



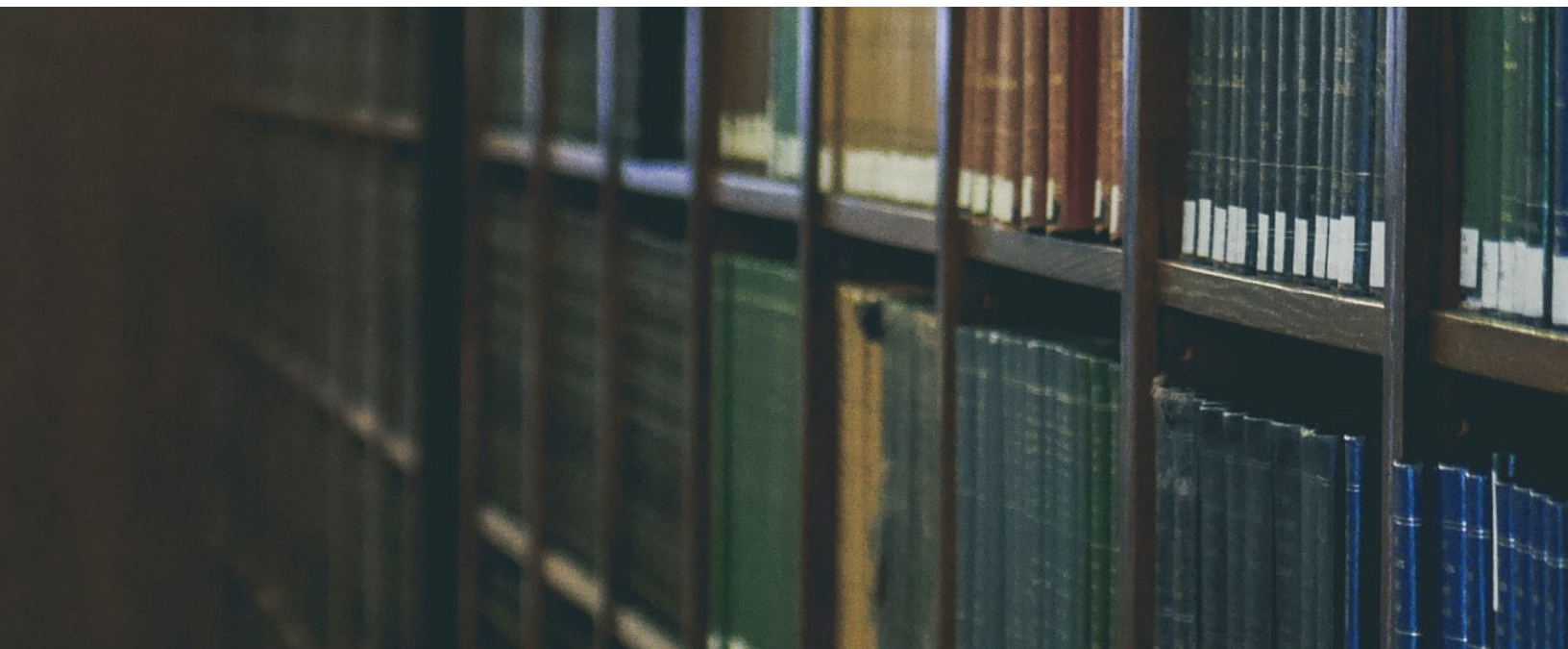
NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Valley City State University

Audit Report for the Biennium Ended June 30, 2019

Client Code 242





WHAT WE LOOKED AT

Our team audited Valley City State University which included reviewing financial transactions, expenditures and blanket bond coverage.

WHAT WE FOUND

Valley City State University has not implemented our recommendation from the last biennium which advised following state law for procurement procedures.

AUDIT REPORT HIGHLIGHT



Valley City State University **did not provide** documentation showing a competitive bidding **process for two** out of 11 transactions tested.

Read more on page 5

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KEY PERSONNEL

Robyn Hoffmann
CPA, AUDIT MANAGER

Dustin Walcker
AUDIT SUPERVISOR

Alandra Kist
CFE, LEAD AUDITOR


Delan Hellman
SENIOR AUDITOR

Breck Hendrickson
AUDITOR

HAVE QUESTIONS? ASK US.

**NORTH DAKOTA STATE
AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota 58505

-  701-328-2241
-  NDSAO@nd.gov
-  ND.gov/Auditor
-  Facebook.com/NDStateAuditor
-  LinkedIn.com/company/NDStateAuditor

Introduction

Valley City State University

May 15, 2020

We are pleased to submit this audit of Valley City State University 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 LaFave 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

▼ FACULTY CONTRACTS OBJECTIVE

Are faculty receiving required evaluations, and are compensation and job duties consistent with their contracts?

CONCLUSION

Faculty are receiving required evaluations, and compensation and job duties are consistent with their contracts.

BACKGROUND

Valley City State University had approximately 189 faculty members during the period of July 1, 2017, to June 30, 2019. State law, North Dakota University System policy, and Valley City State University require the following for each faculty member:

- The maintenance of a centralized personnel file.
- A valid contract establishing responsibilities and compensation.
- Significant student evaluation feedback.
- Annual supervisory evaluations.

Through our testing of 14 faculty members, we determined Valley City State University is properly following these policies and procedures.

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.

FINDING
2019-01

Not Following State Procurement Rules


CONCLUSION

Our team found two of the 11 procurement purchases we reviewed did not have the proper documentation to show competitive bidding.

BACKGROUND

North Dakota University System procedures require purchases between \$10,000 and \$50,000 to have informal bids solicited from at least three vendors. Because of the lack of bids, the best purchase price may not have been acquired.

During our last audit in 2017, we recommended the University follow procurement rules. As of the audit period, this has not been done.



Valley City State University **did not provide** documentation showing a competitive bidding **process for two** out of 11 transactions tested.

RECOMMENDATION

We recommend that Valley City State University properly procure commodities and services in compliance with North Dakota University System procurement procedures and N.D.C.C.

VALLEY CITY STATE UNIVERSITY RESPONSE

Valley City State University will carefully review the procurement of commodities and services recommendation and any associated internal process and procedures, and will implement improvements where appropriate.



Audit Procedures

FACULTY CONTRACTS OBJECTIVE

INTERNAL CONTROL

When auditors conclude internal control is significant to audit objectives, auditors are required to disclose the scope of the work on internal control. Given the nature of this audit objective we determined internal control was not significant to this audit objective.

SCOPE

Valley City State University's sole location is in Valley City which was included in the audit scope. The scope of this objective was limited to faculty under North Dakota University System academic broadband job classification (2000) during the 17-19 biennium.

METHODOLOGY

To meet this objective, we:

- Identified North Dakota University System policies and procedures, and Valley City State University policies and procedures for faculty contracts, evaluations, and compensation.
- Interviewed appropriate agency personnel.
- Inspected a sample of individual faculty contracts, evaluations, and personnel files to determine compliance with N.D.C.C., North Dakota University System policies and procedure, and Valley City State University policy.
- Received queries from Valley City State University from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the queries in ConnectND.

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.

SCOPE

This audit of Valley City State University is for the biennium ended June 30, 2019.

Valley City State University's sole location is in Valley City which 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 Valley City State University from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the queries from ConnectND.
- Observed Valley City State University'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 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 sample of high-risk transactions, including travel expenses, scholarships and waivers, procurement, and expenses for further testing.
- Internal controls were tested including proper approvals of expenses, travel expenses and scholarships and waivers.

STATUTORY CRITERIA

Valley City State University 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 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:

- 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)
- Special Appropriation Laws – One Time Funding for Institutional Operations Division. (S.B. 2003, Chapter 28, Section 3)
- 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)
- Scholarships and waiver of tuition and fees (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 Valley City State University 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 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 finding addressing “Not Following State Procurement Rules”, 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?

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?

Action has been taken on findings and recommendations included in the prior audit report except as noted in the Status of Prior Recommendations section of this 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 Valley City State University 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 are based on the actuary's calculation based on plan provisions 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 other post-employment benefits 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 Valley City State University. None of the exceptions identified in the six audit report questions are directly related to these systems.

Financial Statements

Statement of Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
State appropriations	\$ 9,461,903	\$ 10,053,888
Student tuition and fees	6,802,887	7,164,007
Auxiliary enterprises	2,622,435	2,930,560
Federal grants and contracts	1,963,752	2,100,870
Gifts	1,211,263	605,059
Capital grants and gifts	915,059	-
Sales and services of educational departments	835,096	775,020
State appropriations - capital assets	824,713	2,250,100
Endowment and investment income	491,061	507,646
State and local grants and contracts	72,650	70,495
Nongovernmental grants and contracts	67,951	-
Other revenues	26,655	12,530
Gain on disposal of capital assets	2,112	-
Total revenues and other additions	\$ 25,297,537	\$ 26,470,175

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	\$16,008,668	\$15,728,325
Operating expenses	5,151,027	4,977,893
Depreciation	1,901,064	1,754,264
Scholarships and fellowships	787,582	650,837
Interest on capital asset-related debt	477,876	484,158
Data processing	470,768	391,579
Cost of sales and services	300,233	407,010
Other expenses	5	50,753
Loss on capital assets	-	514
Total expenses and other deductions	\$25,097,223	\$24,445,333
Revenue over expenses	\$200,314	\$2,024,842
NET POSITION		
Net position-beginning of the year	\$36,698,270	\$34,673,428
Net position-end of the year	\$36,898,584	\$36,698,270

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	UNEAXPENDED APPROPRIATIONS
Operating Expenses	\$ 52,602,802	\$52,602,802	-
Capital Assets	2,985,156	752,826	\$ 2,232,330
Capital Assets Carryover	2,268,234	2,265,808	2,426
Capital Asset - Off System	22,500,000	36,560	22,463,440
Totals	\$ 80,356,192	\$ 55,657,996	\$ 24,698,196

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEAXPENDED APPROPRIATIONS
General fund	\$ 24,784,332	\$ 22,581,929	\$ 2,202,403
Special fund	55,571,860	33,076,067	22,495,793
Totals	\$ 80,356,192	\$ 55,657,996	\$ 24,698,196

Source: ConnectND Financials



Status of Prior Recommendations

Noncompliance Over Procurement (Finding 2017-1)

Not Implemented

Recommendation: We recommend that Valley City State University properly procure commodities and services in compliance with N.D.C.C. and North Dakota University System procurement procedures.

Status: Not implemented. See Finding 2019-01.

Construction Management at Risk for the Heat Plant Replacement Project (Finding 2017-2)

Not Implemented - N/A

Recommendation: We recommend that Valley City State University maintain adequate and proper records in compliance with N.D.C.C. and the record retention schedule; and review the Construction Management at Risk (CMAR) selection process and work more closely with the North Dakota University System Director of Facilities Planning, as necessary, to ensure compliance with N.D.C.C.

Status: Valley City State University did not have any new Construction Management at Risk projects during our audit period. Therefore the circumstances have changed to make the recommendation not applicable.

Lack of Controls Surrounding the Wellness Center Project (Finding 2017-3)

Implemented

Recommendation: We recommend that Valley City State University implement proper controls to ensure that all documentation and agreements are entered into and maintained prior to the execution of a project.

Status: Implemented.



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505

 [ND.gov/Auditor](https://nd.gov/Auditor)

 NDSAO@nd.gov

 701-328-2241

 Facebook.com/NDStateAuditor

 LinkedIn.com/company/NDStateAuditor