

DICKINSON STATE  
UNIVERSITY  
DICKINSON, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2017

**Joshua C. Gallion**  
State Auditor

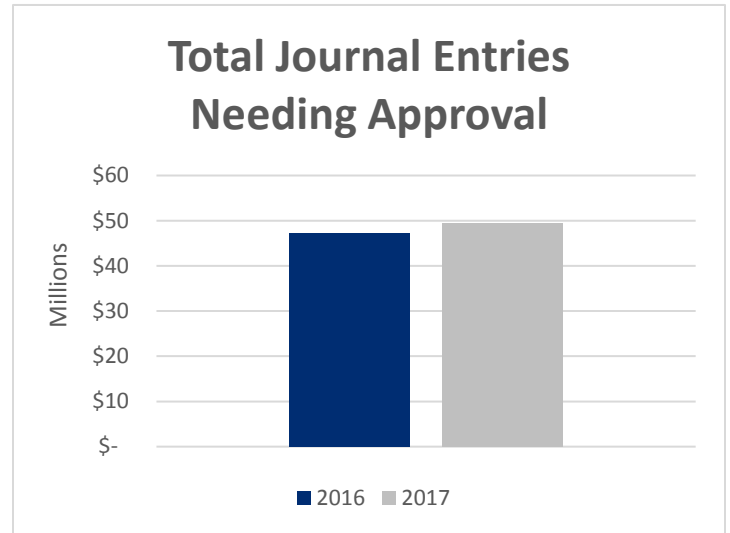
Office of the State Auditor  
Division of State Audit

# Dickinson State University Report Highlights

## Internal Control

We found areas that could be improved related to journal entries and policies for nepotism and conflicts of interest.

- Dickinson State University did not have adequate controls to ensure proper approvals of journal entries.
- Dickinson State University did not have policies regarding nepotism and conflicts of interest.

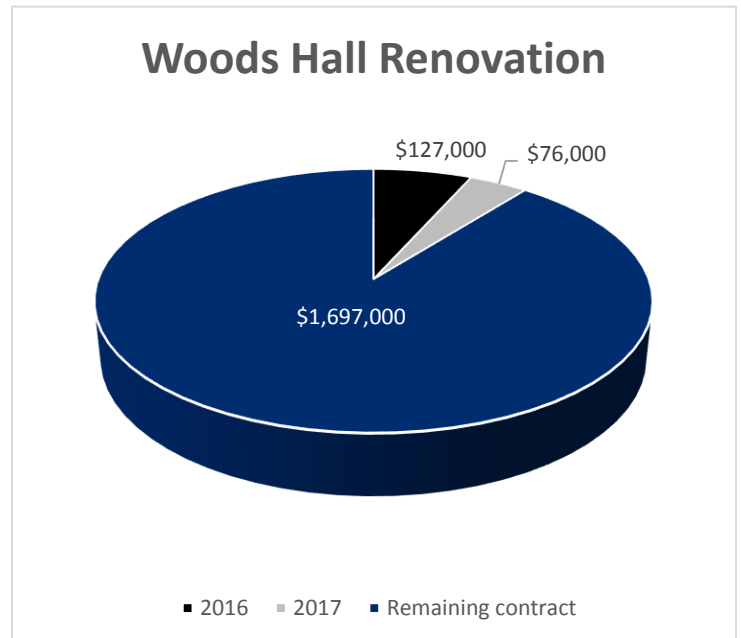


Source: ConnectND Financials

## Operations

Dickinson State University was authorized \$1.9 million for the Woods Hall Renovation. We reviewed this project to ensure compliance with capital improvements laws and policies. This included proper authorization, expenses were supported, approved and properly classified on the financial statements.

- We found that Dickinson State University did not maintain a retainage and did not properly capitalize expenses for all contracts.



Source: ConnectND Financials

## Legislative Intent

We found that procurement procedures could be improved at Dickinson State University.

- Dickinson State University did not properly procure commodities and services in compliance with NDCC, NDUS procedures and Dickinson State University policies.

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**AUDITOR AND UNIVERSITY PERSONNEL**

**State Auditor Personnel**

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

**Primary University Contacts**

Dr. Thomas Mitzel, President  
Marty Parsons, VP for Finance and Admin.  
Laura Nelson, Controller

# Contents

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<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>5</i>
<i>Financial Statements</i>	<i>6</i>
<i>Statement of Net Position</i>	<i>6</i>
<i>Statement of Revenues, Expenses and Changes in Net Position</i>	<i>7</i>
<i>Statement of Cash Flows</i>	<i>8</i>
<i>Statement of Appropriations</i>	<i>10</i>
<i>Internal Control</i>	<i>11</i>
<i>Inadequate Journal Entry Approval (Finding 17-1)</i>	<i>11</i>
<i>Inadequate Nepotism and Conflicts of Interest Policies (Finding 17-2)</i>	<i>12</i>
<i>Compliance with Legislative Intent</i>	<i>13</i>
<i>Noncompliance Over Procurement (Finding 17-3)</i>	<i>14</i>
<i>Operations</i>	<i>15</i>
<i>Inadequate Controls Over Capital Improvements (Finding 17-4)</i>	<i>15</i>
<i>Management Letter (Informal Recommendations)</i>	<i>16</i>



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FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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February 26, 2018

Members of the North Dakota Legislative Assembly  
State Board of Higher Education  
Dr. Thomas Mitzel, President, Dickinson State University

We are pleased to submit this audit of Dickinson State University for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally, we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Dr. Mitzel 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***

Dickinson Normal School was created in 1916 by a constitutional amendment approved by North Dakota voters. Classes began in 1918 with a two-year program designed to train elementary and secondary teachers. In 1931, four-year degrees were offered for the first time under the school's new name, Dickinson State Teachers College. In recognition of the institution's broadened curriculum, Dickinson State Teachers College became Dickinson State College in 1963. University status was granted in 1987 as the progression of education in the West River region was recognized by the State Board of Higher Education (SBHE).

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

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

Other than our findings addressing "Noncompliance Over Procurement" (page 14) and "Inadequate Controls over Capital Improvements (page 15), Dickinson State University was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing the "Inadequate Journal Entry Approval" (page 11) and "Inadequate Nepotism and Conflict of Interest Policies" (page 12), we determined internal control was adequate.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

Other than our work addressing "Inadequate Controls Over Capital Improvements" (page 15), there were no indications of lack of efficiency in financial operations.

### *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, Dickinson State University changed accounting policies related to investments by adopting GASB Statement No. 72, *Fair Value Measurement and Applications*. There were no other significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Dickinson State University 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.*

In fiscal year 2017, Dickinson State University had an audit adjustment for \$3,100,000 to record a payable to component unit pursuant to a FY17 court ordered settlement for the Dickinson State University Foundation.

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



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

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## **Audit Objectives**

The objectives of this audit of Dickinson State University for the biennium ended June 30, 2017, were to provide reliable, audited financial statements and to answer the following questions:

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

## **Audit Scope**

This audit of Dickinson State University is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Dickinson State University's sole location is its Dickinson 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 Dickinson State University's processes and procedures.
- Performed a review of capital construction improvement contracts.

In aggregate, our audit determined the objectives were met except for the following significant operational improvement.

# Financial Statements

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## Statement of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>ASSETS:</b>		
Cash & cash equivalents	\$ 3,876,841	\$ 3,661,822
Investments	9,655,000	9,655,000
Accounts receivable, net	367,941	295,008
Due from other NDUS institutions		500
Due from component unit	599,248	162,850
Due from state general fund	22,056	14,587
Grants and contracts receivables, net	189,167	272,275
Inventories	420,544	399,268
Notes receivable, net	1,082,582	931,324
Other assets	(18,008)	49,183
Capital assets, net	29,120,299	30,089,312
<b>Total assets</b>	<u>\$ 45,315,670</u>	<u>\$ 45,531,129</u>
<b>Deferred outflows of resources</b>	\$ 875,979	\$ 436,791
<b>LIABILITIES:</b>		
Accounts payable	\$ 409,493	\$ 262,294
Due to other NDUS institutions	28,428	23,359
Due to component units	3,100,000	
Accrued payroll	1,125,852	1,017,864
Deposits	108,085	70,492
Pension liability	2,572,295	1,919,028
Other liabilities	452,558	47,364
Due to others	648,510	626,283
<b>Total liabilities</b>	<u>\$ 8,445,221</u>	<u>\$ 3,966,684</u>
<b>Deferred inflows of resources</b>	\$ 260,919	\$ 216,061
<b>NET POSITION:</b>		
Invested in capital assets	\$ 29,041,984	\$ 30,050,734
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	207,904	160,000
Expendable:		
Scholarships and fellowships	8,055	61,317
Institutional	654	(1,358)
Loans	1,222,055	1,149,515
Unrestricted	7,004,857	10,364,967
<b>Total net position</b>	<u>\$ 37,485,509</u>	<u>\$ 41,785,175</u>

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

	June 30, 2017	June 30, 2016
<b>REVENUES AND OTHER ADDITIONS:</b>		
Student tuition and fees	\$ 6,713,859	\$ 6,089,240
Federal grants and contracts	1,978,205	2,257,121
State and local grants and contracts	95,977	166,861
Nongovernmental grants and contracts		46,389
Sales and services of educational departments	563,915	754,305
Auxiliary enterprises	2,511,110	2,618,817
Other	79,165	1,198,514
State appropriations	13,213,713	12,795,364
Gifts	979,404	312,615
Endowment and investment income	59,530	56,691
Insurance proceeds	7,190	
State appropriations - capital assets	604,113	168,000
Capital grants and gifts	447	564
Inter-institutional transfers		21,303
<b>Total revenues and other additions</b>	<b>\$ 26,806,628</b>	<b>\$ 26,485,784</b>
<b>EXPENSES AND OTHER DEDUCTIONS:</b>		
Salaries and wages	\$ 19,143,315	\$ 19,315,404
Operating expenses	6,824,210	6,979,917
Data processing	271,782	403,098
Depreciation	1,443,359	1,482,202
Scholarships and fellowships	761,606	348,037
Costs of sales and services	537,933	496,223
Interest on capital asset-related debt	947	1,301
Loss on capital assets	4,968	6,067
Other	2,118,173	
<b>Total expenses and other deductions</b>	<b>\$ 31,106,293</b>	<b>\$ 29,032,249</b>
Revenue under expenses	\$ (4,299,665)	\$ (2,546,465)
<b>NET POSITION</b>		
Net position-beginning of the year, as restated	\$ 41,785,174	\$ 44,331,640
Net position-end of the year	<b>\$ 37,485,509</b>	<b>\$ 41,785,175</b>

## Statement of Cash Flows

	June 30, 2017	June 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 6,758,457	\$ 6,178,688
Grants and contracts	863,062	1,186,914
Payments to suppliers	(4,319,782)	(8,233,147)
Payments to employees	(18,744,837)	(19,365,940)
Payments for scholarships and fellowships	(761,606)	(348,037)
Loans issued to students	(256,358)	(184,443)
Collection of loans to students	133,504	197,495
Auxiliary enterprise charges	2,523,733	2,674,423
Sales and service of educational departments	172,059	1,307,135
Cash received (paid) on deposits	(160)	4,813
Other receipts (payments)	(1,662,486)	1,303,981
<b>Net cash used by operating activities</b>	<b>\$ (15,294,414)</b>	<b>\$ (15,278,118)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 13,213,713	\$ 12,795,364
Grants and gifts received for other than capital purposes	2,273,633	1,646,349
Direct Lending Receipts	4,303,068	3,938,991
Direct Lending Disbursements	(4,303,068)	(3,937,446)
Agency fund cash decrease	(68,603)	(2,305)
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 15,418,743</b>	<b>\$ 14,440,953</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt		
Capital appropriations	\$ 596,644	\$ 153,413
Capital grants and gifts received	447	564
Proceeds from sale of capital assets	5,000	
Purchases of capital assets	(516,788)	(559,019)
Insurance proceeds	7,190	
Principal paid on capital debt and lease	(12,482)	(16,099)
Interest paid on capital debt and lease	(947)	(1,301)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ 79,064</b>	<b>\$ (422,442)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	\$ 59,530	\$ 56,450
Purchase of investments	(47,904)	(160,000)
<b>Net cash provided (used) by investing activities</b>	<b>\$ 11,626</b>	<b>\$ (103,550)</b>
<b>Net increase in cash</b>	<b>\$ 215,019</b>	<b>\$ (1,363,157)</b>
CASH - BEGINNING OF YEAR	\$ 3,661,822	\$ 5,024,979
CASH - END OF YEAR	\$ 3,876,841	\$ 3,661,822

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	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (18,334,203)	\$ (18,346,788)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,443,359	1,482,202
Other nonoperating revenues (expenses)	(1,825,728)	1,186,228
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(347,969)	666,737
Grant & contract receivables	83,108	50,277
Inventories	(21,275)	18,987
Notes receivable	(38,510)	14,441
Other assets	67,191	38,660
Accounts payable and accrued liabilities adjusted for interest payable	3,281,295	(343,140)
Pension liability	653,267	205,330
Net change in deferred outflows	(439,188)	(91,546)
Net change in deferred inflows	44,858	(118,460)
Accrued payroll	104,832	(27,939)
Compensated absences	34,709	(17,920)
Deposits	(160)	4,813
<b>Net cash used by operating activities</b>	<u>\$ (15,294,414)</u>	<u>\$ (15,278,118)</u>

## Statement of Appropriations

For the Biennium Ended June 30, 2017

<b>Expenses by line item</b>	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	\$ 28,606,853	\$ (1,279,620)	\$ 27,327,233	\$ 25,327,233	\$ 2,000,000
Capital Assets	11,909,078	(11,090,922)	818,156		818,156
Capital Assets-Carryover		640,760	640,760	198,942	441,818
Capital Improvement- Off System					
Woods Hall		8,000,000	8,000,000	203,287	7,796,713
Purchase Miller Altringer Bosch Apts		3,500,000	3,500,000		3,500,000
TR Presidential Library		15,000,000	15,000,000	644,705	14,355,295
Biennium Carryover		681,844	681,844	681,844	
<b>Totals</b>	<b>\$ 40,515,931</b>	<b>\$ 15,452,062</b>	<b>\$ 55,967,993</b>	<b>\$ 27,056,011</b>	<b>\$ 28,911,982</b>
<b>Expenses by source</b>					
General fund	\$ 27,015,931	\$ 12,452,062	\$ 39,467,993	\$ 26,852,724	\$ 12,615,269
Special fund	13,500,000	3,000,000	\$ 16,500,000	203,287	16,296,713
<b>Totals</b>	<b>\$ 40,515,931</b>	<b>\$ 15,452,062</b>	<b>\$ 55,967,993</b>	<b>\$ 27,056,011</b>	<b>\$ 28,911,982</b>

### Expenditures without Appropriations of Specific Amounts:

All funds, in addition to those above are appropriated pursuant to 2015 HB 1003 section 31, except for capital projects, which are appropriated other funds pursuant to 2015 HB 1139.

## *Internal Control*

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

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

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

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: 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 deficiencies in internal control. We also noted a matter involving internal control that we have reported to management of Dickinson State University in a management letter dated February 26, 2018.

### ***Inadequate Journal Entry Approval (Finding 17-1)***

#### **Condition:**

DSU does not have an adequate approval process in place for general ledger journal entries.

#### **Criteria:**

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission's *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.

The NDUS Accounting Manual states in part the basic principles of internal control includes a review of journal entries and should be documented with the initials or signature of the reviewer and the date reviewed.

**Cause:**

Staff turnover and the lack of documented policies and procedures caused an oversight in the approval process.

**Effect or Potential Effect:**

Improper or erroneous entries could be made to the general ledger.

**Recommendation:**

We recommend that all journal entries are properly approved and the approval is documented.

**Dickinson State University Response:**

Agree. DSU changed the journal entry form to include a line for the initials of the person creating the journal entry and a line for the initials of the person approving the journal entry. This was implemented in July 2017 when the new controller was hired.

**Inadequate Nepotism and Conflicts of Interest Policies (Finding 17-2)****Condition:**

DSU lacks a policy for documenting and monitoring nepotism. They only rely on the initial job application question. Also, the conflicts of interest policy is inadequate in regards to identifying and resolving potential conflicts.

**Criteria:**

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

NDUS Procedure 603.3, states in part, upon offer and acceptance of employment, promotion or transfer to a different department, or upon change in family status, an employee shall report in writing any actual or potential conflict to the employee's department human resource officer.

**Cause:**

DSU had turnover in upper management and policies have not been able to be thoroughly reviewed for updates.

**Effect or Potential Effect:**

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

**Recommendation:**

We recommend that DSU develop and implement policies surrounding nepotism and conflicts of interest.

**Dickinson State University Response:**

Agree. DSU created a form for employees to fill out when they are hired to inform DSU of any known conflicts of interests. DSU is implementing a procedure during the on-boarding process to have employees inform DSU of any nepotism situations on campus. A list will be created and reviewed at fiscal year-end to make any necessary changes.



## *Compliance with Legislative Intent*

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

- North Dakota University System reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1003, Chapter 3, Section 2).
- Two dollars of matching funds from operations or other sources was provided for each one dollar of extraordinary repairs that were included in the capital asset line item (2015 HB 1003, Chapter 3, Section 38).
- A report was provided to the legislative management, prior to July 1, 2016, regarding the operations of Dickinson State University (2015 HB 1003, Chapter 3, Section 40).
- 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* 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*. One finding is described below and the other finding is identified in the Operations section of this report. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted a certain inconsequential instance of noncompliance that we have reported to management of Dickinson State University in a management letter dated February 26, 2018.

### **Noncompliance Over Procurement (Finding 17-3)**

#### **Condition:**

DSU had the following issues surrounding procurement:

- Four of ten procurement transactions (\$93,784) were not properly procured; and
- One of three sole source purchases (\$35,735) did not adequately justify or exempt the purchase from the normal procurement 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 and NDCC 44-08-01 part 3.

DSU's Purchasing Policy 803.1, requires single item purchases from \$2,500 - \$24,999 to have quotes from more than one vendor, when feasible. Purchases \$25,000 and above must be solicited by formal sealed bids.

NDUS Procedure 803.1 parts 1 and 4, state in part that sole source purchases are unique and the vendor is the only vendor able to furnish the commodity or service. Sole source requests based on personal preference, cost or price are not permitted. These items may be considered in evaluating bids or proposals.

#### **Cause:**

DSU was not familiar with all the required procurement policies and procedures.

#### **Effect or Potential Effect:**

Without properly procuring commodities and services, there was noncompliance with DSU's purchasing policy and NDUS procedures, and ultimately, noncompliance with NDCC 54-44.4 and NDCC 44-08-01 part 3.

#### **Recommendation:**

We recommend that DSU properly procure commodities and services in compliance with NDCC, NDUS procedures and DSU policies.

#### **Dickinson State University Response:**

*Agree. DSU is reviewing their purchasing policy to be in line with the NDUS purchasing policy. DSU's Controller and Accounting specialist are going through the three levels of training with OMB Procurement to have people in the business office more aware of purchasing procedures and can provide additional oversight.*

## ***Operations***

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Our audit of Dickinson State University included a review of capital construction and improvement projects.

Background:

Dickinson State University is required to follow SBHE policies and procedures and the NDCC related to capital improvements. The Woods Hall Remodel project was selected for testing.

In our audit for the biennium ended June 30, 2017, we identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding capital improvement projects greater than \$250,000:

- Are capital construction and improvement contracts authorized and awarded in compliance with applicable rules and regulations?
- Are project expenses within the approved amounts and are revisions properly supported and approved?
- Are payments to the contractor properly approved and in accordance with the contract?
- Are construction in progress and capital assets properly reported and managed by qualified personnel?

Our audit of Dickinson State University, determined the objectives were met except for the following significant operational improvement:

### ***Inadequate Controls Over Capital Improvements (Finding 17-4)***

**Condition:**

For the Woods Hall asbestos removal contract, DSU did not maintain a retainage and did not capitalize the expenses.

**Criteria:**

NDCC 48-01.2-13, states in part, a partial payment estimate must include a retainage of ten percent of each estimate until the project is fifty percent completed with no further retainage on estimates during the continuance of the contract unless unsatisfactory progress or performance is documented.

NDUS Accounting Manual states in part, alterations, structural changes and extraordinary repairs and replacements that increase the usefulness, efficiency or life of existing buildings should be added to the recorded value.

**Cause:**

This was an oversight by DSU.

**Effect or Potential Effect:**

Inadequate controls surrounding the monitoring of capital projects can unnecessarily increase the cost of the project and misstate the financial statements.

**Operational Improvement:**

We recommend that DSU ensure the proper retainage is maintained for each capital project contract and expenses that increase the useful life of a building are capitalized.

***Dickinson State University Response:***

*Agree. DSU will review the invoices to make sure the proper retainage is maintained for each capital project and the expenses are capitalized.*

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

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February 26, 2018

Marty Parsons  
Vice President for Finance and Administration  
Dickinson State University  
291 Campus Drive  
Dickinson, North Dakota 58601-4896

Dear Mr. Parsons:

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

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

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

The following present our informal recommendations.

## **NONCOMPLIANCE OF THE UNCLAIMED PROPERTY ACT**

### **Condition:**

DSU did not submit the Unclaimed Property Report by November 1, 2017, and did not include all abandoned checks as of June 30, 2017.

### **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:**

There is a lack of understanding of the Uniform Unclaimed Property Act.

**Effect:**

DSU is not in compliance with NDCC.

**Informal Recommendation #1:**

We recommend that DSU submit to unclaimed property all checks that have been uncashed for more than two years after becoming payable as of the fiscal year end by November 1 each year.

***Dickinson State University Response:***

*Agree. DSU will submit to unclaimed property all checks that have been uncashed for more than two years after becoming payable as of the fiscal year by November 1 each year.*

**INADEQUATE MONITORING OF ACCESS ROLES****Condition:**

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

**Criteria:**

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

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

**Cause:**

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

**Effect:**

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

**Informal Recommendation #2:**

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

***Dickinson State University Response:***

*Agree. DSU will twice a year review roles in the financial and human capital management environments of PeopleSoft to ensure proper level of access is granted and/or removed in a timely manner to warrant proper segregation of duties.*

I encourage you to call me at 701-239-7291, if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Robyn Hoffmann".

Robyn Hoffmann, CPA  
Audit Manager

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