Client Code 241

MINOT STATE UNIVERSITY

MINOT, 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

Minot State University Report Highlights

Bookstore:
In March 2012, Minot State University entered into a contract with Barnes and Noble to operate and provide services for the bookstore at Minot State University. Barnes and Noble pays a commission of 11.5% of all gross sales to Minot State University on a quarterly basis.

Objective: Is Minot State University ensuring compliance with the Barnes and Noble contract provisions?

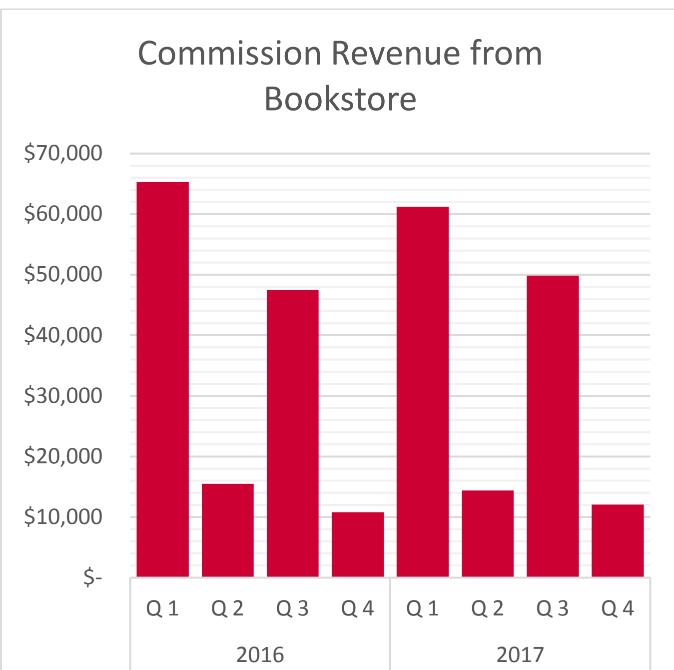
- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

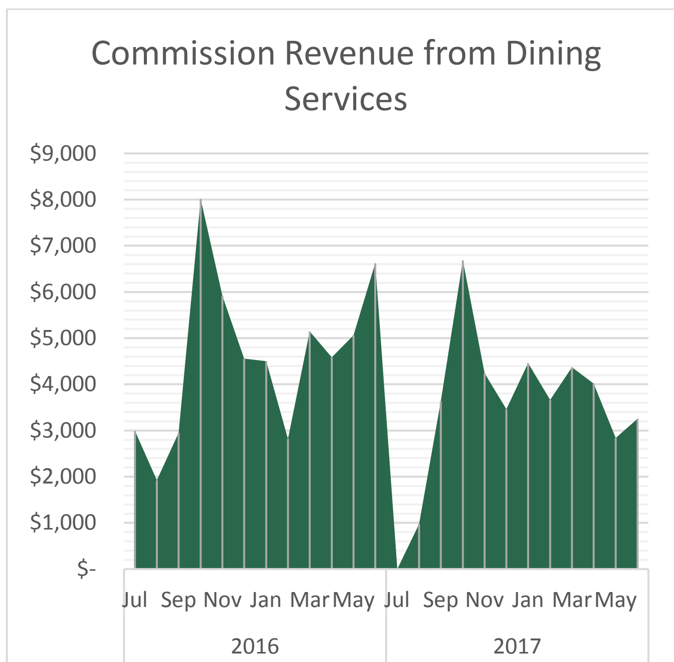
Dining Services:
In May 2010, Minot State University entered into a contract with Sodexo to manage and operate the food service at Minot State University for students, faculty, staff, employees, visitors and guests. Sodexo pays Minot State University 10% of net sales for each accounting period.

Objective: Is Minot State University ensuring compliance with the Sodexo contract provisions?

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

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.





Source: ConnectND Financials

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AUDITOR AND UNIVERSITY PERSONNEL

State Auditor Personnel

Robyn Hoffmann, Audit Manager
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Travis Klinkhammer
Mikka Maher
Alex Mehring
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Primary University Contacts

Dr. Steven Shirley, President
Brent Winiger, VP Admin. and Finance
Jonelle Watson, Controller

Contents

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OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

February 13, 2018

Members of the North Dakota Legislative Assembly

State Board of Higher Education

Dr. Steven Shirley, President, Minot State University

We are pleased to submit this audit of Minot 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 Hoffman, 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 Shirley 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

Minot State University is a regional public institution located in the northwest region of North Dakota, serving students from Minot, the region, state, nation, and other countries. Undergraduate and graduate courses, along with a variety of programs are offered on campus and at a distance, through face-to-face, online, and alternative modes of delivery. Non-credit, professional training, and experiences are offered to students and community members.

General studies and a variety of programs are offered in the arts and sciences, business, and education and health sciences. Offering more than 60 undergraduate majors and several graduate degrees, Minot State University has positioned themselves to meet growth in fields such as criminal justice, education, management, nursing, social work, the sciences, energy economics and finance, and management information systems.

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 Minot 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?*

   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.*

   Yes, a management letter was issued and is included on page 15 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, Minot 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 Minot 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, Minot State University had an audit adjustment for $1,643,337 to record the impairment loss on the Beaver Lodges.

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 Minot State University. 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 Minot 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 Minot 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 Minot State University and are they in compliance with these laws?
3. Are there areas of Minot State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Minot 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.

Minot State University's sole location is its Minot 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 Minot State University's processes and procedures.
- Performed a review of contracts for bookstore and dining service operations.

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

Financial Statements

Statement of Net Position

		June 30, 2017		June 30, 2016
ASSETS:				
Cash & cash equivalents	$	22,336,784	$	20,833,224
Investments		1,399,660		1,399,660
Accounts receivable, net		728,485		651,440
Due from other NDUS institutions		120,652		248,614
Due from component unit		3,295,746		3,843,380
Due from state general fund		34,123		38,006
Grants and contracts receivables, net		858,107		832,497
Notes receivable, net		2,972,196		2,716,460
Other assets		65,669		246,750
Capital assets, net		78,416,079		82,428,423
Total assets	$	110,227,501	$	113,238,454
Deferred outflows of resources	$	1,572,039	$	679,546
LIABILITIES:				
Accounts payable	$	1,403,568	$	1,061,766
Due to other NDUS institutions		42,499		11,885
Accrued payroll		2,225,363		2,239,915
Unearned revenue		915,821		1,044,052
Deposits		738,150		770,052
Pension liabilities		4,987,961		3,607,899
Other noncurrent liabilities		3,605		19,576
Due to others		13,782,554		14,191,243
Total liabilities	$	24,099,521	$	22,946,388
Deferred inflows of resources	$	469,517	$	476,033
NET POSITION:				
Invested in capital assets	$	65,858,642	$	69,543,628
Restricted For:				
Nonexpendable:				
Scholarships and fellowships		3,184,035		3,100,369
Expendable:				
Scholarships and fellowships		1,024,963		952,045
Institutional		510,898		471,206
Loans		3,360,665		3,126,961
Debt service		473,688		469,637
Unrestricted		12,817,611		12,831,733
Total net position	$	87,230,502	$	90,495,579

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2017	June 30, 2016
REVENUES AND OTHER ADDITIONS:		
Student tuition and fees	$ 15,689,160	$ 14,715,452
Local appropriations	986,400	1,013,615
Federal grants and contracts	7,113,236	7,429,684
State and local grants and contracts	1,620,330	1,477,826
Nongovernmental grants and contracts	444,286	381,477
Sales and services of educational departments	1,886,115	2,053,603
Auxiliary enterprises	3,579,800	4,095,952
Other	396,705	136,021
State appropriations	21,402,828	23,659,813
Gifts	2,195,853	1,361,573
Endowment and investment income	216,755	
Insurance proceeds		1,236
State appropriations - capital assets	280,275	1,059,218
Capital grants and gifts	402,122	108,661
Total revenues and other additions	$ 56,213,865	$ 57,494,131
EXPENSES AND OTHER DEDUCTIONS:		
Salaries and wages	$ 38,486,510	$ 39,633,361
Operating expenses	11,164,909	11,910,156
Data processing	515,396	431,470
Depreciation	4,358,202	4,328,504
Scholarships and fellowships	1,727,286	936,486
Costs of sales and services	263	3,085
Endowment investment expense		42,325
Interest on capital asset-related debt	700,101	958,770
Loss on capital assets	2,460,488	24,092
Total expenses and other deductions	$ 59,413,155	$ 58,268,249
Revenue under expenses	$ (3,199,290)	$ (774,118)
NET POSITION		
Net position-beginning of the year, as restated	$ 90,429,792	$ 91,269,697
Net position-end of the year	$ 87,230,502	$ 90,495,579

Statement of Cash Flows

	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 15,559,828	$ 14,728,561
Grants and contracts	6,127,133	6,389,615
Payments to suppliers	(11,363,829)	(12,361,563)
Payments to employees	(38,098,496)	(39,639,014)
Payments for scholarships and fellowships	(1,727,289)	(936,486)
Loans issued to students	(529,751)	(641,276)
Collection of loans to students	458,216	517,161
Auxiliary enterprise charges	3,566,584	4,128,345
Sales and service of educational departments	2,631,052	1,717,580
Cash received (paid) on deposits	11,013	(36,002)
Other receipts	305,882	74,257
Net cash used by operating activities	$ (23,059,657)	$ (26,058,822)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 21,393,910	$ 23,656,436
Local appropriation	986,400	1,013,615
Grants and gifts received for other than capital purposes	5,155,626	4,416,439
Direct Lending Receipts	8,731,922	8,180,550
Direct Lending Disbursements	(8,742,692)	(8,144,645)
Agency fund cash increase (decrease)	(25,823)	63,902
Net cash flows provided by noncapital financing activities	$ 27,499,343	$ 29,186,297
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	$ 293,078	$ 1,168,854
Capital grants and gifts received	402,122	103,161
Purchases of capital assets	(2,605,635)	(1,257,549)
Insurance proceeds		1,236
Principal paid on capital debt and lease	(404,994)	(403,675)
Deposits with capital debt payment trustees		(3,690,000)
Interest paid on capital debt and lease	(712,574)	(770,725)
Net cash used by capital and related financing activities	$ (3,028,003)	$ (4,848,698)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	$ (642,391)	$ (285,821)
Interest on investments	167,945	(161,057)
Purchase of investments	566,323	649,788
Net cash provided by investing activities	$ 91,877	$ 202,910
Net increase (decrease) in cash	$ 1,503,560	$ (1,518,313)
CASH BEGINNING OF YEAR	$ 20,833,224	$ 22,351,537
CASH END OF YEAR	$ 22,336,784	$ 20,833,224

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	**June 30, 2017**	**June 30, 2016**
Operating loss	$ (28,786,783)	$ (30,008,100)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	4,358,202	4,328,504
Other nonoperating expenses	13,888	142,301
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	666,572	(199,926)
Grant & contract receivables	(90,946)	155,494
Notes receivable	18,471	(84,574)
Other assets	181,081	(203,877)
Accounts payable and accrued liabilities adjusted for interest payable	243,727	(60,266)
Pension liability	1,380,062	161,197
Net change in deferred outflows	(892,850)	(17,419)
Net change in deferred inflows	(6,516)	(196,777)
Accrued payroll	(11,709)	(4,788)
Compensated absences	(80,973)	52,136
Deferred revenue	(62,896)	(86,725)
Deposits	11,013	(36,002)
Net cash used by operating activities	$ (23,059,657)	$ (26,058,822)

SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS		
Assets acquired through capital lease	$ 85,867	$ 175,775
Gifts of capital assets		5,500
Net increase (decrease) in value of investments	49,224	119,487
Total non-cash transactions	$ 135,091	$ 300,762

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	$ 47,858,561	$ (2,795,920)	$ 45,062,641	$ 45,050,345	$ 12,296
Capital Assets	899,620	21,903	921,523	254,818	666,705
Capital Assets Carryover		1,671,895	1,671,895	1,084,675	587,220
Capital Improvements - Off System					
Plant Services building		250,000	250,000	70,171	179,829
Capital Off System - Carryover					
Athletic Facilities Reno		7,478,983	7,478,983	16,911	7,462,072
Plant Services building		1,785	1,785		1,785
Totals	$ 48,758,181	$ 6,628,646	$ 55,386,827	$ 46,476,920	$ 8,909,907
Expenses by source					
General fund	$ 48,758,181	$ (1,102,122)	$ 47,656,059	$ 46,389,838	$ 1,266,221
Special fund		7,730,768	7,730,768	87,082	7,643,686
Totals	$ 48,758,181	$ 6,628,646	$ 55,386,827	$ 46,476,920	$ 8,909,907

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 Minot 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 the contract provisions with Barnes and Noble (bookstore) and Sodexo (food service)

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. However, we noted a matter involving internal control that we have reported to management of Minot State University in a management letter dated February 13, 2018.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested Minot 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).
- $4,000,000 in private funds from the city of Minot and $1,000,000 in local institutional funds was used for the completion of the football stadium press box (2015 HB 1003, chapter 3, section 28).
- 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).
- A deficiency appropriation of $1,800,579 was received for 2010 and 2011 flood expenditures (2015 SB 2023, chapter 57, section 1).
- 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 statue (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 48-01.2, 44-08-01).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

Government Auditing Standards 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 Minot State University included a review of contracts for the bookstore (Barnes and Noble) and dining service (Sodexo).

Background:

In March 2012, Minot State University entered into a contract with Barnes and Noble to operate and provide services for the bookstore at Minot State University based on terms and conditions of the contract.

In May 2010, Minot State University entered into a contract with Sodexo to manage and operate the food service at Minot State University for students, faculty, staff, employees, visitors and guests based on terms and conditions of the contract.

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:

- Is Minot State University ensuring compliance with the Barnes and Noble contract provisions?

- Is Minot State University ensuring compliance with the Sodexo contract provisions?

The criteria used for each of the above was the actual contract. We reviewed and determined the key controls to test for each contract. We also reviewed policies and procedures and financial reports.

We concluded that the operational objectives for Barnes and Noble and Sodexo contracts were operating efficiently and effectively. However, we noted an insignificant matter involving operations that we have reported to management of Minot State University in a management letter dated February 13, 2018.

Management Letter (Informal Recommendations)

February 13, 2018

Mr. Brent Winiger
Vice President for Administration and Finance
Minot State University
500 University Avenue West
Minot, North Dakota 58707

Dear Mr. Winiger:

We have performed an audit of Minot 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 Minot 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 a certain condition we did not consider reportable within the context of your audit report. This condition relates 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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider the status.

The following presents our informal recommendation.

TAXABLE FRINGE BENEFITS

Condition:
MISU's contract with Sodexo includes a provision where Sodexo will provide five employees of MISU's choosing with five free meals per week plus $250 per semester. These fringe benefits are not being included in the employee's gross income and thus are not subject to withholding taxes.

Criteria:
IRS Publication 15, Employer's Tax Guide, states that fringe benefits must be included in an employee's gross income and are subject to income tax withholding and employment taxes.

Cause:
It is our opinion this was an oversight by MISU.

Effect:
MISU is not in compliance with IRS regulations.

Recommendation:
We recommend that MISU include the value of the free meals and $250 per semester that is provided by Sodexo in the employee's gross income.

Minot State University Response:
MiSU agrees. This benefit that was provided by Sodexo was eliminated after being determined to be taxable. For clarification, the benefit was rarely utilized by some of the five employees or was used in conjunction with work duties. The five employees did not receive $250, but rather $250 in credits that could be used at the coffee shop or C-store. Because of mixed work and personal usage and infrequent utilization by some, determination of actual taxable value received would have been challenging. The benefit was eliminated after the discovery of taxability.

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,

Robyn Hoffmann

Robyn Hoffmann, CPA
Audit Manager

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