



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

NORTH DAKOTA STATE COLLEGE OF SCIENCE

Audit Report for the Biennium Ended June 30, 2019

Client Code 238





WHAT WE LOOKED AT

Our team audited the North Dakota State College of Science which included reviewing financial transactions, expenditures, blanket bond coverage, and reviewed their faculty contracts.

WHY WE LOOKED AT THIS

State law (N.D.C.C. 54-10-01) requires our team to perform a post-audit of all financial transactions of the state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts. We also looked at faculty personnel files, contract compensation, and proper evaluations of faculty.

WHAT WE FOUND

PERSONNEL FILES AND INADEQUATE EVALUATIONS



In addition to missing information in personnel files, faculty contracts do not have goals outlined, which leads to inadequate evaluations.

Read more on page 4

TABLE OF CONTENTS

INTRODUCTION	2
Terms Used in Report	3
AUDIT RESULTS	
Faculty Contract Objective	4
<i>Lack of Faculty Evaluation Criteria and Official Personnel File</i>	5
Conclusions and Background	5
Statutory Objective	6
Conclusion	6
AUDIT PROCEDURES	
Faculty Contract Objective	7
Statutory Objective	8
Statutory Criteria	9
Authority and Standards	9
LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE	
Responses to LAFRC Audit Questions	10
LAFRC Audit Communications	11
FINANCIAL STATEMENTS	
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Appropriations	15
STATUS OF PRIOR RECOMMENDATIONS	16

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HAVE QUESTIONS? ASK US.

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Introduction

North Dakota State College of Science

April 2, 2020

We are pleased to submit this audit of the North Dakota State College of Science for the biennium ended June 30, 2019. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Robyn Hoffmann, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to President Richman and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Default: Failures to do something required by duty or law.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

OBJECTIVE

Are faculty performing their job duties, receiving evaluations, and being compensated as required by their contracts?

FINDING
2019-01

Lack of Faculty Evaluation Criteria and Official Personnel File

CONCLUSIONS

We found that faculty were performing their job duties and compensated according to their contracts, however, North Dakota State College of Science did not ensure all faculty were receiving adequate evaluations as required by the State Board of Higher Education policy and North Dakota State College of Science policy and faculty members did not have the required personnel information included in their official personnel file, as required by state law.



BACKGROUND

Since faculty have such an important role, faculty personnel files were reviewed to determine if the faculty member:

- Had a valid contract,
- Received student evaluations,
- Received an annual evaluation and
- Are being contractually compensated for their responsibilities.

The State Board of Higher Education (policy 605.1, section 8) requires institutions to provide an annual evaluation of all full-time faculty. Evaluations are required to include faculty member's duties and goals and also must include significant student input. North Dakota state law (N.D.C.C. 54-06-21) requires that a file for each employee is properly maintained. Each employee must acknowledge that they have read the material by signing the document, with the understanding that the signature signifies that the employee has read the material to be filed.

Because there was no documentation of goals in the faculty contracts, there was a disconnect between each annual review and the job duties highlighted in each faculty contract. Both the State Board of Higher Education (policy 605.1) and North Dakota State College of Science (policy 604.15) offer guidance for faculty contracts and evaluations. We also noted that student evaluations of all 22 of the faculty contracts we looked at were not kept in the official personnel file as required by state law (N.D.C.C. 54-06-21). North Dakota State College of Science keeps their official personnel files in their own record retention software. Because these evaluations are located on a different internal computer hard drive, they are not being kept with the official personnel file records.

Without specific goals and duties noted in the contract, faculty may not be aware of what criteria will be used for their annual evaluation. In addition, without keeping all personnel records in one official personnel file, the North Dakota State College of Science has a potential for an increased risk of misplacing information or not being able to locate all personnel information when needed. The North Dakota State College of Science was not aware that faculty contracts need to include goals and duties for faculty evaluations.

RECOMMENDATION

We recommend that North Dakota State College of Science include in the faculty contract the criteria that is necessary to complete an annual evaluation and maintain an official personnel file.

NORTH DAKOTA STATE COLLEGE OF SCIENCE

RESPONSE

NDSCS will carefully review the recommendation and any associated internal processes and procedures, and will implement improvements where appropriate.



Other Results

▼ OBJECTIVE

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post-audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.



Audit Procedures

FACULTY CONTRACT OBJECTIVE

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels.

We identified key controls significant to this audit objective related to the control environment component of internal control, specifically the principal correlated with the organization demonstrating a commitment to developing competent individuals and the component of information and communication, specifically the principal related to the ability to obtain or generate, and use relevant quality information to support the functioning of internal control. We also identified controls related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation of the same.

SCOPE

This audit of the North Dakota State College of Science is for the biennium ended June 30, 2019.

The North Dakota State College of Science has operations at the Wahpeton campus and the Skills and Technology Training Center in Fargo. Each location was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Received queries from the North Dakota State College of Science from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the queries from ConnectND.
- 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 faculty contracts and personnel files for compliance with N.D.C.C., State Board of Higher Education policy, and North Dakota College of Science policy regarding contracts, evaluations, and compensation.
- Tested internal controls, including the faculty contracts were demonstrating a commitment to attract, develop and retain competent individuals, the faculty evaluations were completed, and all information was kept in personnel files so relevant and quality information was maintained.
- Interviewed appropriate agency personnel.

STATUTORY OBJECTIVE

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation of the same and controls deployed through policies and procedures. We also identified controls relating to the monitoring component of internal control, specifically the principle of performing monitoring activities.

SCOPE

This audit of the North Dakota State College of Science is for the biennium ended June 30, 2019.

The North Dakota State College of Science has operations at the Wahpeton campus and the Skills and Technology Training Center in Fargo. Each location was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- 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.
- 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.
- Interviewed appropriate agency personnel.
- Received queries from the North Dakota State College of Science from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the queries from ConnectND.
- Observed the North Dakota State College of Science's processes and procedures.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations.
- Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively, including appropriate reconciliations and approvals.
- Internal controls were tested including proper approvals of bank reconciliations, expenses, and scholarships and waivers and performing monthly bank reconciliations.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Tested monthly bank reconciliations on funds held in the Bank of North Dakota general account.
- Performed an analysis and selected a sample of high-risk transactions, including expenses, procurement, travel expenses, and scholarships and waivers for further testing.

STATUTORY CRITERIA

North Dakota State College of Science management must establish and maintain effective internal control in accordance with the North Dakota University System procedure 802.6 and the North Dakota University System Accounting Manual.

The criteria used to evaluate legislative intent are the laws as published in the N.D.C.C. and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose of the use of one-time funding distribution for operations. (2017 North Dakota Session Laws S.B. 2003, section 3)
- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose of the use of challenge grant one-time funding (2017 North Dakota Session Laws S.B. 2003, sections 4-5)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)
- Expenses were made for a public purpose (N.D.C.C. 44-08-05.1)
- Travel reimbursement in accordance with limits of state law. (N.D.C.C. 54-06-09, N.D.C.C. 44-08-03, N.D.C.C. 44-08-04)
- Goods, services, and public improvements procured in accordance with state law. (N.D.C.C. 54-44.4, N.D.C.C. 48-01.2)
- Scholarship expenses were proper (N.D.C.C. 15-10-12, N.D.C.C. 15-10-18.2, N.D.C.C. 15-10-18.3, N.D.C.C. 15-10-18.4, N.D.C.C. 15-10-18.5, N.D.C.C. 37-07.1, N.D.C.C. 54-12-35)

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota State College of Science has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The criteria used to evaluate internal control is published in the Committee of Sponsoring Organizations of the Treadway Commission publication Internal Control – Integrated Framework.



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

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

2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?

Other than our finding addressing “Lack of Faculty Evaluation Criteria and Official Personnel File” (page 4), the North Dakota State College of Science 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?

Yes. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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?

The North Dakota State College of Science has implemented all recommendations included in the prior audit report.

6. WAS A MANAGEMENT LETTER ISSUED? IF SO, PROVIDE A SUMMARY BELOW, INCLUDING ANY RECOMMENDATIONS AND THE MANAGEMENT RESPONSES.

No, a management letter was not issued.



LAFRC Audit Communications

7. IDENTIFY ANY SIGNIFICANT CHANGES IN ACCOUNTING POLICIES, ANY MANAGEMENT CONFLICTS OF INTEREST, ANY CONTINGENT LIABILITIES, OR ANY SIGNIFICANT UNUSUAL TRANSACTIONS.

There were no 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 for North Dakota State College of Science include the useful lives of capital assets, allowance for doubtful accounts, scholarship allowance, net pension liability and other post-employment benefits liability. 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. The estimate for scholarship allowance is based on the difference between the tuition rates and charges and the amount actually paid by students and/or third parties making payments on behalf of students. The net pension liability and other post-employment benefits liability is based on the actuary's calculation based on plan provisions and census date for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives, allowance for doubtful accounts, scholarship allowance, net pension liability and OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.

Significant audit adjustments were not necessary.

10. IDENTIFY ANY DISAGREEMENTS WITH MANAGEMENT, WHETHER OR NOT RESOLVED TO THE AUDITOR'S SATISFACTION RELATING TO A FINANCIAL ACCOUNTING, REPORTING, OR AUDITING MATTER THAT COULD BE SIGNIFICANT TO THE FINANCIAL STATEMENTS.

None.

11. IDENTIFY ANY SERIOUS DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT.

None.

12. IDENTIFY ANY MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION.

This is not applicable for audits conducted by the Office of the State Auditor.

13. IDENTIFY ANY MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS ABOUT AUDITING AND ACCOUNTING MATTERS.

None.

Continued on following page

14. IDENTIFY ANY HIGH-RISK INFORMATION TECHNOLOGY SYSTEMS CRITICAL TO OPERATIONS BASED ON THE AUDITOR'S OVERALL ASSESSMENT OF THE IMPORTANCE OF THE SYSTEM TO THE AGENCY AND ITS MISSION, OR WHETHER ANY EXCEPTIONS IDENTIFIED IN THE SIX AUDIT REPORT QUESTIONS TO BE ADDRESSED BY THE AUDITORS ARE DIRECTLY RELATED TO THE OPERATIONS OF AN INFORMATION TECHNOLOGY SYSTEM.

ConnectND Finance, Human Resource Management System (HRMS) and Campus Solutions are high-risk information technology systems critical to the North Dakota State College of Science. No exceptions were identified related to the operations of an information technology system.

Financial Statements

Statement of Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2019	JUNE 30, 2018
Student tuition and fees	\$ 8,239,384	\$ 8,483,236
Federal grants and contracts	4,086,525	4,485,155
State and local grants and contracts	763,081	700,575
Nongovernmental grants and contracts	20,094	5,961
Sales and services of educational departments	3,652,369	3,402,976
Auxiliary enterprises	7,657,933	8,570,118
Other	198,996	185,876
State appropriations	17,277,084	16,800,000
Gifts	1,065,962	986,008
Endowment and investment income	812,390	790,753
State appropriations - capital assets	335,346	845,754
Capital grants and gifts	26,083	110,353
Total revenues and other additions	\$ 44,135,247	\$ 45,366,765

Source: North Dakota University System Annual Financial Report

Continued on following page

Financial Statements

Statement of Revenues, Expenses, and Changes in Net Position

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2019	JUNE 30, 2018
Salaries and wages	\$ 27,515,270	\$ 27,699,937
Operating expenses	12,340,431	9,252,796
Data processing	391,343	167,812
Depreciation	3,257,848	3,410,253
Scholarships and fellowships	1,256,494	1,406,321
Costs of sales and services	2,613,949	2,836,111
Interest on capital asset-related debt	300,327	313,371
Loss on disposal of capital assets	7,992	26,203
Total expenses and other deductions	\$ 47,683,654	\$ 45,112,804
Revenue over expenses	\$ (3,548,407)	\$ 253,961
NET POSITION	JUNE 30, 2019	JUNE 30, 2018
Net position-beginning of the year, as restated	\$ 67,381,056	\$ 67,127,096
Net position-end of the year	\$ 63,832,649	\$ 67,381,057

Source: North Dakota University System Annual Financial Report

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENSES BY LINE ITEM	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Operating Expenses	\$93,748,546	\$93,748,546	-
Capital Assets	1,164,379	118,228	\$1,046,151
Capital Assets Carryover	1,929,105	1,841,624	87,481
Operating Carryover	13,919	-	13,919
Totals	\$96,855,949	\$95,708,398	\$1,147,551

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
General fund	\$37,184,487	\$36,050,855	\$1,133,632
Special fund	59,671,462	59,657,543	13,919
Totals	\$96,855,949	\$95,708,398	\$1,147,551

Source: ConnectND Financials



Status of Prior Recommendations

Monthly Bank Reconciliations (Finding 2017-1)

Implemented

Recommendation: We recommend that North Dakota State College of Science reconcile the Bank of North Dakota general account and general ledger balances to a zero difference on a monthly basis

Status: Implemented. Our testing of the Bank of North Dakota general account bank reconciliation determined the account is being reconciled on a monthly basis to a zero difference.



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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