

NORTH DAKOTA STATE  
COLLEGE OF SCIENCE  
WAHPETON, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2017

**Joshua C. Gallion**  
State Auditor

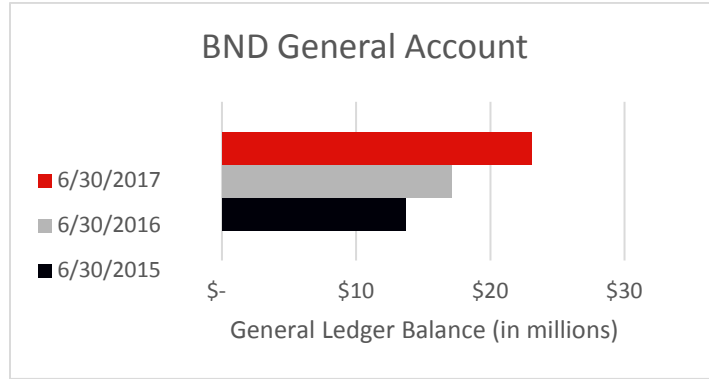
Office of the State Auditor  
Division of State Audit

# North Dakota State College of Science Report Highlights

## Internal Control

We found an area of internal control that could be improved related to monthly bank reconciliations.

- North Dakota State College of Science is not reconciling cash each month which can lead to errors or misappropriations not being detected timely. The general ledger and financial statements may be misstated if a bank reconciliation is not done monthly.



Source: ConnectND Financials

## Operations

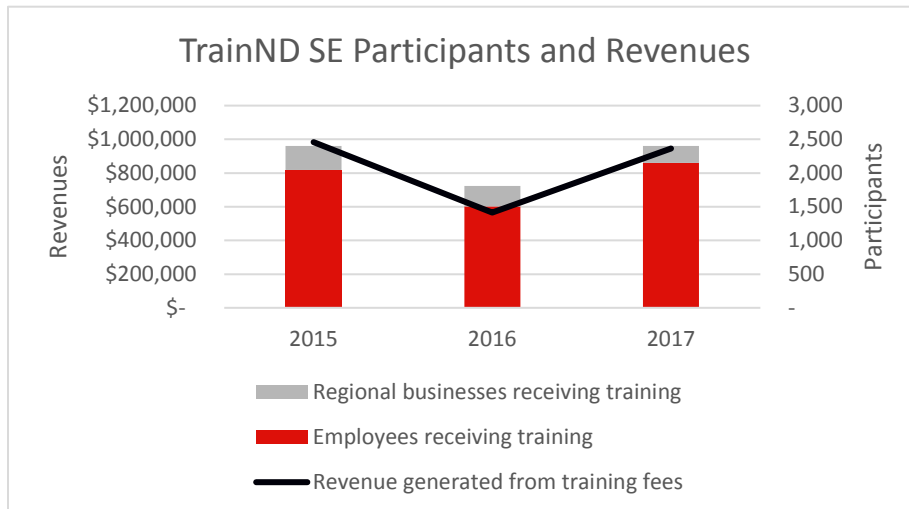
TrainND was established to provide workforce training to the businesses and citizens of North Dakota. The 1999 Legislature developed the program in four areas of the state. The purpose and goals of TrainND are to boost the knowledge and skills of employees, businesses, and the area industries. TrainND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

North Dakota State College of Science operates TrainND Southeast and provides customized training for corporations and organizations along with open-enrollment training for individuals.

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

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
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Representative Chet Pollert – Vice Chairman

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Judy Lee  
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**State Auditor Personnel**

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

**Primary College Contacts**

Dr. John Richman, President  
Dennis Gladen, VP for Admin. Affairs  
Keith Johnson, CFO  
Joe Schreiner, TrainND Manager

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO BRANCH OFFICE  
1655 43<sup>rd</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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February 13, 2018

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

We are pleased to submit this audit of the North Dakota State College of Science 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 Richman 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***

Founded in 1903, the North Dakota State College of Science is one of the oldest two-year comprehensive, residential colleges in the nation. The main campus is located in Wahpeton with a second location in Fargo. The North Dakota State College of Science offers degrees, certificates, and diplomas in traditional career and technical studies as well as the liberal arts. The college also offers a variety of distance education and online courses.

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 North Dakota State College of Science 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?*

Other than our finding addressing the "Monthly Bank Reconciliations" (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, the North Dakota State College of Science 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 the North Dakota State College of Science 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 North Dakota State College of Science. 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 North Dakota State College of Science 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 North Dakota State College of Science'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 North Dakota State College of Science and are they in compliance with these laws?
3. Are there areas of the North Dakota State College of Science's operations where we can help to improve efficiency or effectiveness?

## **Audit Scope**

This audit of the North Dakota State College of Science 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 North Dakota State College of Science has operations at the Wahpeton campus and the Skills and Technology Training Center in Fargo. Each location 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 North Dakota State College of Science's processes and procedures.
- Perform a review of TrainND Southeast.

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

# Financial Statements

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## Statement of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,169,271	\$ 18,393,506
Investments	672,109	471,933
Accounts receivable, net	1,564,398	1,459,562
Due from component units	346,818	473,818
Due from other NDUS	3,708	12,191
Due from state general fund	1,029,248	3,547,782
Grants & contracts receivables, net	1,357,129	912,879
Inventories	624,903	570,955
Notes receivable, net	1,364,607	1,156,205
Capital assets, net	55,991,793	49,611,391
<b>Total assets</b>	<u>\$ 87,123,984</u>	<u>\$ 76,610,222</u>
<b>Deferred outflows of resources</b>	\$ 1,808,180	\$ 801,938
<b>LIABILITIES</b>		
Accounts payable	\$ 2,268,118	\$ 2,414,253
Payable to component units	48,253	55,485
Accrued payroll	2,193,003	2,125,616
Unearned revenue	540,325	262,396
Deposits	649,505	597,491
Pension liability	5,655,784	4,232,554
Other liabilities	9,033	
Due to others	9,360,582	9,750,376
<b>Total liabilities</b>	<u>\$ 20,724,603</u>	<u>\$ 19,438,171</u>
<b>Deferred inflows of resources</b>	\$ 748,289	\$ 666,995
<b>NET POSITION</b>		
Invested in capital assets	\$ 47,872,046	\$ 41,175,437
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	3,142	1,950
Expendable:		
Institutional	616,426	790,409
Loans	4,152,870	3,903,616
Debt service	(231,240)	(222,039)
Unrestricted	15,046,028	11,657,621
<b>Total net position</b>	<u>\$ 67,459,272</u>	<u>\$ 57,306,994</u>

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>REVENUES AND OTHER ADDITIONS</b>		
Student tuition and fees	\$ 8,487,741	\$ 7,719,406
Federal grants and contracts	4,511,618	4,406,617
State and local grants and contracts	764,578	808,464
Nongovernmental grants and contracts	52,250	10,000
Sales and services of educational departments	3,519,861	3,497,479
Auxiliary enterprises	9,139,311	8,501,355
Other	502,378	224,761
State appropriations	19,204,298	19,793,425
Gifts	544,984	649,253
Endowment and investment income	544,930	544,363
Gain on disposal of capital assets	5,907	
Insurance proceeds	1,202,825	3,749
State appropriations - capital assets	8,493,329	6,915,848
Capital grants and gifts	616,339	530,368
<b>Total revenue and other additions</b>	<u>\$ 57,590,349</u>	<u>\$ 53,605,088</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Salaries and wages	\$ 29,792,459	\$ 29,532,904
Operating expenses	8,981,954	9,405,815
Data processing	563,197	634,462
Depreciation	3,366,969	3,274,800
Scholarships and fellowships	1,126,561	389,852
Costs of sales and services	3,283,478	3,115,116
Interest on capital asset-related debt	323,455	327,199
Loss on capital assets		53,006
Inter-institutional transfers		51,555
<b>Total expenses and other deductions</b>	<u>\$ 47,438,073</u>	<u>\$ 46,784,709</u>
<b>Revenue over expenses</b>	<u>\$ 10,152,276</u>	<u>\$ 6,820,379</u>
<b>NET POSITION</b>		
Net Position-beginning of the year, as restated	<u>\$ 57,306,996</u>	<u>\$ 50,486,615</u>
Net Position-end of the year	<u>\$ 67,459,272</u>	<u>\$ 57,306,994</u>

## Statement of Cash Flows

	June 30, 2017	June 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 8,653,784	\$ 7,564,013
Grants and contracts	1,502,430	2,290,750
Payments to suppliers	(13,586,305)	(13,585,076)
Payments to employees	(29,295,133)	(29,500,563)
Payments for scholarships and fellowships	(1,126,561)	(389,852)
Loans issued to students	(218,645)	(227,533)
Collection of loans to students	265,444	321,025
Auxiliary enterprise charges	9,041,513	8,405,585
Sales and service of educational departments	3,655,389	3,588,122
Cash received on deposits	50,983	357,710
Other receipts	240,384	193,205
<b>Net cash used by operating activities</b>	<b>\$ (20,816,717)</b>	<b>\$ (20,982,614)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 19,190,379	\$ 19,793,425
Grants and gifts received for other than capital purposes	3,931,659	3,971,265
Direct lending receipts	8,351,267	8,166,720
Direct lending disbursements	(8,351,267)	(8,166,720)
Agency fund cash increase (decrease)	93,795	(128,777)
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 23,215,833</b>	<b>\$ 23,635,913</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	\$ 11,025,782	\$ 4,927,758
Capital grants and gifts received	616,339	530,369
Purchases of capital assets	(9,160,620)	(7,122,873)
Insurance Proceeds	1,202,825	3,749
Principal paid on capital debt and lease	(327,370)	(320,699)
Interest paid on capital debt and lease	(325,030)	(328,574)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ 3,031,926</b>	<b>\$ (2,310,270)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	\$ 544,723	\$ 544,243
Purchase of investments	(200,000)	
<b>Net cash provided by investing activities</b>	<b>\$ 344,723</b>	<b>\$ 544,243</b>
<b>Net increase in cash</b>	<b>\$ 5,775,765</b>	<b>\$ 887,272</b>
CASH - BEGINNING OF YEAR	\$ 18,393,506	\$ 17,506,234
CASH - END OF YEAR	<b>\$ 24,169,271</b>	<b>\$ 18,393,506</b>

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**RECONCILIATION OF NET OPERATING REVENUE  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (23,792,363)	\$ (24,509,480)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	3,366,969	3,274,800
Other nonoperating revenues (expenses)	11,720	(48,954)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(47,262)	(92,733)
Grant & contract receivables	(444,250)	387,681
Inventories	(53,948)	(97,634)
Notes receivable	57,719	98,743
Other assets		20,000
Accounts payable and accrued liabilities adjusted for interest payable	(741,540)	(384,443)
Pension liability	1,423,230	83,012
Net change in deferred outflows	(1,006,242)	(19,206)
Net change in deferred inflows	81,294	(143,012)
Accrued payroll	61,467	152,941
Compensated absences	(62,423)	(41,393)
Unearned revenue	277,929	(20,646)
Deposits	50,983	357,710
<b>Net cash used by operating activities</b>	<b>\$ (20,816,717)</b>	<b>\$ (20,982,614)</b>

**SUPPLEMENTAL DISCLOSURE ON NON-CASH  
TRANSACTIONS**

Assets acquired through capital lease		\$ 34,270
Expenses paid by capital lease/special assessment		162,799
Net increases (decreases) in value of investments	\$ 176	141
<b>Total non-cash transactions</b>	<b>\$ 176</b>	<b>\$ 162,940</b>

## Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 43,719,385	\$ (4,707,743)	\$ 39,011,642	\$ 38,997,723	\$ 13,919
Capital Assets	14,310,379	1,144,508	15,454,887	13,525,782	1,929,105
Capital Assets Carryover		2,453,464	2,453,464	2,427,758	25,706
Cap Proj - Off System - Carryover					
Football complex reno		134,134	134,134	131,479	2,655
<b>Totals</b>	<b>\$ 58,029,764</b>	<b>\$ (975,637)</b>	<b>\$ 57,054,127</b>	<b>\$ 55,082,742</b>	<b>\$ 1,971,385</b>
<b>Expenses by source</b>					
General fund	\$ 58,029,764	(1,109,771)	\$ 56,919,993	\$ 54,951,263	\$ 1,968,730
Special fund		134,134	134,134	131,479	2,655
<b>Totals</b>	<b>\$ 58,029,764</b>	<b>\$ (975,637)</b>	<b>\$ 57,054,127</b>	<b>\$ 55,082,742</b>	<b>\$ 1,971,385</b>

### Expenditures without Appropriations of Specific Amounts:

NDSCS has a continuing appropriation for all other funds pursuant to 2015 HB 1003 section 31.

## *Internal Control*

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In our audit for the biennium ended June 30, 2017, we identified the following areas of the North Dakota State College of Science'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 Southeast program.

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

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting 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: 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 identified the following significant deficiency in internal control.

### ***Monthly Bank Reconciliations (Finding 17-1)***

#### **Condition:**

NDSCS is not performing monthly bank reconciliations for the BND general account, which leads to an adjusting entry made at year end to tie the general ledger and bank balances.

#### **Criteria:**

Proper internal control reduces the risk of asset loss and helps ensure the reliability of the financial statements. To adequately safeguard cash and ensure the reliability of the financial statements, monthly reconciliations of bank balances to the general ledger are imperative.

#### **Cause:**

NDSCS has only been performing an annual bank reconciliation for this account, not a monthly bank reconciliation due to time constraints and they have had issues reconciling this account in the past.

**Effect or Potential Effect:**

If cash is not reconciled fully every month, errors or misappropriations may occur and not be detected in a timely manner. Further, the general ledger and ultimately the financial statements may be misstated.

**Recommendation:**

We recommend that NDSCS reconcile the BND general account and general ledger balances to a zero difference on a monthly basis.

**North Dakota State College of Science Response:**

*Agree with the Recommendation: To clarify, NDSCS does do monthly balancing for all bank accounts, but hasn't been booking any monthly differences to the general ledger until year end if necessary. To improve internal control practices, NDSCS agrees to reconcile and book any adjustments, if necessary, to zero balance on the general ledger on a monthly basis. This will be implemented immediately.*



## *Compliance with Legislative Intent*

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

- North Dakota University System reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1003, chapter 3, section 2).
- Two dollars of matching funds were provided from operations or other sources for each one dollar of extraordinary repairs that were included in the capital asset line item (2015 HB 1003, chapter 3, section 38).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND Constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Scholarship expenses were proper (Article IX, Section 1 of the ND Constitution, NDCC 1-08-02, 15-10-12, 59-21).
- Fixed asset requirements were followed including surplus property, record keeping and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of ND Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 48-01.2, 44-08-01).
- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 54-44.7).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota State College of Science in a management letter dated February 13, 2018.

## *Operations*

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Our audit of the North Dakota State College of Science included a review of the workforce training system, specifically TrainND Southeast.

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. North Dakota State College of Science has the responsibility for TrainND Southeast.

Our audit procedures were designed and conducted to answer the following areas of potential improvements to operations, as expressed by our operational objectives:

- 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 conclude that the operational objectives for TrainND are operating efficiently and effectively.

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

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February 13, 2018

Mr. Dennis Gladen  
Vice President for Administrative Affairs  
North Dakota State College of Science  
800 North 6th Street  
Wahpeton, North Dakota 58076-0002

Dear Mr. Gladen:

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

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

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

The following present our informal recommendations.

### **NONCOMPLIANCE OVER PROCUREMENT**

**Condition:**

NDSCS had 5 out of 10 procurement transactions which were not properly procured by obtaining quotes from more than one vendor or through the formal bid or the request for proposal (RFP) process.

**Criteria:**

NDCC 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 54-44.4.

NDSCS's purchasing procedures require commodity and service purchases of \$5,000 - \$24,999 and \$10,000 - \$24,999, respectively, to have a quote from more than one vendor and commodity and service purchases of \$25,000 and greater to use the formal bid or RFP process.

**Cause:**

For 3 of the transactions the departments sent a request for payment directly to the Business Office without utilizing the Purchasing Department, and for 2 of the transactions there was a transition change between personnel and a computer database.

**Effect or Potential Effect:**

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

**Informal Recommendation #1:**

We recommend that NDSCS properly procure commodities and services in compliance with NDCC and NDSCS procurement procedures.

**North Dakota State College of Science's Response:**

*Agree: NDSCS has implemented a new database that provides more functionality and will facilitate compliance with contract dates. NDSCS will also provide further training to our campus departments regarding proper purchasing procedures. Specific training with select departments will begin immediately as needed and campus wide training will occur Fall 2018.*

## NONCOMPLIANCE WITH THE UNCLAIMED PROPERTY ACT

**Condition:**

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

**Criteria:**

NDCC 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 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:**

This was an oversight by NDSCS.

**Effect or Potential Effect:**

NDSCS is not in compliance with NDCC.

**Informal Recommendation #2:**

We recommend that NDSCS 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.

**North Dakota State College of Science's Response:**

*Agree: NDSCS will review its internal procedures to ensure all abandoned checks will be sent to Unclaimed Property by the pre-determined time frame. This oversight has been corrected and internal procedures will be updated by April 30, 2018.*

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 above the typed name.

Robyn Hoffmann, CPA  
Audit Manager

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