

Lake Region State College

DEVILS LAKE, 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

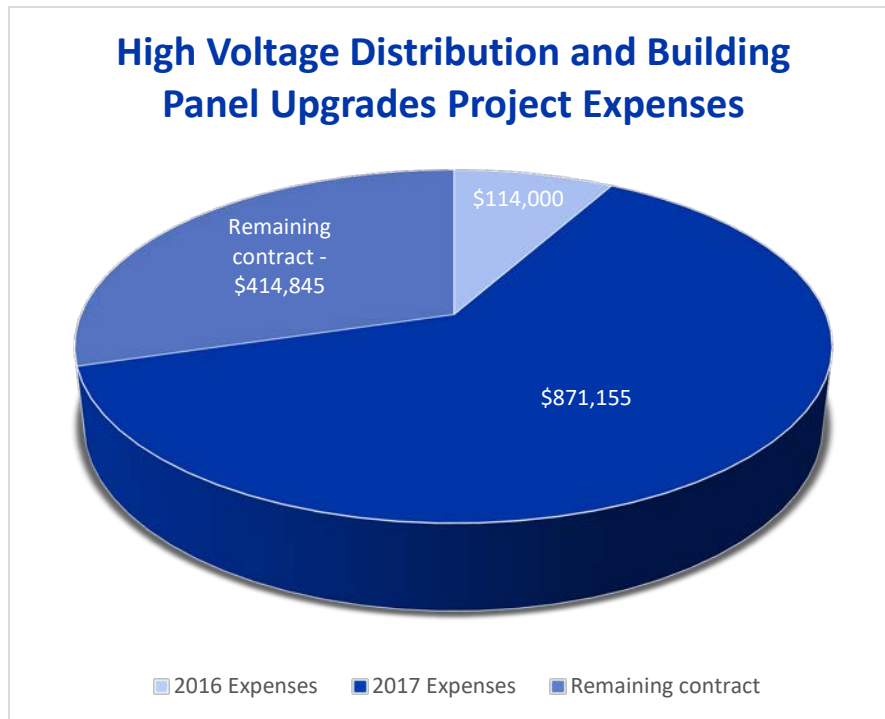
Lake Region State College Report Highlights

Internal Control:

We evaluated and tested internal control, including receipts, expenses and safeguarding of assets and did not note any deficiencies that are required to be brought to the attention of those charged with governance.

Legislative Intent:

We evaluated and tested compliance with legislative intent including one-time funding, deferred maintenance funding, scholarship expenses, travel related expenses and procurement. We also reviewed the High Voltage Distribution and Building Panel Upgrades project to determine that all bids were let on a competitive basis and were awarded to the lowest cost bidder and that the contracts were properly executed and approved. We did not note any deficiencies that are required to be brought to the attention of those charged with governance.



Source: ConnectND Financials

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Primary College Contacts

**Dr. Doug Darling, President
Corry Kenner, VP of Administrative Affairs
Joann Kitchens, Controller**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

July 10, 2018

Members of the North Dakota Legislative Assembly
State Board of Higher Education
Dr. Doug Darling, President, Lake Region State College

We are pleased to submit this audit of Lake Region State College 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 President Darling 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

Introduction

Lake Region State College is committed to being a responsive, diverse institution that prepares students for successful living and citizenship in a rapidly changing local, national, and world community. The College provides quality academic education, career and technical education, workforce training, educational outreach opportunities, and life-long learning within the North Dakota University System.

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

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

Yes.

3. Was internal control adequate and functioning effectively?

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 was issued and is included on page 12 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, Lake Region State College 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 Lake Region State College 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 Lake Region State College. No exceptions related to the operations of an information technology system were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

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

Audit Scope

This audit of Lake Region State College 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.

Lake Region State College has operations in the following locations. Each location was included in the audit scope:

- The main campus in Devils Lake
- Grand Forks Air Force Base campus

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2017 and 2016 annual financial report 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.
- Interviewed appropriate agency personnel.
- Reviewed segregation of duties in all program areas.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Lake Region State College's processes and procedures.

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

Financial Statements

Statement of Net Position

	June 30, 2017	June 30, 2016
ASSETS:		
Cash & cash equivalents	\$ 5,500,536	\$ 4,705,149
Investments	105,000	105,000
Accounts receivable, net	687,723	474,997
Due from other NDUS institutions	61,168	63,905
Due from component units	21,830	6,866
Due from state general fund	214,767	53,942
Grants and contracts receivables, net	477,892	776,531
Inventories	283,185	274,101
Notes receivable, net	380,841	310,758
Other assets	9,077	30,663
Capital assets, net	15,133,281	15,159,149
Total assets	\$ 22,875,300	\$ 21,961,061
Deferred outflows of resources	\$ 581,178	\$ 262,104
LIABILITIES:		
Accounts payable	\$ 527,391	\$ 401,622
Due to other NDUS institutions	122,458	11,534
Accrued payroll	478,773	511,921
Unearned revenue	1,216,119	743,648
Deposits	198,864	229,999
Pension liability	1,830,050	1,420,267
Due to others	4,218,654	4,650,467
Total liabilities	\$ 8,592,309	\$ 7,969,458
Deferred inflows of resources	\$ 249,263	\$ 177,718
NET POSITION:		
Invested in capital assets	\$ 11,340,077	\$ 11,000,548
Restricted For:		
Institutional	(11,507)	537,000
Loans	386,046	338,080
Debt service	283,617	135,843
Unrestricted	2,616,673	2,064,518
Total net position	\$ 14,614,906	\$ 14,075,989

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2017	June 30, 2016
REVENUES AND OTHER ADDITIONS:		
Student tuition and fees	\$ 4,061,474	\$ 3,869,776
Federal grants and contracts	1,867,981	2,608,359
State and local grants and contracts	641,268	1,148,866
Nongovernmental grants and contracts	14,980	34,354
Sales and services of educational departments	763,516	760,287
Auxiliary enterprises	1,672,250	1,809,630
Other	59,135	8,741
State appropriations	7,002,338	7,145,526
Gifts	862,852	1,200,557
Endowment and investment income	3,508	2,721
Insurance proceeds		523
State appropriations - capital assets	963,520	250,268
Capital grants and gifts	73,785	406,414
Inter-institutional transfers		10,343
Total revenues and other additions	\$ 17,986,607	\$ 19,256,365
EXPENSES AND OTHER DEDUCTIONS:		
Salaries and wages	\$ 11,042,979	\$ 11,718,991
Operating expenses	2,916,497	3,405,315
Data processing	253,423	347,833
Depreciation	1,245,145	981,094
Scholarships and fellowships	597,318	656,811
Costs of sales and services	699,853	705,539
Interest on capital asset-related debt	156,059	170,044
Loss on capital assets		2,134
Total expenses and other deductions	\$ 16,911,274	\$ 17,987,761
Revenue over expenses	\$ 1,075,333	\$ 1,268,604
NET POSITION:		
Net position-beginning of the year, as restated	\$ 13,539,573	\$ 12,807,385
Net position-end of the year	\$ 14,614,906	\$ 14,075,989

Statement of Cash Flows

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 4,018,512	\$ 3,740,325
Grants and contracts	1,636,056	2,574,381
Payments to suppliers	(3,470,176)	(4,322,023)
Payments to employees	(10,980,292)	(11,685,292)
Payments for scholarships and fellowships	(597,318)	(656,811)
Loans issued to students	(77,795)	(71,560)
Collection of loans to students	48,501	55,949
Auxiliary enterprise charges	1,666,765	1,805,693
Sales and service of educational departments	760,888	845,771
Cash paid on deposits	(2,640)	(8,184)
Other receipts (payments)	28,745	(3,224)
Net cash used by operating activities	\$ (6,968,754)	\$ (7,724,975)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	\$ 6,997,338	\$ 7,145,526
Grants and gifts received for other than capital purposes	1,993,234	2,438,803
Direct Lending Receipts	2,194,270	2,143,327
Direct Lending Disbursements	(2,194,270)	(2,149,961)
Agency fund cash increase (decrease)	(215,303)	384,925
Net cash flows provided by noncapital financing activities	\$ 8,775,269	\$ 9,962,620
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt	\$ 26,692	
Capital appropriations	807,695	\$ 196,326
Capital grants and gifts received	73,785	406,414
Purchases of capital assets	(1,374,663)	(820,063)
Insurance proceeds		523
Principal paid on capital debt and lease	(392,089)	(373,194)
Interest paid on capital debt and lease	(156,056)	(170,044)
Net cash used by capital and related financing activities	\$ (1,014,636)	\$ (760,038)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	\$ 3,508	\$ 2,721
Net cash provided by investing activities	\$ 3,508	\$ 2,721
Net increase (decrease) in cash	\$ 795,387	\$ 1,480,328
CASH BEGINNING OF YEAR	\$ 4,705,149	\$ 3,224,821
CASH END OF YEAR	\$ 5,500,536	\$ 4,705,149

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	<u>June 30, 2017</u>	<u>June 30, 2016</u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (8,856,969)	\$ (8,813,816)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,245,145	981,094
Other nonoperating revenue (expense)	(4,664)	10,343
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(37,363)	57,348
Grant & contract receivables	242,209	21,048
Inventories	(9,084)	6,182
Notes receivable	(13,442)	(6,473)
Other assets	21,586	(22,308)
Accounts payable and accrued liabilities adjusted for interest payable	391,297	112,484
Pension liability	409,783	72,646
Net change in deferred outflows	(319,074)	5,364
Net change in deferred inflows	71,545	(85,343)
Accrued payroll	(33,151)	9,953
Compensated absences	(66,416)	31,079
Deferred revenue	(7,516)	(96,392)
Deposits	(2,640)	(8,184)
Net cash used by operating activities	<u>\$ (6,968,754)</u>	<u>\$ (7,724,975)</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 14,832,189	\$ (684,325)	\$ 14,147,864	\$ 14,147,864	
Capital Assets	1,803,790	173,660	1,977,450	1,109,463	\$ 867,987
Capital Assets Carryover		51,034	51,034	51,034	
Totals	\$ 16,635,979	\$ (459,631)	\$ 16,176,348	\$ 15,308,361	\$ 867,987
Expenses by source					
General fund	\$ 16,635,979	\$ (459,631)	\$ 16,176,348	\$ 15,308,361	\$ 867,987
Special fund					
Totals	\$ 16,635,979	\$ (459,631)	\$ 16,176,348	\$ 15,308,361	\$ 867,987

Expenditures without Appropriations of Specific Amounts:

All funds, in addition to those above are appropriated pursuant to 2015 HB 1003 section 31.

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of Lake Region State College's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls 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: misstatements in financial or performance information, violations of laws and regulations or 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 a matter involving internal control that we have reported to management of Lake Region State College in a management letter dated July 10, 2018.

Compliance with Legislative Intent

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

- North Dakota University System reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1003, chapter 3, section 2).
- The deferred maintenance funding pool was used for eligible projects that were identified in the campus master plan and space utilization study and approved by the SBHE (2015 HB 1003, chapter 3, section 25).
- 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 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.

Management Letter (Informal Recommendations)

July 10, 2018

Mr. Corry Kenner
Vice President of Administrative Affairs
Lake Region State College
1801 North College Drive
Devils Lake, ND 58301

Dear Mr. Kenner:

We have performed an audit of Lake Region State College for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of Lake Region State College'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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider the status.

The following present our informal recommendation.

INADEQUATE RECORDING OF RETAINAGES PAYABLE

Condition:

LRSC did not adequately record retainages payable at year end for the High Voltage Distribution and Panel Upgrades project.

Criteria:

NDUS Accounting Manual, page 33, states in part that construction contracts typically will have a provision for an amount that is retained and paid at the end of the contract, after all final inspection of the work is completed. The cumulative amount the institution has retained on payments to contractors should be recorded in the accounting records at fiscal year-end.

Cause:

LRSC forgot to include the amount retained in the contract as a liability on the general ledger.

Effect or Potential Effect:

LRSC understated their liabilities on their financial statements.

Informal Recommendation 17-1:

We recommend that LRSC ensure the retainage is properly recorded at year-end on the general ledger.

Lake Region State College's Response:

LRSC Agrees. Not posting the Retainage Payable on the general ledger at year-end was an oversight on my part. Retainage balances in future projects will be recorded as liabilities on our general ledger at year-end.

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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Division of State Audit

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