

DAKOTA COLLEGE AT  
BOTTINEAU

BOTTINEAU, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2017

**Joshua C. Gallion**  
State Auditor

Office of the State Auditor  
Division of State Audit

# Dakota College at Bottineau Report Highlights

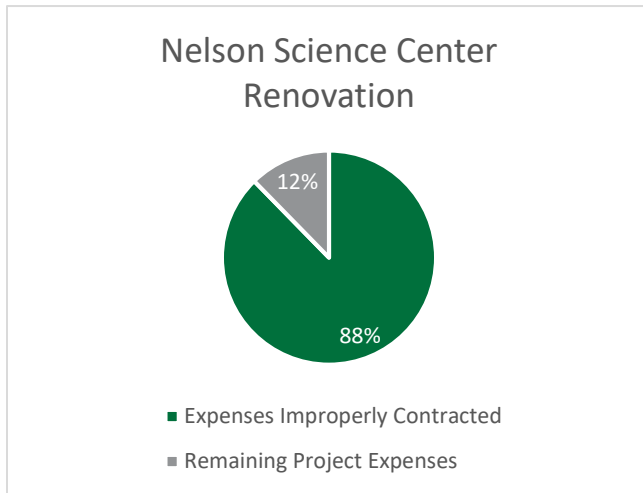
## Internal Control:

We evaluated and tested high-risk areas of internal control. We found that the approval of journal entries on the general ledger at Dakota College at Bottineau (DCB) could be improved.

- DCB does not have adequate controls in place to ensure that journal entries are properly approved.

## Legislative Intent:

We evaluated and tested high-risk areas of legislative intent and noted that procurement and the management of capital projects could be improved upon:



Source: Contracts and ConnectND Financials

- DCB was not in compliance with NDCC and NDUS procedures surrounding procurement. We noted six out of the ten procurement items tested were not properly procured.

- The Nelson Science Center Renovation did not have adequate documentation to support the awarding of the \$902,664 guaranteed maximum price for the construction management at risk (CMAR) contract. Additionally, the CMAR selection committee did not perform all duties as required by NDCC.

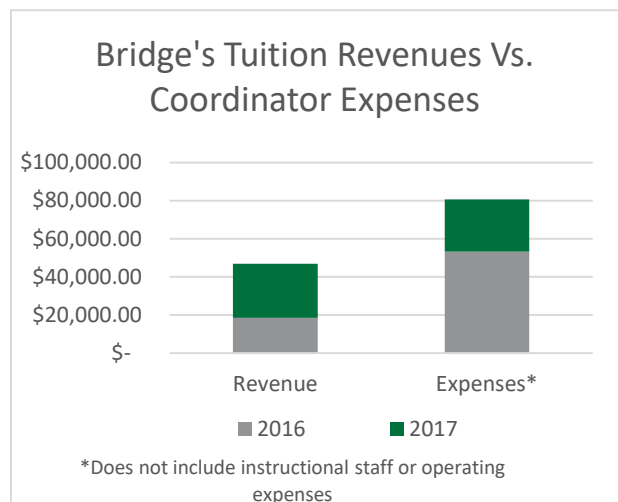
## Operations:

The Bridges program was developed through a Memorandum of Understanding between DCB and Valley City State University (VCSU). The program is designed for students who do not meet VCSU's enrollment requirements. The students will apply for admission into DCB, which is an open enrollment institution. These students will be considered DCB students; however, will be housed on the VCSU campus, live in VCSU residence halls, and participate in VCSU student life. The intent of the program is to have the students earn 24 transferrable credits with a GPA of 2.0 or better to transition into VCSU as a transfer student.

## Objectives:

- Is an annual evaluation of the Bridges program performed to ensure the program is beneficial?
- Are the key memorandum of understanding requirements being fulfilled?

Based on our objectives we tested various portions of the Bridges program and noted they were operating efficiently and effectively.



Source: ConnectND HRMS and Campus Solutions

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman**

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Mary Johnson  
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Gary Kreidt  
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**Senators**

**Dwight Cook  
Judy Lee  
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**AUDITOR AND COLLEGE PERSONNEL**

**State Auditor Personnel**

**Robyn Hoffmann, CPA, Audit Manager  
Alex Mehring, CPA, In-Charge  
Mary Feltman, CPA, Auditor  
Travis Klinkhammer, CPA, Auditor  
Mikka Maher, CPA, Auditor  
Cory Wigdahl, CFE, Auditor**

**Primary College Contacts**

**Dr. Steven Shirley, President  
Dr. Jerry Migler, Campus Dean  
Lisa Mock, Director of Financial Affairs**

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FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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July 23, 2018

Members of the North Dakota Legislative Assembly  
State Board of Higher Education  
Dr. Jerry Migler, Campus Dean

We are pleased to submit this audit of Dakota College at Bottineau for the biennium ended June 30, 2017. 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.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Dr. Migler and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# *Executive Summary*

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## ***Introduction***

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

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

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

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

## ***Responses to LAFRC Audit Questions***

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

The financial statements for Dakota College at Bottineau were 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 unmodified opinion was issued on the annual financial report of the North Dakota University System.

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

Other than our findings addressing "Noncompliance With Procurement Rules" (page 14) and "Construction Management at Risk for the Nelson Science Center" (page 14), Dakota College at Bottineau was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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

Other than our finding addressing the "Inadequate Journal Entry Approval" (page 11), we determined internal control was adequate.

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 is included on page 17 of this report, along with management's response.

### **LAFRC Audit Communications**

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

In fiscal year 2016, Dakota College at Bottineau changed accounting policies related to investments by adopting GASB Statement No. 72, Fair Value Measurement and Applications. There were no other significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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

The most significant accounting estimates used by Dakota College at Bottineau include useful lives of capital assets, allowance for uncollectible receivables and net pension liability. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories and past history. The net pension liability is based on the actuary's calculation based on plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives, allowances and net pension liability in determining that they are 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 Campus Solutions are high-risk information technology systems critical to Dakota College at Bottineau. No exceptions related to the operations of an information technology system were noted.



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

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## ***Audit Objectives***

The objectives of this audit of Dakota College at Bottineau for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

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

## ***Audit Scope***

This audit of Dakota College at Bottineau is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Dakota College at Bottineau's sole location is its Bottineau campus which was included in the audit scope.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2017 and 2016 annual financial reports of the North Dakota University System.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Dakota College at Bottineau's processes and procedures.
- Performed a review of the Bridges program.

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

# Financial Statements

## Statement of Net Position

	June 30, 2017	June 30, 2016
<b>ASSETS:</b>		
Cash & cash equivalents	\$ 2,377,991	\$ 1,477,892
Accounts receivable, net	411,795	340,219
Due from other NDUS institutions	(35,598)	3,493
Due from component unit	9,072	
Due from state general fund	105,797	9,071
Grants and contracts receivables, net	483,734	435,340
Inventories	132,670	132,670
Notes receivable, net	202,305	167,323
Other assets	(33,136)	(10,489)
Capital assets, net	7,852,026	7,170,612
<b>Total assets</b>	<b>\$ 11,506,656</b>	<b>\$ 9,726,131</b>
<b>Deferred outflows of resources</b>	<b>\$ 263,631</b>	<b>\$ 127,585</b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 348,745	\$ 89,272
Due to other NDUS institutions	40,398	(48,673)
Accrued payroll	248,136	280,606
Unearned revenue	61,844	178,378
Deposits	117,397	137,330
Pension liability	760,030	548,667
Due to others	227,061	220,100
<b>Total liabilities</b>	<b>\$ 1,803,611</b>	<b>\$ 1,405,680</b>
<b>Deferred inflows of resources</b>	<b>\$ 71,399</b>	<b>\$ 72,392</b>
<b>NET POSITION:</b>		
Invested in capital assets	\$ 7,807,275	\$ 7,140,799
Restricted For:		
Expendable:		
Scholarships and fellowships	13,223	(67,666)
Institutional	(8,638)	52,155
Loans	256,705	205,783
Debt service	10,348	5,251
Unrestricted	1,816,364	1,039,322
<b>Total net position</b>	<b>\$ 9,895,277</b>	<b>\$ 8,375,644</b>

## Statement of Revenues, Expenses and Change in Net Position

	June 30, 2017	June 30, 2016
<b>REVENUES AND OTHER ADDITIONS:</b>		
Student tuition and fees	\$ 1,650,895	\$ 1,230,841
Federal grants and contracts	1,388,189	1,607,721
State and local grants and contracts	265,888	266,451
Nongovernmental grants and contracts	117,306	73,429
Sales and services of educational departments	193,693	204,418
Auxiliary enterprises	1,440,486	1,418,977
Other	73,104	8,833
State appropriations	3,787,787	4,230,132
Gifts	355,576	240,916
Endowment and investment income	40,372	1,028
State appropriations - capital assets	1,449,437	128,189
Inter-institutional transfers	85,520	17,507
<b>Total revenues and other additions</b>	\$ 10,848,253	\$ 9,428,442
<b>EXPENSES AND OTHER DEDUCTIONS:</b>		
Salaries and wages	\$ 5,705,299	\$ 5,986,319
Operating expenses	2,518,408	2,362,501
Data processing	150,376	97,348
Depreciation	393,486	407,687
Scholarships and fellowships	423,694	243,685
Costs of sales and services	255,424	211,927
Interest on capital asset-related debt	7,466	5,990
Loss on capital assets	3,695	942
<b>Total expenses and other deductions</b>	\$ 9,457,848	\$ 9,316,399
Revenue over expenses	\$ 1,390,405	\$ 112,043
<b>NET POSITION:</b>		
Net position-beginning of the year, as restated	\$ 8,504,872	\$ 8,263,601
Net position-end of the year	\$ 9,895,277	\$ 8,375,644

## Statement of Cash Flows

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 1,669,021	\$ 1,198,800
Grants and contracts	686,487	1,214,020
Payments to suppliers	(2,800,399)	(2,428,889)
Payments to employees	(5,649,269)	(6,018,862)
Payments for scholarships and fellowships	(423,694)	(243,685)
Loans issued to students	(33,287)	(47,486)
Collection of loans to students	35,752	46,224
Auxiliary enterprise charges	1,444,979	1,414,918
Sales and service of educational departments	302,689	259,805
Cash received (paid) on deposits	(27,839)	(207,386)
Other receipts	36,369	51,342
<b>Net cash used by operating activities</b>	<u>\$ (4,759,191)</u>	<u>\$ (4,761,199)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	\$ 3,787,787	\$ 4,230,132
Grants and gifts received for other than capital purposes	1,277,996	1,252,796
Direct Lending Receipts	1,755,388	1,924,049
Direct Lending Disbursements	(1,741,281)	(1,924,049)
Agency fund cash increase (decrease)	(32,909)	68,839
<b>Net cash flows provided by noncapital financing activities</b>	<u>\$ 5,046,981</u>	<u>\$ 5,551,767</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital appropriations	\$ 1,343,640	\$ 144,181
Capital grants and gifts received	85,520	
Purchases of capital assets	(837,622)	(226,095)
Principal paid on capital debt and lease	(13,265)	(14,342)
Interest paid on capital debt and lease	(7,466)	(5,990)
<b>Net cash used by capital and related financing activities</b>	<u>\$ 570,807</u>	<u>\$ (102,246)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	\$ 40,372	\$ 1,027
<b>Net cash provided by investing activities</b>	<u>\$ 40,372</u>	<u>\$ 1,027</u>
<b>Net increase (decrease) in cash</b>	\$ 898,969	\$ 689,349
<b>CASH BEGINNING OF YEAR</b>	\$ 1,479,022	\$ 788,543
<b>CASH END OF YEAR</b>	<u>\$ 2,377,991</u>	<u>\$ 1,477,892</u>

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	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (5,303,857)	\$ (5,510,738)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	393,486	407,687
Other nonoperating revenues	19,685	18,396
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	82,345	(15,449)
Grant & contract receivables	(162,475)	277,472
Inventories		28,934
Notes receivable	9,652	8,302
Other assets	8,135	25,000
Accounts payable and accrued liabilities adjusted for interest payable	103,803	213,888
Pension liability	211,363	24,514
Net change in deferred outflows	(136,046)	(8,714)
Net change in deferred inflows	(993)	(29,925)
Accrued payroll	(15,491)	(2,228)
Compensated absences	(2,803)	(16,190)
Deferred revenue	61,844	25,238
Deposits	(27,839)	(207,386)
<b>Net cash used by operating activities</b>	<u>\$ (4,759,191)</u>	<u>\$ (4,761,199)</u>

**SUPPLEMENTAL DISCLOSURE ON NON-CASH  
TRANSACTIONS:**

Assets acquired through capital lease	\$ 23,030	\$ 34,768
Total non-cash transactions	<u>\$ 23,030</u>	<u>\$ 34,768</u>

**Statement of Appropriations**

**For the Biennium Ended June 30, 2017**

<b>Expenses by line item</b>	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 8,589,609	\$ (571,690)	\$ 8,017,919	\$ 8,017,919	
Capital Assets	11,860,990	(10,465)	11,850,525	1,104,347	\$ 10,746,178
Capital Assets Carryover		88,674	88,674	16,200	72,474
Biennium Carryover		400,000	400,000	400,000	
<b>Totals</b>	<b>\$ 20,450,599</b>	<b>\$ (93,481)</b>	<b>\$ 20,357,118</b>	<b>\$ 9,538,466</b>	<b>\$ 10,818,652</b>

<b>Expenses by source</b>					
General fund	\$ 9,802,405	\$ (93,481)	\$ 9,708,924	\$ 9,538,466	\$ 170,458
Special fund	10,648,194		10,648,194		10,648,194
<b>Totals</b>	<b>\$ 20,450,599</b>	<b>\$ (93,481)</b>	<b>\$ 20,357,118</b>	<b>\$ 9,538,466</b>	<b>\$ 10,818,652</b>

**Expenditures without Appropriations of Specific Amounts:**

Dakota College at Bottineau has a continuing appropriation for all other funds pursuant to 2015 HB 1003 section 31.

## *Internal Control*

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In our audit for the biennium ended June 30, 2017, we identified the following areas of Dakota College at Bottineau'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.
- Controls surrounding the Bridges program.

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

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of Dakota College at Bottineau in a management letter dated July 23, 2018.

### ***Inadequate Journal Entry Approval (Finding 17-1)***

#### **Condition:**

DCB did not have adequate controls in place to ensure that journal entries are properly approved.

#### **Criteria:**

The Committee of Sponsoring Organizations (COSO) of the Treadway *Commission's Internal Control - Integrated Framework* states in part that the proper design and implementation of internal control policies and procedures for approval are necessary to ensure objectives are effectively achieved.

#### **Cause:**

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

**Effect or Potential Effect:**

DCB is susceptible to an increased risk of errors occurring and going undetected or not being caught in a timely manner.

**Recommendation:**

We recommend DCB implement controls to ensure all journal entries are properly approved.

***Dakota College at Bottineau Response:***

*Agree. Dakota College at Bottineau has implemented controls to ensure all journal entries are properly approved. Corrective action has been implemented and complete.*



## *Compliance with Legislative Intent*

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In our audit for the biennium ended June 30, 2017, we identified and tested Dakota College at Bottineau's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- North Dakota University System reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1003, chapter 3, section 2).
- Two dollars of matching funds were provided from operations or other sources for each one dollar of extraordinary repairs that were included in the capital asset line item (2015 HB 1003, chapter 3, section 38).
- 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).
- Scholarship expenses were proper (Article IX, Section 1 of the ND Constitution, NDCC 1-08-02, 15-10-12, 59-21).
- Fixed asset requirements were followed including surplus property, record keeping and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of ND 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, 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 44-08-01).
- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 54.44.7).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 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* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described on the next page. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted an inconsequential instance of noncompliance that we have reported to management of Dakota College at Bottineau in a management letter dated July 23, 2018.

## ***Noncompliance With Procurement Rules (Finding 17-2)***

### **Condition:**

We noted six out of ten procurement transactions and contracts reviewed were not properly procured, totaling \$771,921.

### **Criteria:**

NDCC section 15-10-17 part 5, states in part, that the SBHE may determine policy for purchasing by the University System in coordination with OMB as provided by NDCC chapter 54-44.4.

NDUS Procedure 803.1, part 3 states in part that commodity purchases greater than \$10,000 but less than \$50,000, requiring informal quotes or proposals from more than one vendor shall be solicited. If quotes are not received from more than one vendor, the Alternate Procurement Request form, or other non-competitive exception document is required. In addition, commodity purchases of \$50,000 and greater and purchases for services of \$100,000 and greater must be purchased from formal bids or a request for proposal.

### **Cause:**

DCB did not follow through with all the required procurement procedures.

### **Effect or Potential Effect:**

Without properly procuring commodities and services, there was noncompliance with NDUS procedures, and ultimately, noncompliance with NDCC chapter 54-44.4.

### **Recommendation:**

We recommend that DCB properly procure commodities and services in compliance with NDCC and NDUS requirements.

### ***Dakota College at Bottineau Response:***

*Agree. DCB will properly procure commodities and services to comply with NDCC and NDUS requirements. DCB will obtain the required informal quotes/proposals from vendors as per NDUS policy/procedures and NDCC.*

## ***Construction Management at Risk for the Nelson Science Center (Finding 17-3)***

### **Condition:**

Our review of the Nelson Science Center renovation project noted the following:

- There was inadequate documentation maintained to support the selection and awarding of the \$902,664 guaranteed maximum price for the construction management at-risk (CMAR) contract;
- The CMAR selection committee was improperly composed and they did not establish and communicate all required content of the request for qualifications (RFQ), including key evaluating criteria and the relative weighting of each; and
- The CMAR selection committee did not establish a list of finalists for DCB.

### **Criteria:**

NDCC section 54-46-05, part 2, states in part that each agency shall make and maintain records containing adequate and proper documentation of the organization, decisions and essential transactions to protect the legal and financial rights of the state and persons affected by the agency's activities. The general records retention, per ITD's Records Management Program, for solicitations and contracts is the life of the contract plus six years.

NDCC section 48-01.2-20 states in part that a governing body electing to use a construction management at-risk delivery process shall create a selection committee composed of an administrative individual from the governing body, a registered architect, a registered engineer, and a licensed contractor. Before issuing a notice of request for qualifications to enter a CMAR services contract, the selection committee shall establish the content of the request for qualifications including all necessary requirements. The selection committee shall determine the appropriate evaluation criteria for each request for qualifications. The selection committee shall review each proposal submitted and include the three highest ranked CMAR on a list of finalists and recommend to the governing body the CMAR receiving the highest score on the evaluation criteria.

**Cause:**

There was a lack of understanding in the CMAR selection process and reliance on the architect firm to maintain required documents instead of DCB.

**Effect or Potential Effect:**

There was noncompliance with the NDCC surrounding the selection process of the CMAR and records retention, and in addition, the guaranteed maximum price contract may have been awarded incorrectly increasing the risk of fraud, waste, and abuse.

**Recommendation:**

We recommend that DCB:

- Maintain adequate and proper records in compliance with the NDCC and the record retention schedule; and
- Review the CMAR selection process and work more closely with the NDUS Director of Facilities Planning, as necessary, to ensure compliance with the NDCC.

***Dakota College at Bottineau Response:***

*Agree. Due to employee turn-over DCB was unable to locate the backup necessary to prove compliance. Dakota College at Bottineau will maintain/retain the proper records to prove compliance with the NDCC and NDUS policy.*

## *Operations*

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Our audit of Dakota College at Bottineau included a review of the Bridges program between Dakota College at Bottineau and Valley City State University.

Background:

The nature of the Bridges program is to provide educational opportunities to students who want to pursue a 4-year degree that do not meet the minimum criteria to be enrolled in a 4-year program. Dakota College at Bottineau (DCB) is an open-enrollment institution, meaning that the only requirements for enrollment are a high school diploma or a GED (General Education Development exam). The Bridges program enrolls students into DCB while being on the Valley City State University (VCSU) campus. These students are put through a program made up of VCSU classes to achieve 24 credits (100 level or above), this is the minimum number of credits required to be considered a transfer student at VCSU. Students who successfully complete the 24 credits with a minimum GPA of 2.0 will be permitted to start the transfer process into VCSU.

The Bridges program was established in February of 2014 through a 5-year Memorandum of Understanding (MOU) between VCSU and DCB. This MOU sets forth what is to be performed by each institution and the general components of the program. As a part of the MOU, DCB has hired a program coordinator to be housed on the VCSU campus and administer the program. DCB is also responsible for office supplies, instructional staff, and IVN technicians, under the terms of the MOU.

In our audit for the biennium ended June 30, 2017, we identified the following areas of potential improvements to operations, as expressed by our operational objectives:

- Is an annual evaluation of the Bridges program performed to ensure the program is beneficial?
- Are the key requirements of the Memorandum of Understanding being fulfilled?

The criteria used for each of the above was the Memorandum of Understanding. We reviewed and determined the key controls to test and we also reviewed enrollment data and program specific revenues and expenses.

We concluded that the operational objectives for the Bridges program were operating efficiently and effectively. However, we noted insignificant matters involving operations that we have reported to management of Dakota College at Bottineau in a management letter dated July 23, 2018.

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

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July 23, 2018

Lisa Mock  
Director of Financial Affairs  
Dakota College at Bottineau  
105 Simrall Blvd.  
Bottineau, ND 58318

Dear Ms. Mock:

We have performed an audit of Dakota College at Bottineau for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of Dakota College at Bottineau's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

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

The following present our informal recommendations.

## **NONCOMPLIANCE WITH BRIDGES MEMORANDUM OF UNDERSTANDING**

### **Condition:**

DCB did not comply with key requirements in the Memorandum of Understanding (MOU) for the Bridges Program during fiscal years 2016-2017:

- 3 of the 16 students enrolled in the program were not enrolled in the minimum number of credits (12) required by the program; and
- 6 of the 16 students enrolled in the program did not live in VCSU residence halls or receive a documented exemption from student housing.

### **Effect:**

There is noncompliance with the MOU and by allowing students to circumvent the minimum requirements set forth, VCSU and DCB have lost housing and tuition and fee revenues.

**Cause:**

The program coordinator did not require students to follow the requirements set forth for the Bridges program.

**Criteria:**

The MOU between VCSU and DCB states that students will enroll in a minimum of 12 credits from DCB per semester. Also, all students enrolled in the Bridges program will be required to live in the VCSU residence halls unless the request for an exemption is approved by the VCSU Housing Director.

**Informal Recommendation #1:**

We recommend that DCB comply with the signed MOU to ensure that:

- Students enroll in the minimum number of credits required by the program; and
- Students live in VCSU residence halls or receive a documented exemption.

**Dakota College at Bottineau Response:**

*Agree. DCB will comply with the signed MOU to ensure students are enrolled in the minimum number of credits and live in the residence hall or obtain a documented exemption.*

**INADEQUATE ANNUAL REVIEW OF THE BRIDGES PROGRAM****Condition:**

The Bridges program did not have an annual review for fiscal year 2016 and for fiscal year 2017, an annual review was performed but it was not comprehensive, objective, performed by an independent individual and did not include the program's financial significance. The review found a student success rate of just over 50% and included comments contradicting the purpose of the Bridges Program. For fiscal years 2016 and 2017, the program had over \$80,000 in program coordination expenses, which did not include operating expenses or instructional staff and the 16 students enrolled in the program resulted in less than \$47,000 in tuition and fee revenue.

**Effect:**

Without an adequate annual review, DCB could be ineffectively spending taxpayer dollars.

**Cause:**

There is lack of management oversight to ensure an independent annual review is performed.

**Criteria:**

The Memorandum of Understanding Between Valley City State University and Dakota College at Bottineau, states in part both campuses will conduct an annual review of this collaborative program.

COSO Internal Control - Integrated Framework states in part that monitoring activities include: separate evaluations performed by management, internal auditors, functional managers, and other personnel, which can highlight areas that need to be improved.

**Informal Recommendation #2:**

We recommend that DCB perform a comprehensive annual review by an independent individual to monitor and ensure the effectiveness and viability of the Bridges program.

**Dakota College at Bottineau Response:**

*Agree. DCB will perform a comprehensive annual review by an independent individual to ensure the effectiveness and viability of the Bridges Program.*

## IMPROPER EQUIPMENT RECORDS AND INVENTORY PROCEDURES

### Condition:

In FY16 and FY17, equipment records and the departmental inventories had the following issues:

- Equipment was not removed from PeopleSoft in a timely manner;
- Documentation was lacking in several instances indicating who performed and approved the departmental inventories; and
- The custodian of the assets signed off the departmental inventories, but there is no documented second review or approval.

### Effect:

There is noncompliance with the NDCC and an increased risk of theft of equipment going unnoticed.

### Cause:

This was an oversight by DCB.

### Criteria:

NDCC section 44-04-07 states in part that the person in charge of any institution shall maintain, or cause to be maintained, a complete and current inventory record of all property of sufficient value and permanence to make such inventory record practical. Each year such person shall make a complete inventory of all such property, and shall maintain such inventory, with a person's certificate thereto attached, as to the correctness of same, in the files and records of the institution.

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. Proper internal control reduces the risk of asset loss and helps ensure the reliability of the financial statements.

### Informal Recommendation #3:

We recommend that DCB implement a process to ensure that equipment is updated in PeopleSoft timely and there is proper documentation of the individual(s) performing and approving departmental inventories.

### ***Dakota College at Bottineau Response:***

*Agree. Dakota College at Bottineau has implemented a process to ensure the equipment is updated/removed in the PeopleSoft system in a timely manner. We have also conducted a faculty/staff inventory training to ensure proper documentation is reported on the annual inventory.*

## IMPROPER UTILIZATION OF A CLEARING ACCOUNT

### Condition:

DCB is improperly writing checks from their clearing account to record monthly interest and in some instances, the difference for Canadian checks.

### Effect:

DCB is not in compliance with the NDCC.

### Cause:

It has been their process to write checks out of the clearing account to record interest.

### Criteria:

NDCC section 54-06-08.1 states in part that any check written on the clearing account may be used only to transfer funds to the Bank of North Dakota or the State Treasurer.



**Informal Recommendation 17-4:**

We recommend DCB implement a process to ensure that checks written from the clearing account are only utilized to transfer funds to the Bank of North Dakota.

***Dakota College at Bottineau Response:***

*Agree. DCB has implemented a process to ensure that checks written from the clearing account are only utilized to transfer funds to the Bank of North Dakota. This process has been implemented and is complete.*

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

Sincerely,

A handwritten signature in cursive script that reads "Robyn Hoffmann".

Robyn Hoffmann, CPA  
Audit Manager



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