Client Code 242

VALLEY CITY STATE UNIVERSITY

VALLEY CITY, 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

Valley City State University Report Highlights

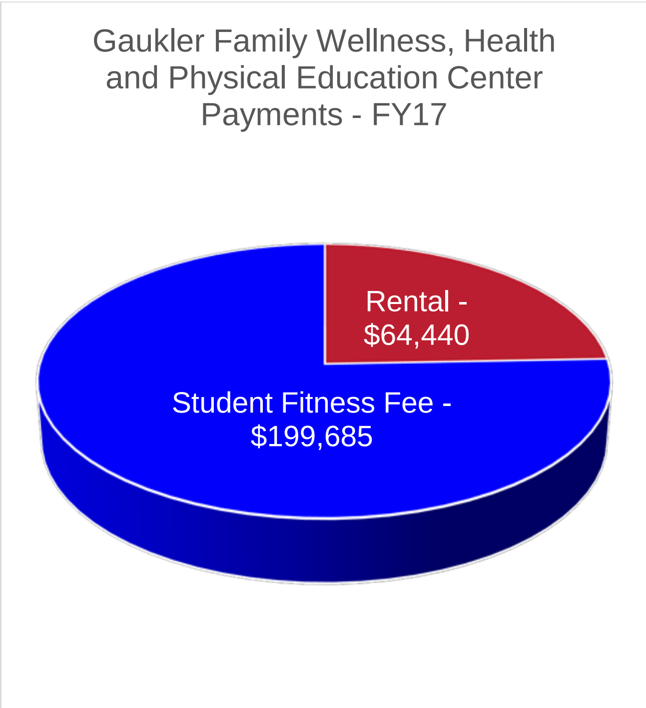
Legislative Intent
We found areas that could be improved related to procurement and construction.

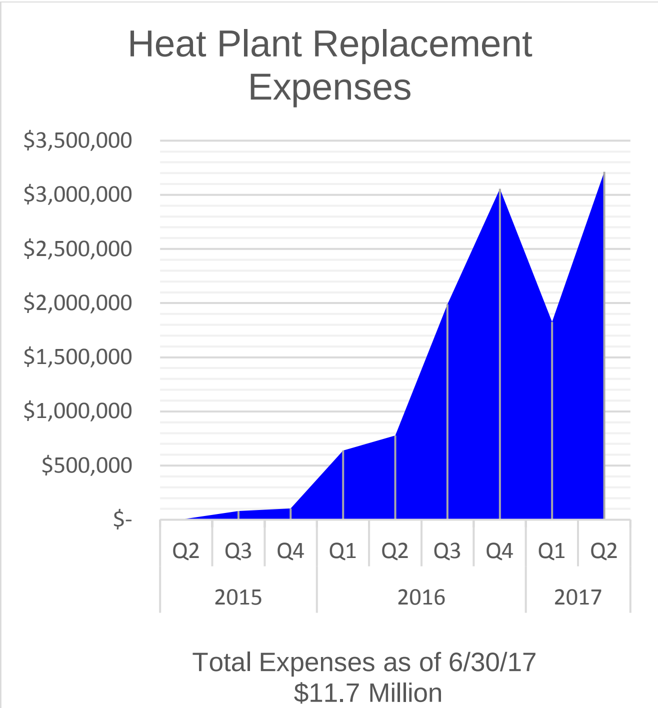
- Valley City State University did not comply with NDCC by properly procuring commodities and services and adequately documenting sole source purchases.
- Valley City State University did not comply with NDCC for the Construction Management at-Risk (CMAR) selection process and did not maintain adequate documentation for the Heat Plant Replacement.

Operations
Valley City State University entered into a Ground Lease and Development agreement on May 1, 2015 with Valley City Parks and Recreation for 3.17 acres of land for the Gaukler Family Wellness, Health and Physical Education Center (Center). The lease term is 99 years and the rental payment is $1/year. A Joint Powers Agreement between the two parties was entered on December 26, 2014 for a period of 99 years for the purpose of providing for the construction and operation of the Center. The SBHE approved a student fitness facility fee of up to $12/credit hour to give students access to the Center.

- Valley City State University failed to enter into all required agreements and failed to verify Valley City Parks and Recreation had all proper insurance coverage as outlined in the Joints Powers Agreement and Ground Lease and Development Agreement.

Internal Control
We evaluated and tested high risk areas of internal control. 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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Transmittal Letter

February 14, 2018

Members of the North Dakota Legislative Assembly

State Board of Higher Education

Dr. Margaret Dahlberg, Interim President, Valley City State University

We are pleased to submit this audit of Valley City 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. Dahlberg and her 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

Valley City State University (VCSU) is a public, regional university offering exceptional programs in an active, learner-centered community that promotes meaningful scholarship, ethical service, and the skilled use of technology. As an important knowledge resource, VCSU offers programs and outreach that enrich the quality of life in North Dakota and beyond. Through flexible, accessible, and innovative baccalaureate and master's programs, VCSU prepares students to succeed as educators, leaders, and engaged citizens in an increasingly complex and diverse society.

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 Valley City 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 13) and "Construction Management at Risk for the Heat Plant Replacement Project" (page 13), Valley City 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 "Lack of Controls Surrounding the Wellness Center Project" (page 15), 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 "Lack of Controls Surrounding the Wellness Center Project" (page 15), there were no indications of lack of efficiency in financial operations and management of the Valley City State University.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

   Yes, all prior recommendations were implemented

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

   No, a management letter was not issued.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

   In fiscal year 2016, Valley City 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 Valley City State University include useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute deprecation 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, Valley City State University had an audit adjustment for $1,369,010 to record construction in progress for the Heat Plant.

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

Audit Scope

This audit of Valley City 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.

Valley City State University's sole location is its main campus in Valley City, 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 Valley City State University's processes and procedures.
- Performed a review of the wellness center project.

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 and cash equivalents	$	6,195,135	$	3,971,421
Investments		2,005,315		1,998,753
Accounts receivable, net		788,338		374,160
Due from component units - investments held on behalf of the institutions		1,008,247		
Due from component units		38,531		946,282
Due from other NDUS institutions		13,543		13,543
Due from state general fund				1,157,830
Grants & contracts receivables, net		363,396		244,390
Inventories		182,824		181,510
Notes receivable, net		718,327		633,529
Other assets		47,651		69,744
Capital assets, net		38,771,342		24,577,732
Total assets	$	50,132,649	$	34,168,894
Deferred outflows of resources	$	671,976		323,906
LIABILITIES				
Accounts payable and accrued liabilities	$	1,632,894	$	469,170
Due to other NDUS institutions		1,955		791
Accrued payroll		1,186,254		1,165,967
Unearned revenue		464,848		410,535
Deposits		221,432		225,960
Pension liability		1,970,568		1,373,008
Due to others		10,423,234		6,417,248
Total liabilities	$	15,901,185	$	10,062,679
Deferred inflows of resources	$	119,716		154,318
NET POSITION				
Invested in capital assets	$	29,014,081	$	18,708,051
Restricted for:				
Nonexpendable:				
Scholarships and fellowships		456,349		458,498
Expendable:				
Scholarships and fellowships		141,649		49,851
Institutional		556,334		599,388
Loans		722,012		649,017
Debt service		364,489		357,926
Other		454,251		439,707
Unrestricted		3,074,559		3,013,365
Total net position	$	34,783,724	$	24,275,803

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2017	June 30, 2016
REVENUE AND OTHER ADDITIONS		
Student tuition and fees	6,882,998	6,062,145
Federal grants and contracts	2,267,943	2,048,732
State grants and contracts	56,882	108,731
Nongovernmental grants and contracts	73,000	2,500
Sales and services of educational departments	874,538	836,138
Auxiliary enterprises	2,968,744	2,981,379
State appropriations	11,205,665	11,355,635
Gifts	482,848	269,787
Endowment and investment income	432,066	262,080
Gain on disposal of capital assets		12,647
State appropriations-capital assets	10,706,384	3,854,366
Inter-institutional transfers		27,418
Capital grants and gifts	59,865	
Other	91,628	15,024
Total revenues and other additions	$ 36,102,561	$ 27,836,582
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	$ 16,318,171	$ 16,179,657
Operating expenses	5,190,233	5,249,945
Data processing	475,666	618,027
Depreciation	1,489,996	2,744,708
Scholarships and fellowships	585,006	54,288
Cost of sales and services	466,100	444,956
Interest on capital asset-related debt	486,144	314,519
Loss on capital assets	583,326	
Total expenses and other deductions	$ 25,594,642	$ 25,606,100
Revenues over expenses	$ 10,507,919	$ 2,230,482
NET POSITION		
Net position-beginning of the year, as restated	$ 24,275,805	$ 22,045,321
Net position-end of the year	$ 34,783,724	$ 24,275,803

Statement of Cash Flows

	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 6,926,582	$ 6,099,207
Grants and contracts	874,505	706,187
Payments to suppliers	(6,158,793)	(6,321,883)
Payments to employees	(16,039,861)	(16,131,784)
Payments for scholarships and fellowships	(585,006)	(54,288)
Loans issued to students	(146,271)	(139,706)
Collection of loans to students	126,372	147,189
Auxiliary enterprise charges	2,964,445	2,985,574
Sales and service of educational departments	673,087	825,853
Cash received on deposits	16,459	80,864
Other receipts	41,967	52,575
Net cash used by operating activities	$ (11,306,514)	$ (11,750,212)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 11,205,665	$ 11,355,635
Grants and gifts received for other than capital purposes	1,883,129	1,638,989
Direct lending receipts	4,461,956	4,080,086
Direct lending disbursements	(4,461,956)	(4,080,086)
Agency fund cash decrease	(232,969)	
Tax revenues		(35,918)
Net cash flows provided by noncapital financing activities	$ 12,855,825	$ 12,958,706
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	$ 75,271	
Capital appropriations	11,864,214	$ 3,059,533
Proceeds from Sale of Capital Assets		12,647
Purchases of capital assets	(10,941,427)	(4,016,132)
Principal paid on capital debt and lease	(166,403)	(166,403)
Interest paid on capital debt and lease	(486,144)	(314,519)
Net cash provided (used) by capital and related financing activities	$ 345,511	$ (1,424,874)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 496,100	$ 532,590
Interest on investments	432,066	262,080
Purchase of investments	(599,274)	(426,800)
Net cash provided by investing activities	$ 328,892	$ 367,870
Net increase in cash	$ 2,223,714	$ 151,490
CASH - BEGINNING OF YEAR	$ 3,971,421	$ 3,819,931
CASH - END OF YEAR	$ 6,195,135	$ 3,971,421

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	June 30, 2017	June 30, 2016
Operating loss	$ (12,782,670)	$ (14,606,135)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,489,996	2,744,708
Other nonoperating revenues (expenses)	(2,838)	34,521
Change in assets, deferred outflows, liabilities and deferred inflows		
Accounts receivable adjusted for interest receivable	(208,566)	53,901
Grant & contract receivables	(119,006)	(84,575)
Inventories	(1,314)	(2,386)
Notes receivable	(9,011)	13,391
Other assets	22,094	3,031
Accounts payable and accrued liabilities adjusted for interest payable	(44,282)	(53,547)
Pension liability	597,560	155,765
Net change in deferred outflows	(348,070)	(76,678)
Net change in deferred inflows	(34,602)	(83,293)
Accrued payroll	20,287	8,997
Compensated absences	43,136	43,082
Unearned revenue	54,313	18,144
Deposits	16,459	80,862
Net cash used by operating activities	$ (11,306,514)	$ (11,750,212)

SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS		
Assets acquired through capital lease	$ 4,053,983	
Assets acquired through special assessment		
Expenses paid by capital lease/special assessment		
Gifts of capital assets	59,865	
Net increases (decreases) in value of investments		
Total non-cash transactions	$ 4,113,848	

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	$25,061,349	$ (2,500,047)	$22,561,302	$22,561,300	$ 2
Capital Assets	30,697,319	(42,099)	30,655,220	12,417,320	18,237,900
Capital Assets-Carryover		2,536,759	2,536,759	2,506,427	30,332
Capital Project Off System - Carryover					
W.E.Osmon fieldhouse		4,706,837	4,706,837		4,706,837
Totals	$55,758,668	$ 4,701,450	$60,460,118	$37,485,047	$22,975,071
Expenses by source					
General fund	$39,758,668	$ (5,387)	$39,753,281	37,485,047	$ 2,268,234
Special fund	16,000,000	4,706,837	20,706,837		20,706,837
Totals	$55,758,668	$ 4,701,450	$60,460,118	$37,485,047	$22,975,071

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 Valley City State University's internal control as being the highest risk:

Internal Controls Subjected to Review or 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 Gaukler Family Wellness, Health and Physical Education Center project.

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 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: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified a significant deficiency in internal control surrounding the Gaukler Family Wellness, Health and Physical Education Center project. The significant deficiency in internal control of program operations is identified in the Operations section of this report.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested Valley City 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 appropriation committees of the sixty-fifth legislative assembly on the use of this one-time funding for the biennium ending 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).
- A deficiency appropriation of $3,152,000 was received for capital assets (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 section 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, 44-08-01, 48-01.2).
- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 13, 18, 21, 22, 23, 25, 54-44.7).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

Government Auditing Standards 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are as described below. Other than those findings, we concluded there was compliance with the legislative intent identified above.

Noncompliance Over Procurement (Finding 17-1)

Condition:
VCSU had the following issues surrounding procurement:

- Five out of eight ($651,783) procurement transactions and contracts reviewed were not procured properly through formal bids or a request for proposal; and
- Four out of five ($223,705) sole source purchases reviewed did not adequately justify or exempt the purchase from the normal procurement practices.

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.

NDUS Procedure 803.1, part 3 states in part that commodity purchases of $50,000 and greater and purchases for services of $100,000 and greater must be purchased from formal bids or a request for proposal.

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:
VCSU was not familiar with all the required procurement procedures.

Effect or Potential Effect:
Without properly procuring commodities and services, there was noncompliance with NDUS procedures and ultimately, noncompliance with NDCC 54-44.4 and NDCC 44-08-01 part 3.

Recommendation:
We recommend that VCSU properly procure commodities and services in compliance with NDCC and NDUS procurement procedures.

Valley City State University's Response:
Agree: VCSU will create a procurement guide that details applicable NDUS and NDCC policies and procedures then use this guide when making purchases, including sole source purchasing, and using the state OMB procurement website, to ensure we are compliant with state and university system policies and code. The guide will be completed by June 2018 and will be updated annually.

Construction Management at Risk for the Heat Plant Replacement Project (Finding 17-2)

Condition:
Our review of the Heat Plant Replacement project noted the following:

- There was inadequate documentation maintained to support the selection and awarding of the $12 million guaranteed maximum price for the construction management at-risk (CMAR) contract;

- VCSU improperly composed the CMAR selection committee and significantly changed the committee members without notice after the request for qualifications (RFQ) was issued;
- The CMAR selection committee did not establish and communicate all required content of the RFQ, including key evaluating criteria and the relative weighting of each; and
- The CMAR selection committee did not establish a list of finalists for VCSU.

Criteria:
NDCC 54-46-05, part 2, states in part that each agency shall make and maintain records containing adequate and proper documentation of the organization, decisions and essential transactions to protect the legal and financial rights of the state and persons affected by the agency's activities. VCSU's record retention, per the Records Management Division of ITD, for agreements and contracts is the active period of the agreement/contract plus six years and for bids is after the current fiscal year plus ten years.

NDCC 48-01.2-20 states in part that a governing body electing to use a construction management at-risk delivery process shall create a selection committee composed of an administrative individual from the governing body, a registered architect, a registered engineer, and a licensed contractor. Before issuing a notice of request for qualifications to enter a CMAR services contract, the selection committee shall establish the content of the request for qualifications including all necessary requirements. The selection committee shall determine the appropriate evaluation criteria for each request for qualifications. The selection committee shall review each proposal submitted and include the three highest ranked CMAR on a list of finalists and recommend to the governing body the CMAR receiving the highest score on the evaluation criteria.

Cause:
There was a lack of understanding in the CMAR selection process and reliance on the engineering firm to maintain required documents instead of VCSU.

Effect or Potential Effect:
There was noncompliance with NDCC surrounding the selection process of the CMAR and record retention and in addition, the guaranteed maximum price contract could have been awarded incorrectly increasing the risk of fraud, waste and abuse.

Recommendation:
We recommend that VCSU:

- Maintain adequate and proper records in compliance with NDCC and the record retention schedule; and
- Review the CMAR selection process and work more closely with the NDUS Director of Facilities Planning, as necessary, to ensure compliance with NDCC.

Valley City State University's Response:
Agree. During construction of the Heat Plant, VCSU retained the services of an external vendor and relied upon them to select the CMAR. We will create a checklist of documentation required to comply with NDCC to use during the CMAR selection process then follow up to receive that documentation at the end of the selection process to ensure in the future proper documentation is held at the University. VCSU will also ensure the CMAR process is reviewed by the NDUS director of facilities planning. This will be completed by June 2018.

Operations

Our audit of Valley City State University included a review of agreements entered into and maintained for the use of the Gaukler Family Wellness, Health and Physical Education Center (Wellness Center) and the fitness facility fees charged to students.

Background:

The State Board of Higher Education (SBHE), on behalf of VCSU, and Valley City Parks and Recreation (VCPR) entered into a Joint Powers Agreement for the construction, management, and operation of a community wellness center on the VCSU campus to serve VCSU and Valley City. VCSU students voted to financially support the construction and operation of the Wellness Center through an increase in the mandatory fitness facility fee, which was approved by the SBHE.

Our audit procedures were designed and conducted to answer the following objectives

- Is VCSU in compliance with all agreements surrounding the Wellness Center?
- Is VCSU charging students within the approved SBHE fitness facility fee?

Our audit determined the objectives were met except for the following significant operational improvement noted below.

Lack of Controls Surrounding the Wellness Center Project (Finding 17-3)

Condition:
VCSU did not enter into and have in place an Academic Master Lease and an Operating Agreement as were required in the Joint Powers Agreement and the Ground Lease and Development Agreement with the Valley City Parks and Recreation (VCPR) prior to the construction of the Gaukler Family Wellness, Health and Physical Education Center. VCSU also did not obtain all insurance documents that were required in the Ground Lease and Development Agreement.

Criteria:
The Ground Lease and Development Agreement states that during the term of the agreement, VCSU shall enter into an Academic Master Lease with VCPR for all improvements placed upon the leased land. The Ground Lease and Development Agreement states that VCSU should obtain all commercial and general liability policies from VCPR as soon as they are written, along with evidence the insurance premiums have been paid.

The Joint Powers Agreement states that VCSU and the VCPR enter into an Operating Agreement governing the use of the community wellness center by VCSU students and employees.

Cause:
VCSU was not aware that they were missing an Operating Agreement and insurance documents and are in the process of creating an Academic Master Lease.

Effect or Potential Effect:
VCSU is not in compliance with the Ground Lease and Development Agreement and the Joint Powers Agreement.

Operational Improvement:
We recommend that VCSU implement proper controls to ensure that all documentation and agreements are entered into and maintained prior to the execution of a project.

Valley City State University's Response:
Agree. VCSU will enter into the master lease, the operating lease and obtain the liability policies from VCPR as required by the joint powers agreement. In the future, VCSU will create an action checklist from these contracts to follow and ensure all actionable items are completed. This will be completed by December 2018.

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