

WILLISTON STATE COLLEGE

WILLISTON, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor

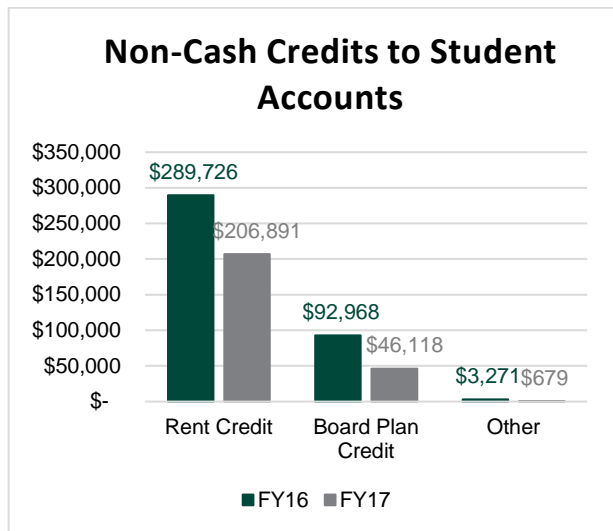
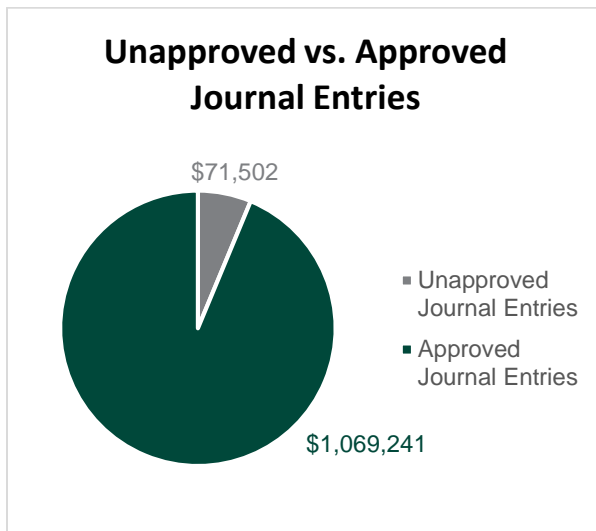
Office of the State Auditor
Division of State Audit

Williston State College Report Highlights

Internal Control:

We found several areas that could be improved at Williston State College:

- Cash and Revenue – Inadequate reconciliations of student finance and marketplace to the general ledger and receipts are not being deposited timely.
- Payroll – No reconciliation of salaries to contracts entered into PeopleSoft and lack of proper approval of payroll appointment change forms.
- Expenditures – Inadequate approval of journal entries and several individuals had unnecessary access to PeopleSoft roles.
- Purchase Cards – No approval of reconciliations of statements by administrator and no policy/procedures in place for changes to credit limit of purchase card holders.
- Non-Cash Credits - Inadequate supporting documentation for non-cash credit adjustments to student accounts.



Source: ConnectND Financials

Legislative Intent:

We tested high-risk areas of legislative intent and found that procurement procedures, blanket bond coverage, inadequate equipment inventory and the lack of supporting documents were issues:

- Williston State College did not properly procure commodities and services in compliance with NDCC, NDUS requirements and the Williston State College purchasing policy.
- Williston State College did not have blanket bond coverage during the audit period.
- Williston State College did not have adequate controls in place surrounding equipment annual inventory.
- Williston State College lacked supporting documentation for travel and general ledger transactions.

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AUDITOR AND UNIVERSITY PERSONNEL

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Mary Feltman, CPA, Auditor
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Alex Mehring, CPA, Auditor
Cory Wigdahl, CFE, Auditor**

Primary University Contacts

**Dr. John Miller, President
Riley Yadon, Chief Financial Officer
Amy Anderson, Controller**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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Transmittal Letter

July 24, 2018

Members of the North Dakota Legislative Assembly
State Board of Higher Education
Dr. John Miller, President, Williston State College

We are pleased to submit this audit of Williston 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 Miller 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

Williston State College is an open admission, learner-centered, comprehensive community college of the North Dakota University System providing academic transfer and occupational education, workforce training, and cultural activities to residents of North Dakota, the Upper Plains, and beyond. Williston State College is committed to providing educational opportunities that are accessible, affordable, life-changing, and life-long.

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 Williston 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?

Other than our findings addressing "Noncompliance with Procurement Rules" (page 13), "Lack of Blanket Bond Coverage" (page 14), "Inadequate Controls Surrounding Equipment" (page 14) and "Lack of Supporting Documentation" (page 20), Williston State College 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?

No. We noted five internal controls matters that need to be addressed:

- Lack of Controls Surrounding Cash and Revenues (page 16)
- Lack of Controls Surrounding Payroll (page 17)
- Lack of Controls Surrounding Expenditures (page 18)
- Lack of Controls Surrounding Purchase Card Expenditures (page 19)
- Inadequate Controls over Non-Cash Adjustments (page 20)

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?*

No. There were six prior recommendations that were not implemented:

- Lack of Controls Surrounding Cash and Revenues (page 16)
- Lack of Controls Surrounding Payroll (page 17)
- Lack of Controls Surrounding Expenditures (page 18)
- Lack of Controls Surrounding Purchase Card Expenditures (page 19)
- Inadequate Controls over Non-Cash Adjustments (page 20)
- Lack of Supporting Documentation (page 20)

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 22 of this report, along with management's responses.

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, Williston 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 Williston 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 for uncollectible receivables 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 it is 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 Williston 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 Williston 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 Williston 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 Williston State College and are they in compliance with these laws?
3. Are there areas of Williston State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Williston 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.

The Williston State College's sole location is its Williston campus which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared 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.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Williston 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	\$ 4,176,916	\$ 4,327,377
Investments	974,520	974,520
Accounts receivable, net	612,553	120,688
Due from other NDUS institutions	115,340	166,810
Due from component unit	138,732	67,015
Due from state general fund	282,151	376,000
Grants and contracts receivables, net	400,899	369,313
Inventories	109,539	135,368
Notes receivable, net	135,240	130,820
Other assets	4,061	2,503
Capital assets, net	50,371,474	52,588,638
Total assets	\$ 57,321,425	\$ 59,259,052
Deferred outflows of resources	\$ 376,456	\$ 171,314
LIABILITIES:		
Accounts payable	\$ 376,563	\$ 757,298
Due to other NDUS institutions	18,318	4,446
Due to component units	452,153	554,640
Accrued payroll	639,372	623,617
Unearned revenue	85,853	199,746
Deposits	(86,465)	(70,553)
Pension liability	1,160,687	856,058
Other noncurrent liabilities	7,802	7,799
Due to others	10,790,957	11,113,959
Total liabilities	\$ 13,445,240	\$ 14,047,010
Deferred inflows of resources	\$ 107,524	\$ 96,966
NET POSITION:		
Invested in capital assets	\$ 39,757,044	\$ 41,576,937
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	53,670	56,583
Expendable:		
Scholarships and fellowships	83,843	69,215
Institutional	(262,946)	(94,780)
Loans	177,451	198,940
Debt service	843,591	852,325
Unrestricted	3,492,464	2,627,170
Total net position	\$ 44,145,117	\$ 45,286,390

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2017	June 30, 2016
REVENUES AND OTHER ADDITIONS:		
Student tuition and fees	\$ 1,363,091	\$ 652,333
Federal grants and contracts	2,308,009	2,470,286
State and local grants and contracts	604,361	811,701
Nongovernmental grants and contracts	1,114	4,098
Sales and services of educational departments	2,366,907	2,883,860
Auxiliary enterprises	1,854,235	2,243,623
Other	66,539	62,577
State appropriations	5,682,151	6,009,000
Gifts	3,142,221	3,173,002
Endowment and investment income	2,808	2,949
Gain on disposal of capital assets		69,999
State appropriations - capital assets	(370,000)	1,284,922
Capital grants and gifts	12,133	
Inter-institutional transfers		5,828
Total revenues and other additions	\$ 17,033,569	\$ 19,674,178
EXPENSES AND OTHER DEDUCTIONS:		
Salaries and wages	\$ 10,261,813	\$ 10,934,343
Operating expenses	3,139,344	3,811,961
Data processing	289,230	357,391
Depreciation	2,295,207	2,301,052
Scholarships and fellowships	950,691	835,458
Costs of sales and services	617,365	568,295
Interest on capital asset-related debt	340,561	329,659
Total expenses and other deductions	\$ 17,894,211	\$ 19,138,159
Revenue over (under) expenses	\$ (860,642)	\$ 536,019
NET POSITION:		
Net position-beginning of the year, as restated	\$ 45,005,759	\$ 44,750,371
Net position-end of the year	\$ 44,145,117	\$ 45,286,390

Statement of Cash Flows

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 1,060,511	\$ 672,117
Grants and contracts	1,997,248	2,545,475
Payments to suppliers	(3,630,202)	(5,046,511)
Payments to employees	(10,159,532)	(10,878,045)
Payments for scholarships and fellowships	(950,691)	(835,458)
Loans issued to students		(10,500)
Collection of loans to students	38,078	34,741
Auxiliary enterprise charges	1,806,712	2,257,409
Sales and service of educational departments	2,038,006	3,588,997
Cash received (paid) on deposits	6,921	(504,428)
Other receipts	24,978	68,404
Net cash used by operating activities	<u>\$ (7,767,971)</u>	<u>\$ (8,107,799)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	\$ 5,030,000	\$ 6,009,000
Grants and gifts received for other than capital purposes	4,002,032	3,990,534
Direct Lending Receipts	1,582,705	1,254,472
Direct Lending Disbursements	(1,582,705)	(1,254,472)
Agency fund cash increase (decrease)	(22,462)	48,590
Net cash flows provided by noncapital financing activities	<u>\$ 9,009,570</u>	<u>\$ 10,048,124</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt		\$ 242,767
Capital appropriations	\$ 376,000	962,510
Capital grants and gifts received	12,133	
Purchases of capital assets	(473,389)	(1,954,282)
Principal paid on capital debt and lease	(411,852)	(683,259)
Interest paid on capital debt and lease	(617,266)	(344,591)
Net cash used by capital and related financing activities	<u>\$ (1,114,374)</u>	<u>\$ (1,776,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	\$ 2,537	\$ 2,410
Net cash provided by investing activities	<u>\$ 2,537</u>	<u>\$ 2,410</u>
Net increase in cash	\$ 129,762	\$ 165,880
CASH BEGINNING OF YEAR	<u>\$ 4,047,154</u>	<u>\$ 4,161,497</u>
CASH END OF YEAR	<u>\$ 4,176,916</u>	<u>\$ 4,327,377</u>

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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	\$ (9,900,396)	\$ (10,560,816)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	2,295,207	2,301,052
Other nonoperating revenues	15,646	58,322
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(483,752)	653,574
Grant & contract receivables	(56,425)	87,690
Inventories	25,830	(100,865)
Notes receivable	38,470	27,917
Other assets	(1,558)	
Accounts payable and accrued liabilities adjusted for interest payable	300,114	(144,131)
Pension liability	304,629	54,272
Net change in deferred outflows	(205,142)	(1,904)
Net change in deferred inflows	10,558	(59,546)
Accrued payroll	7,278	102,091
Compensated absences	(15,041)	(38,615)
Deferred revenue	(110,310)	17,586
Deposits	6,921	(504,426)
Net cash used by operating activities	<u>\$ (7,767,971)</u>	<u>\$ (8,107,799)</u>

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

Assets acquired through special assessments	<u>\$ 44,864</u>
Total non-cash transactions	<u>\$ 44,864</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	\$ 12,550,464	\$ (859,313)	\$ 11,691,151	\$ 11,691,151	
Capital Assets	197,801	371,010	568,811	459,744	\$ 109,067
Capital Assets Carryover		901,343	901,343	878,766	22,577
Capital Off System - Carryover					
Workforce training center		571,343	571,343	413,370	157,973
Totals	\$ 12,748,265	\$ 984,383	\$ 13,732,648	\$ 13,443,031	\$ 289,617
Expenses by source					
General fund	\$ 12,748,265	\$ 413,040	\$ 13,161,305	\$ 13,029,661	\$ 131,644
Special fund		571,343	571,343	413,370	157,973
Totals	\$ 12,748,265	\$ 984,383	\$ 13,732,648	\$ 13,443,031	\$ 289,617

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 June 30, 2017, we identified the following areas of Williston 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 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 significant deficiencies in internal control that are included in the Prior Recommendations not Implemented section of this report as "Lack of Controls Surrounding Cash and Revenues" (page 16), "Lack of Controls Surrounding Payroll" (page 17), "Lack of Controls Surrounding Expenditures" (page 18), "Lack of Controls Surrounding Purchase Card Expenditures" (page 19), and "Inadequate Controls Over Non-Cash Adjustments" (page 20). We also noted other matters involving internal control that we have reported to management of Williston State College in a management letter dated July 24, 2018.

Compliance with Legislative Intent

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

- NDUS 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).
- Williston State College reported to the appropriations committees of the sixty-fifth legislative assembly regarding the use of \$2,500,000 extraordinary campus needs funding for the biennium ended June 30, 2017 and the need to continue the funding for the biennium ending June 30, 2019 (2015 HB 1003, chapter 3, section 44).
- 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).
- 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 four instances of noncompliance that are required to be reported under *Government Auditing Standards*. Three of the findings are described below and the other finding is included in the Prior Recommendations Not Implemented section of this report as “Lack of Supporting Documentation” (page 20). Other than these findings, we concluded there was compliance with the legislative intent identified above.

Noncompliance with Procurement Rules (Finding 17-1)

Condition:

WSC did not properly procure five of the eleven procurement transactions and contracts reviewed (totaling \$308,409).

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. For service purchases greater than \$10,000 but less than \$100,000 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, service purchases of \$100,000 and greater must be purchased from formal bids or a request for proposal.

WSC Purchasing Policy states in part that commodity purchases greater than \$2,500 but less than \$25,000, solicit no fewer than three vendors to submit oral or written informal bids or proposals (when feasible). If three bids cannot be received, written justification must be provided. Purchases over \$25,000 solicit formal, sealed bids.

Cause:

WSC 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 the WSC Purchasing Policy, NDUS procedures, and ultimately, noncompliance with NDCC chapter 54-44.4.

Recommendation:

We recommend that WSC properly procure commodities and services in compliance with NDCC, NDUS requirements and the WSC Purchasing Policy.

Williston State College Response:

Agreed. The CFO will implement a corrective action plan that includes correspondence with Budget Managers to ensure compliance with NDCC, NDUS and a revised WSC Purchasing Policy. This corrective action plan will be placing requirements on purchasing in agreement with NDCC, NDUS and WSC Policy. Implementation has begun as of 8/1/2018 and will include training on SBHE 803.4 thresholds effective 4/01/2018 and a review of purchase order requirements. This change in College policy will take approximately four months to complete. Expected full implementation by 12/31/2018.

Lack of Blanket Bond Coverage (Finding 17-2)

Condition:

WSC did not have a blanket bond coverage during our audit period.

Criteria:

NDCC section 26.1-21-10 states each state agency shall apply to be bonded in the fund no less often than on a biennial basis or when a change in coverage is requested, whichever occurs first.

Cause:

WSC failed to renew their blanket bond coverage with the North Dakota Insurance Department.

Effect or Potential Effect:

WSC is at risk of losing money, should a loss occur.

Recommendation:

We recommend that WSC maintain adequate blanket bond coverage.

Williston State College Response:

Agreed. The renewal notice was sent to an email account for an employee that was no longer employed at the College.

We have purchased the Blanket Bond Coverage and the future renewal notices will be sent to the College via U.S. Mail. WSC Controller will ensure that the renewal notices are purchased timely in agreement with NDCC Section 26.1-21-10.

Inadequate Controls Surrounding Equipment (Finding 17-3)

Condition:

WSC does not have adequate controls in place surrounding equipment:

- Documentation was lacking to prove that an annual inventory had been performed for all departments;
- Inadequate documentation showing the individual who performed the inventory and the subsequent independent approval of the departmental inventory; and
- Equipment was not removed from PeopleSoft in a timely manner.

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.

Cause:

This was an oversight by WSC.

Effect or Potential Effect:

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

Recommendation:

We recommend that WSC implement controls to ensure that there is proper documentation of departmental inventories, including the individual(s) performing and approving the inventories and equipment is updated in PeopleSoft timely.

Williston State College Response:

Agreed. The new CFO will review existing controls and analyze internal control weaknesses. The Financial Management Accountant will ensure proper documentation and completion of these inventories by the Department Managers on an annual basis and this will be reviewed by the CFO.

Upon completion of annual inventories, the Financial Management Accountant will save these inventories and reconcile any differences between PeopleSoft and inventory results. If changes are needed, the Financial Management Accountant will submit the changes to the Controller or CFO for approval of the timely entry into PeopleSoft.

Prior Recommendations not Implemented

The following recommendations from the prior audit have not been implemented:

1. Lack of Controls Surrounding Cash and Revenues

Condition:

During the fiscal year 2012–2013 and subsequent audits, we noted a lack of controls surrounding cash and revenues.

Current Status:

WSC lacked controls in the following areas surrounding cash and revenue:

- Adequate reconciliations of student finance to the general ledger to the bank statements are not being performed;
- Reconciliations of marketplace to the general ledger are not being performed on a monthly basis;
- Receipts are not being deposited timely (19%); and
- Credit card settlement reports did not agree to the credit card receipts in PeopleSoft (9%).

Effect:

WSC is susceptible to an increased risk of theft or fraud occurring and not being detected in a timely manner.

Cause:

WSC has not taken steps necessary to review and revise internal controls to mitigate the risk of error, theft, or fraud.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication *Internal Control - Integrated Framework* states that control activities include approvals, reconciliations, and segregation of duties.

NDUS Accounting Manual states in part that cash receipts should be logged and deposited in the bank daily or as dictated by policy. Cash receipts of various departments should be deposited to the Business Office intact, on a daily basis.

GASB statement 34, paragraph 92 states: "Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting." This can be defined as all revenues are recorded when earned.

Recommendation:

We recommend WSC implement controls to ensure:

- Adequate reconciliations are performed to completely reconcile student finance to the general ledger and the bank statements;
- Reconciliation of marketplace to the general ledger is being performed on a monthly basis;
- Timely deposit of receipts; and
- Credit card settlement reports agree to PeopleSoft credit card receipts.

Williston State College's Response:

Agreed. Reconciliations will be initiated by the Student Finance Associate and submitted for review by the Controller. This reconciliation will be completed on a monthly basis.

Reconciliations of the marketplace will be completed by the Student Finance Associate and reviewed by the Controller. This reconciliation will be completed on a monthly basis.

Credit card settlement reports are reconciled by the WSC AP Associate and is reviewed for discrepancies and submitted to the Controller for a final review. Any discrepancies will be investigated and adjusted as needed upon receipt of Controller approval.

All departments are trained on the daily deposit requirement and the CFO will ensure that all departments are complying with these requirements. Periodic reviews of daily cash deposits to ensure compliance with these deposits on a quarterly basis will be conducted.

2. Lack of Controls Surrounding Payroll

Condition:

During the fiscal year 2012-2013 and subsequent audits, we noted a lack of controls surrounding payroll.

Current Status:

WSC has inadequate controls in place surrounding payroll:

- There is not a documented independent reconciliation of the salaries entered into PeopleSoft to the approved contracts; and
- Payroll appointment change forms are not being approved prior to the effective date of the change.

Effect:

There is an increased risk of error or fraud including the possibility that a fictitious employee could be created and go undetected in the normal course of business.

Cause:

WSC has failed to implement proper controls surrounding payroll.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication Internal Control - Integrated Framework states that control activities include approvals, reconciliations, and segregation of duties.

WSC Human Resource Personnel Change Form procedure states "personnel change forms are due in the payroll office before a new employee's first day of work or before the effective date of any changes."

Recommendation:

We recommend WSC strengthen controls surrounding payroll by:

- Performing an independent reconciliation of salaries to approved contracts on at least an annual basis; and
- Obtain approval for payroll appointment changes prior to the effective date of the change.

Williston State College's Response:

Agreed. The WSC Payroll Associate will review the payroll contracts prior to entry into PeopleSoft. The CFO will review the entries into PeopleSoft and a reconciliation to these contracts will be documented. Salaries and wages will be reconciled to the contract and/or any payroll change forms. The CFO will also conduct a review of the semi-monthly payroll amounts and save the reconciliation.

Any changes to employment will be initiated by the Supervisor and approved by the Department Manager. The document is submitted to the CFO and final approval is the President of the College.

3. Lack of Controls Surrounding Expenditures

Condition:

During the fiscal year 2012-2013 and subsequent audits, we noted a lack of controls surrounding expenditures.

Current Status:

WSC has weak controls in place surrounding expenditures, specifically:

- 7 out of 32 journal entries (22%) did not have proper approval; and
- Several individuals in the Business Office had access on PeopleSoft to void/reissue checks. These employees do not have any responsibilities in the check voiding/reissuing processes.

Effect:

WSC is susceptible to an increase risk of error, fraud, or abuse occurring and going undetected or not being caught in a timely manner.

Cause:

WSC has not taken steps necessary to review and revise its internal controls to eliminate or mitigate its internal control risk.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication Internal Control - Integrated Framework states control activities include approvals.

NDUS Procedure 1901.2 part 4.1 states in part that access to information and devices is granted to authorize NDUS personnel as necessary for the performance of their duties and such access should be based on minimal need to perform those duties.

Recommendation:

We recommend WSC implement controls surrounding expenditures to ensure there is:

- *A standardized approval process for journal entries; and*
- *A review of the access roles for voiding/reissuing checks to ensure only those necessary individuals have access.*

Williston State College's Response:

Agreed. Expenditures will be reviewed and approved by the appropriate department managers for approval review of the required documentation. After department approval the expenditure is submitted for final review by the Controller, CFO or Financial Accountant/Analyst based upon approval requirements.

ONL journal entries will have a secondary review from the preparer by the Controller, CFO or Financial Accountant/Analyst.

Access roles in PeopleSoft will be reviewed quarterly by the division(s) access control officer. Appropriate access roles will be maintained according to position requirements. Compensating controls will be in place as needed.

4. Lack of Controls Surrounding Purchase Card Expenditures

Condition:

During the fiscal year 2012-2013 and subsequent audits, we noted a lack of controls surrounding purchase card expenditures.

Current Status:

WSC has weak controls in place surrounding purchase card expenditures, specifically:

- The agency statement was not signed by the card administrator indicating that it was reconciled to the individual card holder statements (53%); and
- There is no policy or procedure in place when a temporary or permanent change to the credit limit of an individual's purchase card is increased or decreased.

Effect:

The risk of misstatement, fraud, and noncompliance are increased with inadequate reviews, inadequate or missing documentation, and lack of proper controls. WSC exposes itself to risk of loss, potential liabilities, and damage to their reputation, whether due to error, theft or fraud.

Cause:

Adequate reconciliations and supporting documentation for purchase card transactions are not being maintained.

Criteria:

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework states that control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

OMB's Fiscal and Administrative Policy #300 Purchasing Card, in part states card administrators should run an agency statement with the state's current card provider, reconcile it to the individual statements and sign the agency statement denoting reconciliation.

Recommendation:

We recommend WSC strengthen controls surrounding purchase cards by:

- *Ensuring the card administrator reconciles the individual statements with the agency statement and signs off to the card statement; and*
- *Develop a policy or procedure for the temporary or permanent changes to credit limits to individual's cards.*

Williston State College's Response:

Agreed. WSC has adopted the SBHE P-Card Policy 803.4 effective 4/1/2018. The Department Budget Managers ensure all required supporting documentation and reconciliation is completed by the individual P-Card holder and submitted to the AP Associate. The AP Associate will reconcile the p-card statements, investigate any discrepancies, and sign off on the reconciliation. The CFO/Controller will perform a final review and approval prior to posting.

WSC adopted the NDUS Purchase Card Change Request form. Department Budget Managers approve and submit the Change Request Form to the CFO for approval. The CFO forwards the request form to the P-Card administrator who then enters the corresponding changes.

5. *Inadequate Controls over Non-Cash Adjustments*

Condition:

During the fiscal year 2012-2013 and subsequent audits, we noted a lack of controls surrounding non-cash adjustments.

Current Status:

Controls surrounding non-cash credit adjustments are inadequate, specifically, we noted there was not adequate supporting documentation for non-cash credit adjustments to student accounts maintained on file.

Effect:

WSC lacks assurance regarding the propriety of non-cash adjustments recorded to student accounts and erroneous adjustments could be recorded without detection.

Cause:

WSC has not adequately developed and implemented proper internal controls surrounding non-cash adjustments.

Criteria:

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.

Recommendation:

We recommend WSC strengthen controls surrounding non-cash credit adjustments posted to student accounts to ensure supporting documentation is maintained for all non-cash credit adjustments.

Williston State College's Response:

Agreed. The Director of Residence Life is responsible for obtaining supporting documentation for non-cash adjustment transactions from the THD (housing) System that interfaces with Campus Solutions student accounts. WSC has created the Residence Life Change Request form to indicate the change, student signature is received, and the corresponding form is saved to the student file.

Other than housing requests, the originating department will complete the Non-Cash Adjustment form documenting the reason for the non-cash adjustment. The Controller will review all changes prior to the manual postings.

6. *Lack of Supporting Documentation*

Condition:

During the fiscal year 2014-2015 audit, we noted that WSC did not have adequate supporting documentation to substantiate transactions.

Current Status:

WSC lacked supporting documentations for the following transactions:

- Documentation of individuals present for team travel meals was not provided for travel expenses;
- Request for travel forms are not being completed prior to employee travel; and
- General ledger transactions were missing supporting documentation.

Effect:

Unsupported accounting transactions increases the risk of misstated financial statements and allows for fraud, waste, and abuse to occur without detection.

Cause:

WSC is not ensuring that all supporting documents are obtained prior to payment.

Criteria:

NDCC section 54-46-05 states in part that the head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities.

NDCC section 44-08-04 states in part that a higher education athletic team or organization may be submitted for payment on a team or group travel expense report for team meals including coaches, trainers and other employees.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commissions publication *Internal Control - Integrated Framework* states, in part, that management must also determine how much documentation is needed to assess the effectiveness of internal control. Some level of documentation is always necessary to assure management that the components of internal control are in place and functioning.

WSC Staff Handbook states in part that a "request for travel" form must be filled out and signatures secured prior to leaving.

Recommendation:

We recommend that WSC maintain documentation for all transactions to ensure an adequate audit trail is available.

Williston State College's Response:

Agreed. Team travel rosters are provided with all team travel payment requests. The department budget manager is responsible for ensuring team travel rosters are provided. The WSC Controller or AP Associate will review to ensure all rosters are attached.

A current evaluation of the travel request form is being considered at Cabinet and their recommendations will be implemented upon completion of their review.

The WSC Controller or CFO will ensure that general ledger transactions have all of the required supporting documentation during the final review.

Management Letter (Informal Recommendations)

July 24, 2018

Riley Yadon
Chief Financial Officer
Williston State College
1410 University Avenue
Williston, North Dakota 58802

Dear Mr. Yadon:

We have performed an audit of Williston 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 Williston 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 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 MONITORING OF ACCESS ROLES

Condition:

WSC is not properly monitoring access roles in the human capital management and financial environments of PeopleSoft. There were employees who had access in these two environments in roles that should not have had access.

Effect:

There is noncompliance with NDUS procedure 1912.1 and lack of good internal controls.

Cause:

The reviews of the access roles in PeopleSoft were inadequate.

Criteria:

Proper internal controls should provide reasonable assurance that operations are effective and

efficient and financial reporting is reliable. An integral part of operational effectiveness and efficiency, as well as ensuring the reliability of financial information is requiring that proper restrictions on the different levels of access are continuously monitored to ensure the integrity of the data. Additionally, proper internal controls also provide reasonable assurance of compliance with applicable laws and regulations.

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

Informal Recommendation #1:

We recommend that WSC continuously monitor the access roles to the human capital management and financial 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.

Williston State College Response:

Agreed. Access Control Officers for Finance, HRMS, and Campus Solutions will review access roles pertaining to areas in which they act as Access Control Officer. A review of access roles will be completed on a quarterly basis.

All changes and new access will be approved to ensure compliance with the NDUS procedures and ensure compliance with segregation of duties. Compensating controls for individuals that require conflicting roles will be retained on file with NDUS and the compensating control will be reviewed on a monthly basis by the access control officer. All reviewed documentation will be signed and maintained by the campus.

INADEQUATE CONTROLS SURROUNDING TILL FUNDS

Condition:

WSC did not have adequate controls to ensure proper safeguarding of till funds. During fiscal year 2017, WSC could not account for \$1,000 in their athletic till fund and had to write off the amount.

Effect:

WSC is susceptible to an increased risk of theft or fraud occurring and not being detected in a timely manner.

Cause:

WSC did not implement appropriate controls for all till funds.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication *Internal Control - Integrated Framework* section on Transaction Control Activities states in part that controls for cash and other assets are secured physically (eg. in a locked or guarded storage area with physical access restricted to authorized personnel) and are periodically counted and compared with amounts shown on control records.

Informal Recommendation #2:

We recommend that WSC ensure adequate controls are implemented to safeguard till funds.

Williston State College Response:

Agreed. Surprise till fund counts are performed by an individual outside the cashiering office. Surprise count dates are determined by the independent individual and performed on a quarterly basis at a minimum.

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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