

# MAYVILLE STATE UNIVERSITY

MAYVILLE, NORTH DAKOTA

## **Audit Report**

For the Biennium Ended  
June 30, 2017

**Joshua C. Gallion**  
State Auditor

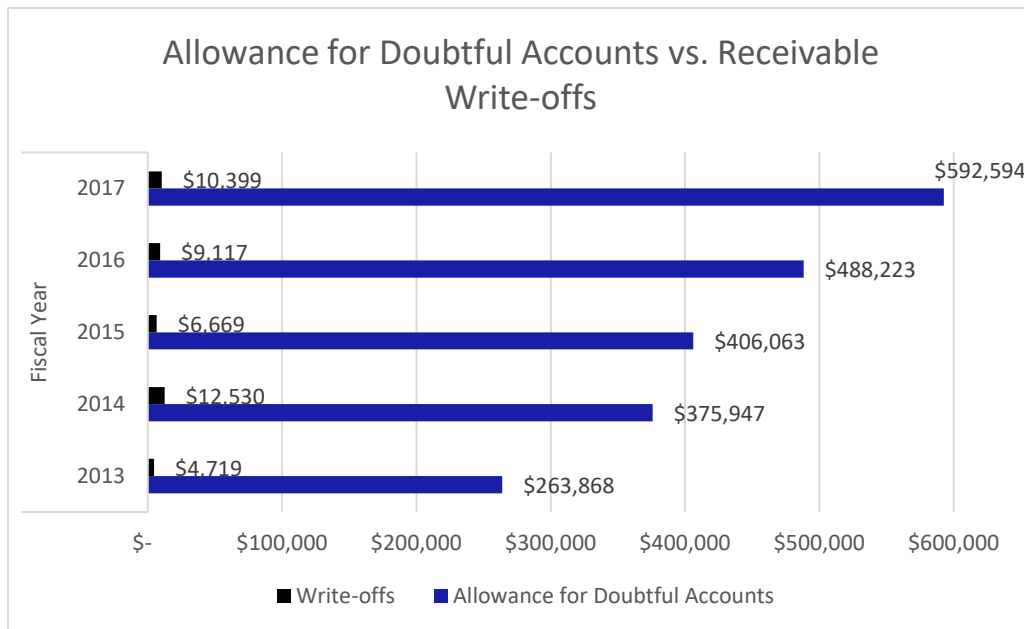
Office of the State Auditor  
Division of State Audit

# Mayville State University Report Highlights

## Internal Control:

We tested high risk internal controls surrounding revenues, expenses, journal entries and p-cards. We found an area that could be improved related to accounts receivables, particularly management's estimate on the allowance for doubtful accounts compared to write-offs.

- For the past five years, the write-offs of accounts receivable have only been 2-3% of the allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is not based on prior results, percentages used are not relevant to the amounts written off, and/or accounts receivables are not being written off timely. Mayville State University should re-evaluate the allowance for doubtful accounts to ensure the estimate is relevant, sufficient and reliable based on past results.



Source: ConnectND Financials

## Legislative Intent:

We tested critical high-risk areas of legislative intent including travel expenses, appropriation laws, capital construction surrounding the Lewy Lee Fieldhouse renovation and procurement. We found that procurement procedures could be improved at Mayville State University.

- Mayville State University did not properly procure commodities in compliance with NDCC and NDUS procurement procedures. We found \$409,885 of transactions we tested that were not properly procured. Also, one new lease agreement for \$50,426 was not properly procured.

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**AUDITOR AND COLLEGE PERSONNEL**

**State Auditor Personnel**

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

**Primary College Contacts**

Dr. Brian Van Horn, President  
Jami Hovet, Vice President for Business Affairs  
Ian Bjerke, Controller

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FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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July 3, 2018

Members of the North Dakota Legislative Assembly  
State Board of Higher Education  
Dr. Brian Van Horn, President, Mayville State University

We are pleased to submit this audit of the Mayville State University 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. Van Horn 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*

Since its establishment through the state constitution in 1889, Mayville State University is one of North Dakota's original colleges. Teachers Colleges (then called "Normal Schools") had grown rapidly since their introduction into the field of American higher education soon after the Civil War. The North Dakota Constitutional Convention of 1889 located sites for the nine original state institutions and funded them by a 30,000 acre land grant, leaving organization to the First Legislative Assembly. Classes of the Mayville Normal School began in 1890, with funds for a building (Old Main) provided by the Second Legislative Assembly in early 1891, where classes were initially held in 1893. Since then, Mayville State has steadily grown and progressed. In 1925, the State Board of Higher Education (SBHE) authorized Mayville State to grant a Bachelor of Arts in Education. The Mayville Normal School thus became a "teachers college," providing general education and offering a four-year degree. Successive additions strengthened the curriculum and, as enrollment grew, new buildings appeared. The institution's present name, Mayville State University, was approved by the legislature in 1987.

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 the Mayville 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 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 finding addressing "Noncompliance with Procurement Rules" (page 14), Mayville State University 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 "Review of Allowance for Doubtful Accounts" (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?*

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 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.*

In fiscal year 2016, Mayville State University 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 Mayville State University include the useful lives of capital assets, allowance for doubtful accounts 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. The net pension liability is based on the actuary's calculation based on plan provisions and census date for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives and the net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole. We did note in the finding on page 11 that Mayville State University has not evaluated the allowance for doubtful accounts to determine if the estimate is relevant, sufficient and reliable.

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



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

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## **Audit Objectives**

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

## **Audit Scope**

This audit of Mayville State University 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.

Mayville State University's sole location is its Mayville 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 Mayville State University's processes and procedures.

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

# Financial Statements

## Statement of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>ASSETS:</b>		
Cash & cash equivalents	\$ 5,003,847	\$ 3,375,153
Investments	417,001	400,766
Accounts receivable, net	651,576	489,451
Due from other NDUS institutions	27,035	
Due from component unit	54,596	28,385
Due from state general fund	78,421	208,482
Grants and contracts receivables, net	347,283	631,839
Inventories	259,622	273,144
Notes receivable, net	619,815	512,405
Other assets	20,728	59,724
Capital assets, net	29,277,964	30,393,401
<b>Total assets</b>	<u>\$ 36,757,888</u>	<u>\$ 36,372,750</u>
<b>Deferred outflows of resources</b>	\$ 1,103,801	\$ 603,110
<b>LIABILITIES:</b>		
Accounts payable	\$ 80,578	\$ 490,722
Due to other NDUS institutions	39,211	30,339
Accrued payroll	954,137	1,020,424
Unearned revenue	468,845	471,514
Deposits	(35,676)	(346,000)
Pension liability	2,900,100	2,006,031
Other noncurrent liabilities	2,479	18,828
Due to others	9,101,489	9,915,293
<b>Total liabilities</b>	<u>\$ 13,511,163</u>	<u>\$ 13,607,151</u>
<b>Deferred inflows of resources</b>	\$ 170,930	\$ 228,580
<b>NET POSITION:</b>		
Invested in capital assets	\$ 20,711,045	\$ 20,969,620
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	17,524	17,524
Expendable:		
Scholarships and fellowships	137,192	154,750
Research	48,876	
Institutional	296,055	363,496
Loans	654,875	577,778
Capital projects	16,122	(253,746)
Debt service	880,523	443,342
Unrestricted	1,417,384	867,365
<b>Total net position</b>	<u>\$ 24,179,596</u>	<u>\$ 23,140,129</u>

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

	June 30, 2017	June 30, 2016
<b>REVENUES AND OTHER ADDITIONS:</b>		
Student tuition and fees	\$ 4,617,925	\$ 4,455,828
Federal grants and contracts	4,843,470	5,473,186
State and local grants and contracts	89,018	(128,526)
Nongovernmental grants and contracts	39,500	21,000
Sales and services of educational departments	1,441,282	1,053,093
Auxiliary enterprises	2,311,970	2,547,964
Other	88,798	16,724
State appropriations	7,616,456	7,946,275
Local appropriations	(2,560)	(1,506)
Gifts	768,418	600,796
Endowment and investment income	195,675	205,237
Insurance proceeds		7,256
State appropriations - capital assets	733,018	3,979,163
Capital grants and gifts		69,273
Inter-institutional transfers		16,924
Tax revenues	193,365	216,025
<b>Total revenues and other additions</b>	<b>\$ 22,936,335</b>	<b>\$ 26,478,712</b>
<b>EXPENSES AND OTHER DEDUCTIONS:</b>		
Salaries and wages	\$ 14,739,770	\$ 15,402,718
Operating expenses	3,574,590	4,106,401
Data processing	96,807	165,376
Depreciation	1,575,473	1,488,384
Scholarships and fellowships	702,682	460,578
Costs of sales and services	721,189	841,369
Interest on capital asset-related debt	486,356	514,204
Other		386,596
<b>Total expenses and other deductions</b>	<b>\$ 21,896,867</b>	<b>\$ 23,365,626</b>
Revenue over expenses	\$ 1,039,468	\$ 3,113,086
<b>NET POSITION:</b>		
Net position-beginning of the year, as restated	\$ 23,140,128	\$ 20,027,043
Net position-end of the year	<b>\$ 24,179,596</b>	<b>\$ 23,140,129</b>

## Statement of Cash Flow

	June 30, 2017	June 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 4,481,186	\$ 4,525,088
Grants and contracts	3,787,795	3,565,849
Payments to suppliers	(4,491,712)	(5,877,294)
Payments to employees	(14,425,542)	(15,320,554)
Payments for scholarships and fellowships	(702,682)	(460,578)
Loans issued to students	(120,143)	(110,131)
Collection of loans to students	79,339	106,245
Auxiliary enterprise charges	2,274,478	2,565,150
Sales and service of educational departments	1,448,892	1,096,659
Cash received on deposits	23,462	10,187
Other receipts	36,667	141,010
<b>Net cash used by operating activities</b>	<b>\$ (7,608,260)</b>	<b>\$ (9,758,369)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	\$ 7,616,456	\$ 7,946,275
Local appropriation	(2,560)	(1,506)
Grants and gifts received for other than capital purposes	2,244,294	2,159,726
Direct Lending Receipts	3,695,014	4,523,827
Direct Lending Disbursements	(3,948,827)	(4,261,930)
Agency fund cash increase (decrease)	440,114	(558,189)
Tax revenues	193,365	215,460
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 10,237,856</b>	<b>\$ 10,023,663</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital appropriations	\$ 863,079	\$ 5,037,764
Capital grants and gifts received		69,273
Purchases of capital assets	(682,839)	(4,389,622)
Insurance proceeds		7,256
Principal paid on capital debt and lease	(872,991)	(1,052,582)
Interest paid on capital debt and lease	(487,592)	(514,291)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (1,180,343)</b>	<b>\$ (842,202)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	\$ 195,676	\$ 205,237
Purchase of investments	(16,235)	24,700
<b>Net cash provided by investing activities</b>	<b>\$ 179,441</b>	<b>\$ 229,937</b>
<b>Net increase (decrease) in cash</b>	<b>\$ 1,628,694</b>	<b>\$ (346,971)</b>
<b>CASH BEGINNING OF YEAR</b>	<b>\$ 3,375,153</b>	<b>\$ 3,722,124</b>
<b>CASH END OF YEAR</b>	<b>\$ 5,003,847</b>	<b>\$ 3,375,153</b>

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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	\$ (9,531,568)	\$ (10,584,486)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,575,473	1,488,384
Other nonoperating revenues (expenses)	(21,442)	43,470
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(145,728)	90,158
Grant & contract receivables	291,683	(240,882)
Inventories	13,522	(15,351)
Notes receivable	(25,175)	(14,088)
Other assets	38,996	80,816
Accounts payable and accrued liabilities adjusted for interest payable	(131,915)	(750,354)
Pension liability	894,069	321,290
Net change in deferred outflows	(503,223)	(232,722)
Net change in deferred inflows	(57,650)	(100,288)
Accrued payroll	(64,558)	91,331
Compensated absences	45,590	2,553
Deferred revenue	(9,796)	51,613
Deposits	23,462	10,187
<b>Net cash used by operating activities</b>	<u>\$ (7,608,260)</u>	<u>\$ (9,758,369)</u>
 <b>SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS:</b>		
Assets acquired through capital lease	\$ 14,056	
Expenses paid by capital lease/special assessment		\$ 394,313
<b>Total non-cash transactions</b>	<u>\$ 14,056</u>	<u>\$ 394,313</u>

**Statement of Appropriations**

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

<b>Expenses by line item</b>	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 16,380,153	\$ (817,422)	\$ 15,562,731	\$ 15,562,731	
Capital Assets	358,992	375,714	734,706	516,440	\$ 218,266
Capital Assets Carryover		4,949,798	4,949,798	4,949,798	
<b>Totals</b>	<b>\$ 16,739,145</b>	<b>\$ 4,508,090</b>	<b>\$ 21,247,235</b>	<b>\$ 21,028,969</b>	<b>\$ 218,266</b>

<b>Expenses by source</b>					
General fund	\$ 16,739,145	\$ 4,508,090	\$ 21,247,235	\$ 21,028,969	\$ 218,266
<b>Totals</b>	<b>\$ 16,739,145</b>	<b>\$ 4,508,090</b>	<b>\$ 21,247,235</b>	<b>\$ 21,028,969</b>	<b>\$ 218,266</b>

**Expenditures without Appropriations of Specific Amounts:**

All funds, in addition to those above are appropriated 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 Mayville State University's internal control as being the highest risk:

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

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

The criteria used to evaluate internal control 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 that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 Mayville State University in a management letter dated July 3, 2018.

### ***Review of Allowance for Doubtful Accounts (Finding 17-1)***

#### **Condition:**

MASU has been using percentages based on the aging category of the accounts receivable to estimate their allowance for doubtful accounts. In fiscal years 2017 and 2016, the allowance for doubtful accounts was \$592,594 and \$488,223, respectively. Also, we noted in fiscal years 2017 and 2016, that \$10,399 and \$9,117 of accounts receivable were written off, respectively. The estimate for the allowance for doubtful accounts is not based on prior results, percentages used are not relevant to the amounts actually written off, and/or accounts receivables are not being written off timely.

#### **Criteria:**

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

**Cause:**

MASU has used the same percentages to record allowance for doubtful accounts for years and has not re-evaluated the accuracy of the estimate.

**Effect or Potential Effect:**

The allowance for doubtful accounts is potentially misstated.

**Recommendation:**

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

**Mayville State University Response:**

*Agree. MASU will take steps to ensure individual accounts are written off in a timely manner and that the allowance for doubtful accounts is reasonable and based on past results. MASU will implement this change for the fourth quarter of 2018. Ian Bjerke and Jami Hovet will be responsible for implementing this change.*



## *Compliance with Legislative Intent*

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

- 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).
- Deferred maintenance funding pool appropriations (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, 54-44.7-02, 48-01.2, 44-08-01).
- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 13, 18, 21, 22, 23, 25, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the Mayville State University in a management letter dated July 3, 2018.

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

#### **Condition:**

MASU had the following issues surrounding procurement:

- Five out of ten procurement transactions and contracts reviewed were not properly procured (totaling \$409,885); and
- One out of four lease agreements entered into were not properly procured (totaling \$50,426).

#### **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 must be purchased from formal bids or a request for proposal.

#### **Cause:**

MASU did not fully understand what was required for the different purchasing thresholds.

#### **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 MASU properly procure commodities in compliance with NDCC and NDUS procurement procedures.

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

*Agree. MASU will attain proper understanding of procurement requirements and will ensure purchases are properly procured in accordance with applicable procedures and laws immediately. Ian Bjerke and Jami Hovet will be responsible for implementing this change.*

## *Operations*

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This audit did not identify areas of Mayville State University's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

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

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July 3, 2018

Ms. Jami Hovet  
Vice President of Business Affairs  
Mayville State University  
330 Third Street NE  
Mayville, MN 58257

Dear Ms. Hovet:

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

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

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of 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.

### **INADEQUATE CONFLICTS OF INTEREST POLICY**

**Condition:**

MASU's conflicts of interest policy is inadequate in regards to identifying and resolving potential conflicts.

**Criteria:**

SBHE Policy 308.1 part 13 states in part, each NDUS institution shall adopt and implement a Code of Conduct consistent with this Code and Committee of Sponsoring Organization of the Treadway Commission (COSO) standards. Institution codes shall include how to identify and resolve conflicts of interest.

**Cause:**

MASU's policies have not been thoroughly reviewed for updates.

**Effect or Potential Effect:**

There is non-compliance with SBHE policy and without adequate monitoring policies in place, conflicts of interest could exist.

**Informal Recommendation #1:**

We recommend that MASU develop and implement policies surrounding conflicts of interest to ensure potential conflicts are identified.

**Mayville State University Response:**

*Agree. MASU will take steps to draft and adequate policy to identify and resolve conflicts. Ian Bjerke and Jami Hovet will be responsible for this and will implement during the second quarter of 2019.*

## INADEQUATE CONTROLS SURROUNDING PURCHASE CARDS

**Condition:**

We did not note any login support for the purchase card transactions from the JP Morgan system to verify transactions had been reviewed for coding by the department administrators.

**Criteria:**

MASU's Purchasing Card Policies and Procedure Manual, Section XXIII, states in part, the department administrator is in charge of making certain that all of the charges are properly coded in the JP Morgan system. The Department Administrator will need to go into the JP Morgan system before the 15<sup>th</sup> of each month and change/verify the funding for each cardholder's charges for that statement period. The funding can be changed anytime during that statement period, but it must be done by the 15<sup>th</sup> of the month.

**Cause:**

There was misinterpretation of the department administrator's responsibilities regarding the approval of proper coding of the purchase card transactions.

**Effect or Potential Effect:**

There are inadequate controls surrounding the review and approval of coding of purchase card transactions, which increases the risk of improperly coded transactions and potentially misstating the financial statements.

**Informal Recommendation #2:**

We recommend that purchase card transactions have a documented review and approval to ensure coding is adequate for financial reporting purposes.

**Mayville State University Response:**

*Agree. MASU will ensure that there are proper forms and training in place to allow for proper review and approval of coding related to purchasing card transactions. MASU will implement during the first quarter of 2019 and Ian Bjerke and Jami Hovet will be responsible for implementing this change.*

## INADEQUATE MONITORING OF ACCESS ROLES

**Condition:**

For the financial and human capital management environments of PeopleSoft for fiscal year 2017, MASU ran access roles and compared against an active list of employees, however, the roles were not monitored to ensure the proper access was granted and/or removed for employees to perform their job duties and to warrant proper segregation of duties.

**Criteria:**

Committee of Sponsoring Organizations (COSO) states in part, a control activity surrounding access would be to review access requests to the system to determine whether segregation of duties is being maintained. Segregation of duties would help reduce the risk of error or inappropriate or fraudulent actions.

NDUS procedure 1912.1 identifies risks, such as access and security, and requires coordinators to review procedures, keep current on potential threats, and conduct regular risk assessment and an annual evaluation to ensure ongoing compliance.

**Cause:**

Proper segregation of duties was not considered when the access roles were reviewed by the access control officers.

**Effect or Potential Effect:**

There is noncompliance with the COSO standards and NDUS procedure 1912.1.

**Informal Recommendation #3:**

We recommend MASU continuously monitor the access roles for the financial and human capital management environments of PeopleSoft to ensure the proper level of access is granted and/or removed in a timely manner to warrant proper segregation of duties and the monitoring of access roles be documented at least yearly.

**Mayville State University Response:**

*Disagree. MASU disagrees with this condition as roles were formally monitored at least twice during the year for role conflicts and to ensure that the individual with the role was still an active employee.*

**Auditors Concluding Comments:**

*If MASU is formally monitoring these roles, there needs to be documentation on: who performed such duties, when, what where the results, and what action was taken due to these results. A well-documented process leaves a good audit trail and give credit to the employee(s) conducting such monitoring.*

## UNCLAIMED PROPERTY ACT

**Condition:**

MASU did not send all abandoned checks as of June 30, 2017 to Unclaimed Property.

**Criteria:**

NDCC section 47-30.1-02.1 part 1 states in part that any checks held, issued, or owing in the ordinary course of the holder's business which remain uncashed by the owner for more than two years after becoming payable are presumed abandoned.

NDCC section 47-30.1-17 part 4 states in part that the report and property must be delivered by November first of each year for property deemed abandoned as of the preceding June thirtieth.

**Cause:**

There is a lack of familiarity with the Unclaimed Property Act.

**Effect or Potential Effect:**

MASU is not in compliance with NDCC.

**Informal Recommendation #4:**

We recommend that MASU submit to Unclaimed Property all checks that have been uncashed or shown no interest in for more than two years after becoming payable as of the fiscal year end.

**Mayville State University Response:**

*Agree. MASU will ensure compliance with the unclaimed property act. MASU will implement the change immediately by sending all uncashed checks over two years old to unclaimed property, and Ian Bjerke and Jami Hovet will be responsible for implementing this change.*

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". The signature is written in black ink and is positioned below the word "Sincerely,".

Robyn Hoffmann, CPA  
Audit Manager

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