

BISMARCK STATE COLLEGE

BISMARCK, 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

Bismarck State College Report Highlights

Financials, Legislative Intent, and Internal Control

We evaluated and tested high risk areas of internal control, and legislative intent. We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

Operations

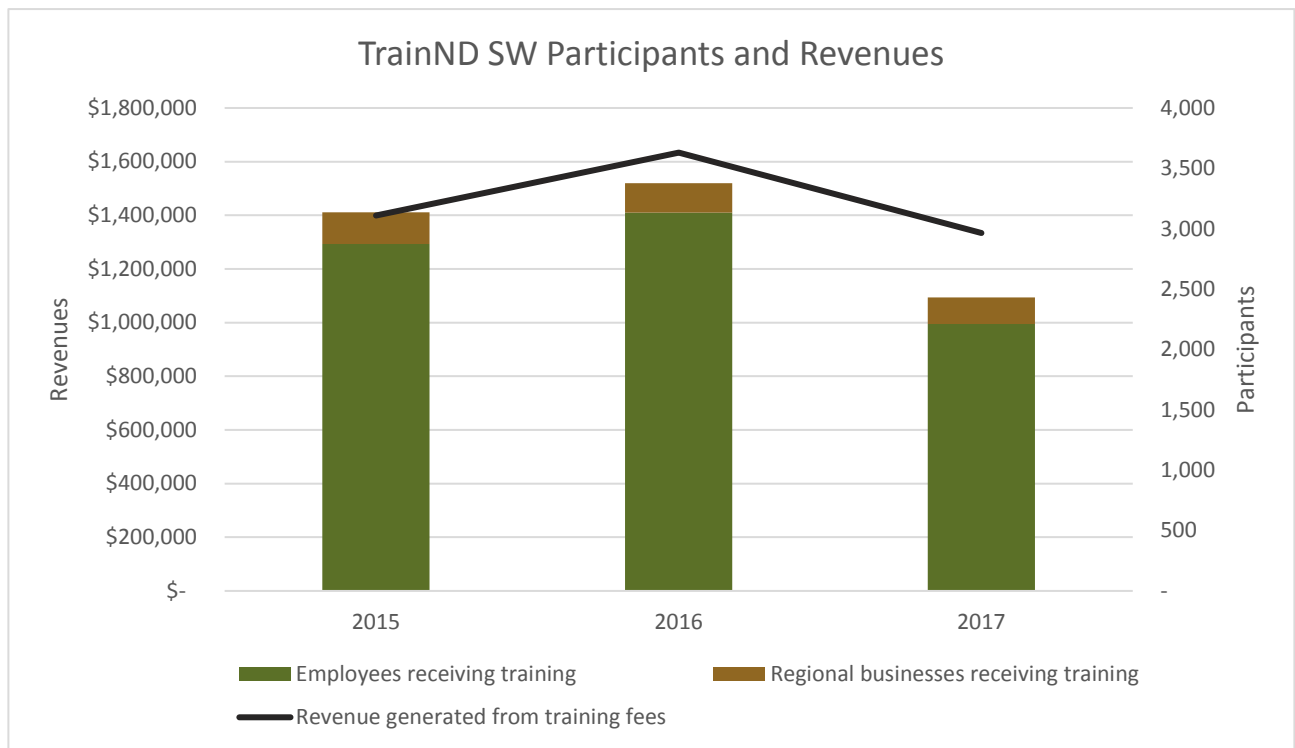
TrainND was established to provide workforce training to the businesses and citizens of North Dakota. The 1999 Legislature developed the program in four areas of the state. The purpose and goals of TrainND are to boost the knowledge and skills of employees, businesses, and the area industries. TrainND is provided with funding from the legislature, fees from participants, institutional funds and occasional grants.

Bismarck State College operates TrainND Southwest. The focus includes training for medical, computer and technology and technical areas.

Objectives:

- What are the TrainND performance measurements and how are they tracked?
- What registration subsystem is utilized and how does the subsystem transfer to the general ledger?

We did not note any deficiencies that are required to be brought to the attention of those charged with governance.



Source: NDUS Annual Enrollment Reports

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AUDITOR AND COLLEGE PERSONNEL

State Auditor Personnel

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

Primary College Contacts

Dr. Larry Skogen, President
Rebecca Collins, CFO
Jess Dargis, Controller
Sara Vollmer, TrainND Director

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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Transmittal Letter

February 13, 2018

Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. Larry Skogen, President, Bismarck State College

We are pleased to submit this audit of the Bismarck 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 Dr. Skogen 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

Since its founding in 1939, Bismarck State College has evolved from a locally based junior college to a state college whose mission fits within system and core missions of institutions governed by the North Dakota State Board of Higher Education (SBHE). The institution emphasizes the necessity of remaining open to evolutionary change to best fulfill present and future demands, which will be placed upon it.

The purpose of Bismarck State College is to provide an educational environment of the highest caliber at a reasonable cost; to maintain a warm and wholesome social atmosphere; to provide opportunities for advanced knowledge, improved skills, high ideals and ethical standards; and to make learning an enjoyable, rewarding experience.

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 Bismarck 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.*

No, a management letter was not issued.

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, Bismarck 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 Bismarck State College include useful lives of capital assets and allowance for uncollectible receivables. 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. We evaluated the key factors and assumptions used to develop the estimated useful lives and allowances 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 the Bismarck 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 the Bismarck 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 the Bismarck 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 the Bismarck State College and are they in compliance with these laws?
3. Are there areas of the Bismarck State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Bismarck 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.

Bismarck State College's sole location is its Bismarck 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 Bismarck State College's processes and procedures.
- Performed a review of TrainND Southwest.

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>
ASSETS		
Cash and cash equivalents	\$ 7,638,396	\$ 7,485,406
Investments	3,561,000	3,561,000
Accounts receivable, net	1,042,803	990,068
Receivable from component units	51,124	46,871
Due from other NDUS institutions	29,900	
Due from state general fund	554,313	102,925
Grants & contracts receivables, net	2,012,880	2,286,901
Inventories	677,846	661,692
Notes receivable, net	232,703	238,002
Other assets	441,343	368,142
Unamortized bond discount		
Capital assets, net	56,692,990	57,779,892
Total assets	<u>\$ 72,935,298</u>	<u>\$ 73,520,899</u>
Deferred outflows of resources	\$ 1,625,646	\$ 742,696
LIABILITIES		
Accounts payable	\$ 1,728,009	\$ 1,818,463
Due to other NDUS institutions	(2,223)	(14,669)
Payable to component unit	20,165	21,454
Accrued payroll	1,739,594	2,116,949
Deferred revenue	711,379	801,189
Deposits	273,921	182,740
Other liabilities	7,596	48,267
Due to component units	1,356,660	1,490,416
Due to others	10,781,247	11,527,394
Pension liability	4,478,255	3,014,657
Total liabilities	<u>\$ 21,094,603</u>	<u>\$ 21,006,860</u>
Deffered Inflows of Resources	\$ 364,680	397,871
NET POSITION		
Invested in capital assets	\$ 45,696,155	\$ 45,919,002
Restricted for:		
Expendable:		
Scholarships and fellowships	99,634	137,597
Institutional	9,741	5,046
Loans	255,576	406,303
Debt service	41,045	39,723
Unrestricted	6,999,510	6,351,193
Total net position	<u>\$ 53,101,661</u>	<u>\$ 52,858,864</u>

Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 16,879,039	\$ 17,797,303
Student tuition and fees	13,447,816	13,049,663
State appropriations-capital assets	1,299,605	2,474,016
Federal grants and contracts	4,767,381	6,360,403
Auxiliary enterprises	4,137,687	3,941,505
Sales and services of educational departments	3,678,711	3,964,442
Federal grants and contracts	2,533,181	2,511,253
Gifts	1,811,245	1,675,592
Gain on disposal of capital assets	16,148	
State and local grants and contracts	730,335	2,036,311
Capital grants and gifts	479,035	927,080
Nongovernmental grants and contracts	168,986	307,224
Investments income	12,457	10,682
Insurance proceeds	41,927	4,000
Other	67,661	352,108
Total revenues and other additions	<u>\$ 50,071,214</u>	<u>\$ 55,411,582</u>
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 29,258,673	\$ 30,669,394
Operating expenses	13,268,172	15,524,815
Depreciation	2,964,776	2,484,310
Cost of sales and services	1,879,410	1,888,758
Scholarships and fellowships	1,544,704	1,997,926
Data processing	530,846	696,765
Other nonoperating expenses		
Inter-institutional transfers		20,386
Interest on capital asset-related debt	381,838	413,783
Loss on capital assets		160,916
Total expenses and other deductions	<u>\$ 49,828,419</u>	<u>\$ 53,857,053</u>
Revenue over expenses	<u>\$ 242,795</u>	<u>\$ 1,554,529</u>
NET POSITION		
Net Position-beginning of the year	<u>\$ 52,858,866</u>	<u>\$ 51,304,335</u>
Net Position-end of the year	<u>\$ 53,101,661</u>	<u>\$ 52,858,864</u>

Statement of Cash Flows

	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 13,529,239	\$ 13,264,200
Grants and contracts	5,908,610	9,154,755
Payments to suppliers	(15,343,794)	(19,248,846)
Payments to employees	(29,149,184)	(30,209,847)
Payments for scholarships and fellowships	(1,544,704)	(1,997,926)
Collection of loans to students	59,439	110,798
Auxiliary enterprise charges	4,123,203	3,950,036
Sales and service of educational departments	3,558,038	4,002,775
Cash paid on deposits	(9,321)	(62,841)
Other (payments) receipts	(107,165)	159,914
Net cash used by operating activities	\$ (18,975,639)	\$ (20,876,982)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 16,658,979	\$ 17,806,051
Grants and gifts received for other than capital purposes	4,314,324	3,888,730
Direct lending receipts	7,671,525	7,146,691
Direct lending disbursements	(7,661,103)	(7,138,572)
Agency fund cash increase (decrease)	16,602	(607,083)
Net cash flows provided by noncapital financing activities	\$ 21,000,327	\$ 21,095,817
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 1,068,277	\$ 4,203,377
Capital grants and gifts received	479,035	927,080
Purchases of capital assets	(2,279,437)	(5,285,595)
Insurance Proceeds	41,927	4,000
Principal paid on capital debt and lease	(812,608)	(815,804)
Interest paid on capital debt and lease	(381,299)	(426,963)
Net cash used by capital and related financing activities	\$ (1,884,105)	\$ (1,393,905)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 3,561,000	\$ 3,741,000
Interest on investments	12,407	10,683
Purchase of investments	(3,561,000)	(3,741,000)
Net cash provided by investing activities	\$ 12,407	\$ 10,683
Net decrease in cash	\$ 152,990	\$ (1,164,387)
CASH - BEGINNING OF YEAR	\$ 7,485,406	\$ 8,649,793
CASH - END OF YEAR	\$ 7,638,396	\$ 7,485,406

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	June 30, 2017	June 30, 2016
Operating loss	\$ (22,510,065)	\$ (23,588,911)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	2,964,776	2,484,310
Other nonoperating revenues (expenses)	(40,665)	363,803
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	4,075	211,320
Grant & contract receivables	241,908	450,817
Inventories	(16,154)	(42,219)
Notes receivable	67,359	100,091
Other assets	(73,201)	(217,398)
Accounts payable and accrued liabilities adjusted for interest payable	343,858	(1,047,030)
Pension liability	1,463,598	250,023
Net change in deferred outflows	(885,942)	(162,487)
Net change in deferred inflows	(33,191)	(137,185)
Accrued payroll	(377,357)	492,746
Compensated absences	(57,620)	16,450
Deferred revenue	(57,697)	11,530
Deposits	(9,321)	(62,842)
Net cash used by operating activities	\$ (18,975,639)	\$ (20,876,982)

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 36,163,153	\$ (1,716,605)	\$ 34,446,548	\$ 34,446,548	
Capital Assets	2,592,673	(352,337)	2,240,336	2,240,331	\$ 5
Capital Improvement-Carryover		2,284,339	2,284,339	2,284,315	24
Capital Improve-Off System					
Student Union Lower Level					
Renovation		600,000	600,000	313,143	286,857
Capital-Off System -					
Carryover					
Communication/Creative Arts		443,578	443,578	443,578	
Student Union		566,462	566,462	499,964	66,498
Operating Carryover		1,141	1,141	1,141	
Totals	\$ 38,755,826	\$ 1,826,578	\$ 40,582,404	\$ 40,229,020	\$ 353,384
Expenses by source					
General fund	\$ 38,155,826	\$ 816,538	\$ 38,972,364	\$ 38,972,335	\$ 29
Special fund	600,000	1,010,040	1,610,040	1,256,685	353,355
Totals	\$ 38,755,826	\$ 1,826,578	\$ 40,582,404	\$ 40,229,020	\$ 353,384

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 the Bismarck 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.
- Controls surrounding the TrainND Southwest program.

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.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested Bismarck 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).
- 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 petty cash/till funds (NDCC 54-06-08.1).
- 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 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.

Operations

Our audit of Bismarck State College included a review of the workforce training system, specifically TrainND Southwest.

Background:

House Bill No. 1443 (1999) established a new workforce training system for North Dakota resulting from recommendations of a 31-member Workforce Training Task Force representing business, education, and government that examined the state's workforce system during the 1998-99 interim. Under the new workforce training system, the state is divided into four delivery regions and select higher education institutions are designated as having primary responsibility for workforce training programs. Bismarck State College has the responsibility for TrainND Southwest.

Our audit procedures were designed and conducted to answer the following operational objectives surrounding the TrainND program:

- What are the TrainND performance measurements and how are they tracked?
- What registration subsystem is utilized and how does the registration subsystem transfer to PeopleSoft and the general ledger?

We concluded that the operational objectives for TrainND are operating efficiently and effectively.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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