint program between UND and VCSU.
- Graduate Certificate in STEM Education both traditionally and at a distance.
- Terminated B.S. Ed. In Composite Science Education.
- Terminated Early Childhood minor.
- Minor in Business to be offered at a distance.
- B.S. Ed. in Business Education to be offered at a distance.
- B.S. in Career and Technical Education (CTE) to be offered at a distance.
- Minor in Marketing to be offered at a distance.
- Bachelor's Degree in Business Process Integration Management to be offered traditionally and at a distance.

Analysis of Significant Variances - Budgeted and Actual Expenditures

Valley City State University did not have any significant variances for the general or special fund expenses as reflected on the statement of appropriations, except for the W.E. Osmon Fieldhouse project, which the institution discontinued.

Financial Statements

Statement of Net Assets

	June 30, 2011	June 30, 2010
ASSETS		
Cash and cash equivalents	\$ 2,638,597	\$ 2,705,353
Investments	3,551,342	2,456,044
Accounts receivable, net	213,245	187,905
Due from component units	84,963	25,252
Due from state general fund	162,890	70,910
Grants and contracts receivables, net	778,068	266,673
Inventories	158,119	166,057
Notes receivable, net	687,532	702,679
Other assets	93,555	69,149
Unamortized bond discount	185,688	71,590
Capital assets, net	11,902,529	9,268,230
Total assets	\$ 20,456,528	\$ 15,989,842
LIABILITIES		
Accounts payable	\$ 1,121,599	\$ 413,008
Accrued payroll	791,431	747,932
Deferred revenue	340,415	320,806
Deposits	146,550	47,553
Due to others	7,090,496	3,867,678
Total liabilities	\$ 9,490,491	\$ 5,396,977
NET ASSETS		
Invested in capital assets, net of related debt	\$ 5,922,393	\$ 5,904,473
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	537,039	443,214
Expendable:		
Scholarships and fellowships	153,286	113,698
Institutional	615,193	490,601
Loans	688,834	705,401
Capital projects		(13,002)
Debt service	338,225	406,650
Restricted other	152,182	152,182
Unrestricted	2,558,885	2,389,649
Total net assets	\$ 10,966,037	\$ 10,592,866

Statement of Revenues and Expenditures

	June 30, 2011	June 30, 2010
OPERATING REVENUES		
Student tuition and fees	\$ 4,434,103	\$ 3,933,233
Federal grants and contracts	1,066,107	651,659
State and local grants and contracts	36,948	33,068
Nongovernmental grants and contracts	354,066	354,762
Sales and services of educational departments	300,670	294,701
Auxiliary enterprises	2,591,386	2,351,259
Other	15,170	13,232
Total operating revenues	<u>\$ 8,798,450</u>	<u>\$ 7,631,914</u>
OPERATING EXPENSES		
Salaries and wages	\$ 12,422,441	\$ 11,056,854
Operating expenses	5,336,331	5,107,669
Data processing	541,584	414,471
Depreciation	942,054	891,962
Scholarships and fellowships	706,812	553,575
Cost of sales and services	471,806	398,536
Total operating expenses	<u>\$ 20,421,028</u>	<u>\$ 18,423,067</u>
Operating loss	<u>\$ (11,622,578)</u>	<u>\$ (10,791,153)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 8,398,380	\$ 8,225,309
Federal grants and contracts	1,559,340	1,323,692
Gifts	1,057,004	929,511
Investments income	293,345	201,411
Interest on capital asset-related debt	(406,809)	(196,845)
Loss on capital assets		(70,578)
Insurance Proceeds		3,776
Other nonoperating revenues	7,509	20
Net nonoperating revenues	<u>\$ 10,908,769</u>	<u>\$ 10,416,296</u>
Loss before capital grants, gifts, and transfers	<u>\$ (713,809)</u>	<u>\$ (374,857)</u>
State appropriations-capital assets	\$ 1,061,468	\$ 1,383,680
Capital grants and gifts	25,512	325,170
Total other revenue	<u>\$ 1,086,980</u>	<u>\$ 1,708,850</u>
NET ASSETS		
Net Assets-beginning of the year	10,592,866	9,258,873
Net Assets-end of the year	<u>\$ 10,966,037</u>	<u>\$ 10,592,866</u>

Statement of Cash Flows

	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 4,464,387	\$ 3,956,450
Grants and contracts	1,079,417	1,087,525
Payments to suppliers	(6,219,382)	(6,187,666)
Payments to employees	(12,339,880)	(11,020,465)
Payments for scholarships and fellowships	(706,812)	(553,575)
Loans issued to students	(99,585)	(108,695)
Collection of loans to students	82,987	99,718
Auxiliary enterprise charges	2,586,794	2,336,814
Sales and service of educational departments	220,177	293,316
Cash paid on deposits	8,989	3,936
Other payments	(1,234)	(109,522)
Net cash used by operating activities	\$ (10,924,142)	\$ (10,202,164)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 8,399,116	\$ 8,542,309
Grants and gifts received for other than capital purposes	2,709,982	2,197,627
Direct Lending Receipts	7,693,082	
Direct Lending Disbursements	(7,693,082)	
Agency fund cash decrease	(118,997)	(99,658)
Net cash flows provided by noncapital financing activities	\$ 10,990,101	\$ 10,640,278
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 3,430,000	
Capital appropriations	968,752	\$ 1,327,963
Capital grants and gifts received		301,175
Proceeds from Sale of Capital Assets		1,932
Purchases of capital assets	(3,184,847)	(1,527,292)
Insurance Proceeds		3,776
Principal paid on capital debt and lease	(246,737)	(235,269)
Interest paid on capital debt and lease	(297,977)	(110,130)
Net cash provided (used) by capital and related financing activities	\$ 669,191	\$ (237,845)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 3,175,603	\$ 371,475
Interest on investments	293,391	201,380
Purchase of investments	(4,270,900)	(1,991,753)
Net cash used by investing activities	\$ (801,906)	\$ (1,418,898)
Net decrease in cash	\$ (66,756)	\$ (1,218,629)
CASH - BEGINNING OF YEAR	2,705,353	3,923,982
CASH - END OF YEAR	\$ 2,638,597	\$ 2,705,353

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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	\$ (11,622,578)	\$ (10,791,153)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation expense	942,054	891,962
Other nonoperating revenues (expenses)	8,001	(104,051)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(71,174)	(27,718)
Grant & contract receivables	(377,704)	48,037
Inventories	7,938	(16,150)
Notes receivable	15,147	9,781
Other assets	(138,503)	(28,636)
Accounts payable and accrued liabilities adjusted for interest payable	201,519	(280,800)
Accrued payroll	43,499	(3,350)
Compensated absences	39,062	39,739
Deferred revenue	19,609	56,236
Deposits	8,988	3,936
Net cash used by operating activities	<u>\$ (10,924,142)</u>	<u>\$ (10,202,164)</u>

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Expenses paid by capital lease/special assessments	\$ 493	
Gifts of capital assets	25,512	\$ 23,994
Total non-cash transactions	<u>\$ 26,005</u>	<u>\$ 23,994</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenses by line item	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 16,368,001	\$ (3,216)	\$ 16,364,785	\$ 16,364,785	
Capital Assets	19,758,416	(18,500,000)	1,258,416	1,231,938	\$ 26,478
Capital Assets Carryover		444,208	444,208	437,752	6,456
Capital Improvements - Off system					
WE Osmon Fieldhouse		15,000,000	15,000,000		15,000,000
Snoeyenbos Renovation		3,500,000	3,500,000	3,041,017	458,983
Deferred Maintenance	1,304,921		1,304,921	878,524	426,397
Flood Expenditures		58,904	58,904	58,904	
Totals	\$37,431,338	\$ 499,896	\$37,931,234	\$22,012,920	\$ 15,918,314

Expenses by source

General fund	\$ 18,931,338	\$ 405,567	\$ 19,336,905	\$ 18,884,031	\$ 452,874
Special fund	18,500,000	94,329	18,594,329	3,128,889	15,465,440
Totals	\$37,431,338	\$ 499,896	\$37,931,234	\$22,012,920	\$ 15,918,314

Appropriation Adjustments:

Operating Expenses

The (\$3,216) adjustment is comprised of the following:

- \$63,784 transfer from the NDUS for security and emergency preparedness pursuant to 09 SB 2003, section 19;
- (\$317,000) reduction for funds drawn down in the 2007 biennium pursuant to 09 SB 2003, section 40; and
- \$250,000 adjustment to be used to enhance the use of science, technology, engineering and mathematics pursuant to 09 SB 2003, section 28.

Capital Assets

(\$18,500,000) was transferred to the capital improvement-off system line item because the spending will not be abstracted through the state, but will be spent off system.

Capital Asset Carryover

\$444,208 unspent special fund (\$94,328) and unspent general fund (\$349,880) amounts carried over from the prior biennium.

Capital Improvements – Off system

- \$15,000,000 transfer from the capital asset line for the WE Osmon Fieldhouse. These special funds were appropriated pursuant to SB 2003, section 7.
- \$3,500,000 transfer from the capital asset line for the Snoeyenbos renovation. This bond issuance was pursuant to 09 SB 2003, section 7 and 26.

Flood Expenditures

\$58,904 deficiency appropriation pursuant to 11 SB 2023.

Internal Control

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

Internal Controls Subjected to Testing:

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

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of Valley City State University in a management letter dated March 20, 2012.

Compliance With Legislative Intent

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

- Valley City State University reported to 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 SB 2003, chapter 31, section 7)
- \$1,000,000 of general funds included in the capital assets line item was used for development of a campus-wide master plan and for maintenance and repair projects. (09 SB 2003, chapter 31, section 11)
- The State Board of Higher Education used \$200,000 of the North Dakota University System Office unspent 2007-2009 general fund appropriation authorized to continue under section 54-44.1-11 for marketing and student retention at Valley City State University, for the biennium beginning July 1, 2009, and ending June 30, 2011. (09 SB 2003, chapter 31, section 25)
- Valley City State University received bonding of \$3.5 million for the Snoeyenbos Hall Renovation and the unexpended balance was placed in a sinking fund to be used for the retirement of indebtedness. (09 SB 2003, chapter 31, section 26).
- \$250,000 included in the science, technology, engineering, and mathematics teacher education line item in subdivision 1 of section 1 of 09 SB 2003 was used to enhance the use of science, technology, engineering, and mathematics in existing teacher education program curriculums and was not used for infrastructure projects. (09 SB 2003, chapter 31, section 28).
- Proper use/approval of clearing account and petty cash/till funds. (NDCC 54-06-08.1, Article X, Section 12, part 1 of the North Dakota Constitution, Attorney General's letter dated September 11, 1987)
- BND used as credit card processing depository. (NDCC 54-06-08.2)
- Gifts are used in compliance with the wishes of the donor. (Article IX, Section 1 of the ND Constitution, NDCC section 1-08-02, and NDCC section 15-10-12)
- Fixed asset requirements were followed 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, 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. (NDCC 54-44.4-01, 05, 06, and 54-44.7-02).
- 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 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 management of Valley City State University in a management letter dated March 20, 2012.

Management Letter (Informal Recommendations)

March 20, 2012

Douglas V. Dawes
Vice President for Business Affairs
Valley City State University
101 College St. SW
Valley City, ND 58072

Dear Mr. Dawes:

We have performed an audit of Valley City 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 Valley City 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:

Valley City State University has been using percentages based on the aging category of accounts receivable to estimate their allowance for doubtful accounts. In fiscal year 2011 and 2010, the allowance for doubtful accounts was \$85,565.06 and \$82,329.65, respectively. However, we noted in fiscal year 2011 and 2010 VCSU only wrote off \$5,973.46 and \$92, respectively. It is our opinion that the estimate for the allowance for doubtful accounts should

be based on prior results, percentages are not relevant, and/or accounts receivable are not being written off timely.

Generally accepted accounting principles and practices 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 allowances are reasonable.

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

Valley City State University Response:

Agreement. VCSU will evaluate the allowance for doubtful accounts at year end and use prior results to determine the amount to write off.

FUND CLASSIFICATIONS

Informal Recommendation 11-2:

VCSU had one fund out of the ten we tested that was classified as restricted, but there was no external restriction on the fund. The fund was 52185 - Dell Scholarship and was money set aside by the institution from the rebate received from the laptop lease with Dell and used for scholarships.

GASB Statement 34, paragraph 34, states that "net assets should be reported as restricted when constraints placed on net asset use are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation." Internally established constraints are designations and do not meet the GASB definition for restrictions.

We recommend that VCSU:

- reclassify the Dell scholarship fund as an unrestricted fund since there is no external restriction on the gift to the campus, and
- review all other funds currently classified as restricted to ensure they meet the GASB definition of restricted funds.

Valley City State University Response:

Agreement. VCSU will reclassify the Dell Scholarship fund as an unrestricted fund for FY12 and will review processes to ensure funds received are appropriately classified.

CONTROLS OVER EXPENDITURES INCLUDING PURCHASE CARDS

Informal Recommendation 11-3:

We noted the following during the test of purchasing cards:

- 2 of the 32 items tested, the receipts did not match the charges on the purchase card statement;
- 1 of the 32 items tested, sales tax was paid;
- 4 of the 32 items tested, roster of students was not attached to the receipt or the purchase card statement;

- 1 of the 32 items tested, travel was incorrectly coded; and
- 2 of the 32 items tested, receipts were not reconciled to the purchase card statement.

In addition, we noted the following during the test of expenditures:

- 2 of 32 items did not have supporting documentation.

VCSU's purchase card policy requires the cardholder to reconcile the statement with receipts and also notes that VCSU is exempt from sales tax (VCSU's tax exempt number is embossed on each purchase card).

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.

Article X, Section 12, subpart 2 of the North Dakota Constitution states "No bills, claims, accounts, or demands against the state or any county or other political subdivision shall be audited, allowed, or paid until a full itemized statement in writing shall be filed with the officer or officers whose duty it may be to audit the same, and then only upon warrant drawn upon the treasurer of such funds by the proper officer or officers."

We recommend that management comply with current policies and where necessary, design and implement controls to reasonably ensure:

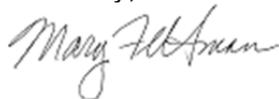
- receipts are being reconciled to the purchase card statement;
- sales tax is not charged on purchases;
- student roster and supporting documentation is attached to team travel expenses;
- purchase card purchases are coded correctly; and
- all expenditures have adequate support attached.

Valley City State University Response:

Agreement. VCSU has requested a proper roster for team travel to be attached to purchasing cards statements going forward. VCSU will take a closer look to make sure that sales tax does not continue to get charged and that proper documentation is attached for each expenditure.

I encourage you to call myself at 701-239-7290 or the audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Mary Feltman, CPA
Auditor in-charge

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