



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Lake Region State College

Audit Report for the Biennium Ended June 30, 2019

Client Code 228





## WHAT WE LOOKED AT

Our team audited Lake Region State College which included reviewing financial transactions, expenditures, and blanket bond coverage.

## WHY WE LOOKED AT THIS

North Dakota state law (N.D.C.C. 54-10-01) requires that our team performs a post-audit of all financial transactions of state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts.

## AUDIT REPORT HIGHLIGHTS

### Not Following State Procurement Rules



Five out of 11 procurement transactions tested were not properly procured. The purchases totaled \$160,930.

*Read more on page 4*

# TABLE OF CONTENTS

<b>INTRODUCTION</b> .....	2
Terms Used in Report .....	3
<b>AUDIT RESULTS</b>	
Statutory Objective .....	4
<i>Not Following State Procurement Rules</i> .....	4
Conclusion and Background .....	4
<b>AUDIT PROCEDURES</b>	
Statutory Objective .....	5
Statutory Criteria .....	6
Authority and Standards .....	6
<b>LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE</b>	
Responses to LAFRC Audit Questions .....	7
LAFRC Audit Communications .....	8
<b>FINANCIAL STATEMENTS</b>	
Statement of Revenues, Expenses and Changes in Net Position .....	10
Statement of Appropriations .....	12

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## HAVE QUESTIONS? ASK US.

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# Introduction

## Lake Region State College

June 15, 2020

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We are pleased to submit this audit of Lake Region State College 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 Darling 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.

**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

## STATUTORY 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 and appropriation acts, and evaluating blanket bond coverage.

FINDING  
2019-01

## Not Following State Procurement Rules

### CONCLUSION

Five out of 11 procurement transactions tested were not properly procured. The purchases totaled \$160,930.

### BACKGROUND

State law (N.D.C.C. 15-10-17 part 5) states that the State Board of Higher Education may determine policy for purchasing by the University System in coordination with the Office of Management and Budget. The North Dakota University System procedures list the following requirements for procurement transactions:



**Five** out of 11 procurement transactions tested were **not** properly procured. The purchases **totaled \$160,930.**

- Commodity purchases of \$10,000 but less than \$50,000, requires solicitation of informal bids or proposals from at least three vendors. If informal bids are not solicited from three vendors, the Alternate Procurement form is required.

- Commodity purchases of \$50,000 but less than \$100,000, require informal bids or proposals using SPO Online. If competition is limited or not solicited and/or SPO Online is not used the Alternate Procurement form is required.

Without a competitive bidding process, Lake Region State College cannot ensure they are purchasing commodities and services at the best available price. Lake Region State College has not properly completed or utilized the Alternate Procurement forms or has not maintained support to substantiate the procurement transactions.

### RECOMMENDATION

We recommend that Lake Region State College properly procure commodities in compliance with N.D.C.C. and North Dakota University System procurement requirements.

### LAKE REGION STATE COLLEGE RESPONSE

Lake Region State College will carefully review the recommendation and any associated internal processes and procedures, and will implement improvements where appropriate.





# Audit Procedures

## 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 design activities for information systems.

## SCOPE

This audit of Lake Region State College is for the biennium ended June 30, 2019.

Lake Region State College has operations in the following locations. Each location was included in the audit scope:

- The main campus in Devils Lake.
- The Grand Forks Air Force Base campus

## 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 Lake Region State College from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the queries from ConnectND.
- 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 and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a random sample of high-risk transactions, including expenses, procurement, travel expenses, and scholarships and waivers, for further testing.
- Internal controls were tested including proper approvals of travel expenses, scholarships and waivers and expenses.

## STATUTORY CRITERIA

Lake Region State College 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 North Dakota Century Code 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. (2017 North Dakota Session Laws S.B. 2003, Chapter 28, Section 3)
- 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. 44-08-03, N.D.C.C. 44-08-04, N.D.C.C. 54-06-09)
- Goods, services, and public improvements procured in accordance with state law. (N.D.C.C. 48-01.2, N.D.C.C. 54-44.4)
- 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. 54-12-35, N.D.C.C. 37-07.1)

## AUTHORITY AND STANDARDS

This biennial audit of Lake Region State College 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 Lake Region State College 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 “Not Following State Procurement Rules,” Lake Region State College 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?**

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.**

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 Lake Region State College 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 provision and census data 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.

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**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 Capital Management (HCM) and Campus Solutions are high-risk information technology systems critical to the North Dakota State University. 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
State appropriations	\$ 6,348,023	\$ 6,137,144
Student tuition and fees	4,332,540	4,258,636
Federal grants and contracts	1,934,441	1,867,955
Auxiliary enterprises	1,844,069	1,755,820
Sales and services of educational departments	746,805	843,326
State grants and contracts	738,722	664,849
Gifts	713,066	912,834
State appropriations - capital assets	282,112	834,401
Capital grants and gifts	25,315	47,632
Other	17,212	10,420
Endowment and investment income	11,402	5,017
Nongovernmental grants and contracts	7,945	16,919
Insurance proceeds	740	-
<b>Total Revenues and Other Additions</b>	<b>\$ 17,002,392</b>	<b>\$ 17,354,953</b>

Continued on following page

Source: North Dakota University System Annual Financial Report

# Financial Statements

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

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2019	JUNE 30, 2018
Salaries and wages	\$ 11,402,258	\$ 10,806,799
Operating expenses	3,351,669	2,831,151
Depreciation	1,294,938	1,248,433
Cost of sales and services	732,924	749,025
Scholarships and fellowships	604,276	624,795
Data processing	187,979	238,135
Interest on capital asset-related debt	129,173	140,355
Loss on capital assets		15,021
<b>Total Expenses and Other Deductions</b>	<b>\$ 17,703,217</b>	<b>\$ 16,653,714</b>
Revenue over (under) expenses	\$ (700,825)	\$ 701,239

NET POSITION	JUNE 30, 2019	JUNE 30, 2018
Net position-beginning of the year, as restated	\$ 15,211,116	\$ 14,509,879
Net position-end of the year	\$ 14,510,291	\$ 15,211,118

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	\$ 36,397,298	\$ 35,216,848	\$ 1,180,450
Capital Assets	1,465,374	247,598	1,217,776
Capital Assets-Carryover	867,987	867,957	30
<b>Totals</b>	<b>\$ 38,730,659</b>	<b>\$ 36,332,403</b>	<b>\$ 2,398,256</b>

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
General Fund	\$ 14,619,567	\$ 13,600,722	\$ 1,018,845
Special Fund	24,111,092	22,731,681	1,379,411
<b>Totals</b>	<b>\$ 38,730,659</b>	<b>\$ 36,332,403</b>	<b>\$ 2,398,256</b>

Source: ConnectND Financials





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