



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Lake Region State College

Audit Report for the Biennium Ended June 30, 2021

Client Code 228





## WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenses are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

## WHAT WE FOUND



### **Not Following State Procurement Rules**

Our office found that Lake Region State College did not properly follow procurement procedures in four of the ten transactions we reviewed.

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# HAVE QUESTIONS? ASK US.

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# Introduction

## Lake Region State College

July 7, 2022

We are pleased to submit this audit of Lake Region State College for the biennium ended June 30, 2021. 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 the Lake Region State College 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.

**ConnectND:** The accounting system for North Dakota.

**Construction Management At-Risk (CMAR):** A construction manager who provides advice to the university during the planning and design phases of a public improvement and negotiates a contract with the university for the general construction bid package of the public improvement.

**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

## PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

FINDING  
2021-01

## Not Following State Procurement Rules

### CONCLUSION

Our office found that Lake Region State College (LRSC) did not properly follow procurement procedures in four of the ten transactions that we reviewed.

### BACKGROUND

It's important to follow procurement procedures to ensure commodities and services are acquired at the best possible price. State law (N.D.C.C. 15-10-17, part 5; N.D.C.C. 54-44-4) requires certain procedures be followed when making purchases on behalf of state agencies or institutions.

We found LRSC purchased contract services totaling \$11,410, but did not obtain the necessary bids. The North Dakota University System (procedure 803.1, part 4) requires that purchases between \$10,000 and \$50,000 seek informal bids from at least three vendors, to allow for equal comparison of quality and cost.



Of the ten transactions reviewed, **40% did not follow procurement procedures.**

There are some circumstances in which informal bids don't have to be sought for purchases between these parameters. In this case, an Alternate Procurement form must be filled out prior to a purchase, to officially record the circumstance that made an informal bid unnecessary or not possible (North Dakota University System procedure 803.1, part 6).

We also found LRSC incorrectly submitted an Alternative Procurement form for software subscriptions. The form was completed after the subscriptions had already begun.

Lastly, when selecting architects and construction managers at-risk (CMARs) for public improvement projects, institutions must follow state law to ensure all applicants are treated fairly. Some of the requirements consist of:

- Maintain documentation of their interviews (N.D.C.C. 54-44.7-3, part 5; N.D.C.C. 48-01.2-20, part 6).
- Include the members of the selection committee in their request for qualifications (RFQ) (N.D.C.C. 48-01.2-20, part 3).
- Evaluate each party based on the criteria and weighting stated within the RFQ (N.D.C.C. 48-01.2-20, part 6).

We found that when choosing an architect, LRSC did not maintain interview documentation for each member of their new agricultural education center's (the Hofstad Agriculture Center) selection committee. When choosing a CMAR for the same project, LRSC also did not maintain interview documentation, did not include the members of the committee in their RFQ, and did not use the criteria and weighting described in their RFQ when evaluating each proposal.

We also noted procurement issues in the 2019 biennium audit for LRSC.

## RECOMMENDATION

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

## LAKE REGION STATE COLLEGE RESPONSE

LRSC agrees to the recommendation and will require directors and departments leads to complete the Level 2 Procurement training. Effective immediately, the procurement officer will send out quarterly emails regarding procurement rules.

Prior to the purchase of any item greater than \$9,999, a procurement officer shall sign off that the procurement policy was followed.

Due to the decentralized nature of LRSC's procurement, we have put emphasis on training.

The Procurement Officer, Grants Accounting Assistant and the Controller had Level 4 training. The new Controller (6-1-22) will get training through Level 4 as soon as it is available. Administration were trained through Level 2 and all other employees-Level 1 training. All employees also have a procurement guide that was provided to them in FY22.





# Audit Procedures

## Primary Objective

### INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Verified proper approval of expenses and journal entries.
- Verified proper approval of scholarships and waivers.
- Verified proper approval and timely reconciliation between purchase card statements and receipts.

There were no deficiencies identified.

### SCOPE

Lake Region State College has its main campus in Devils Lake and a campus at the Grand Forks Air Force base. Both locations were included in scope of this audit.

### METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population. When applicable, populations were stratified to ensure that an appropriate sample was obtained.
- Interviewed appropriate Lake Region State College personnel.

- Analyzed financial data in ConnectND to determine areas of risk.
- Inspected documentary evidence.
- Reviewed Lake Region State College's policies and procedures.
- Tested compliance with appropriation laws and regulations (2019 House Bill 1003, Chapter 3, Sections 2, 10, 18, 25, 29, 30, and 31).
- Selected a random sample of expense vouchers to ensure expenses were properly coded, had adequate support, and were made for a lawful and official purpose (N.D.C.C. 44-08-05.1).
- Selected a random sample of journal entries to ensure supporting documentation was valid and properly coded.
- Selected a random sample of tuition and fees charged to students to ensure the approved rate was charged and that it was properly coded.
- Selected a random sample of sales and services, auxiliary enterprises, and gift revenues to ensure it was properly coded and the proper rate was charged.
- Selected a random sample of scholarship and waiver expenses to ensure the expense was properly coded and in compliance with the scholarship or waiver criteria (N.D.C.C. 15-10; N.D.C.C. 54-12-35; N.D.C.C. 37-07.1; State Board of Higher Education Policy 820).
- Selected a random sample of purchase card expenses to ensure the expense was properly coded, the expense was charged to the proper fiscal year, and made for a lawful and official purpose (N.D.C.C. 44-08-05.1; State Board of Higher Education Policy and North Dakota University System Procedure 803.4).
- Selected a judgmental sample of purchases subject to procurement rules to ensure they were in compliance



with State Board of Higher Education policies, North Dakota University System procedures, and procurement laws (N.D.C.C. 54-44.4; N.D.C.C. 48-01.2).

## **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 standards used to evaluate internal control are issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



# 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 the Finding 2021-01, 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?**

Lake Region State College did not implement the recommendation included in the prior audit report, which is noted in Finding 2021-01.

## **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.**

The most significant changes in accounting policies are related to the adoption of the provision of the Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, in fiscal year 2021. There were no significant changes in 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 Lake Region State College include useful lives of capital assets, allowance for uncollectible receivables, scholarship allowance, net pension liability, and OPEB 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 for uncollectible receivables is based on aging categories and past history. 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 OPEB 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, allowances, 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.

**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 Lake Region State College. None of the exceptions identified in the six audit report questions are directly related to these systems.

# Financials

## Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2021	JUNE 30, 2020
State Appropriations	\$ 6,522,856	\$ 6,267,057
Student Tuition and Fees	4,179,483	4,382,074
Federal Grants and Contracts	1,685,847	1,973,258
Auxiliary Enterprises	1,683,053	1,594,742
State Appropriations — Capital Assets	1,524,864	589,841
Federal Grants and Contracts Stimulus	1,488,297	381,837
Capital Grants and Gifts	984,685	17,001
State Grants and Contracts	802,666	741,336
Sales and Services of Educational Departments	679,752	797,781
Gifts	650,735	800,899
Insurance Proceeds	12,736	31
Endowment and Investment Income	12,113	28,229
Other	6,764	13,961
Nongovernmental Grants and Contracts	-	66,140
<b>Total Revenue and Other Additions</b>	<b>\$ 20,233,851</b>	<b>\$ 17,654,187</b>

Source: North Dakota University System Annual Financial Report

Continued on following page

# Financials

## Revenues, Expenses, and Changes in Net Position

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2021	JUNE 30, 2020
Salaries and Wages	\$ 12,102,809	\$ 11,656,146
Operating Expenses	2,803,761	2,876,978
Depreciation	1,251,521	1,275,432
Cost of Sales and Services	667,251	672,113
Scholarships and Fellowships	642,467	728,575
Data Processing	562,700	198,062
HEERF Act Aid to Students	173,962	36,973
Interest on Capital Asset-Related Debt	108,334	120,548
Other Non-Operating Expenses	70,181	106,819
Loss on Disposal of Capital Assets	2,659	78
<b>Total Expenses and Other Deductions</b>	<b>\$ 18,385,645</b>	<b>\$ 17,671,724</b>
<b>Revenue Over (Under) Expenses</b>	<b>\$ 1,848,206</b>	<b>\$ (17,537)</b>

NET POSITION	JUNE 30, 2021	JUNE 30, 2020
Net Position — Beginning of the Year, as restated	\$ 14,692,520	\$ 14,510,294
Net Position — End of the Year	\$ 16,540,726	\$ 14,492,757

Source: North Dakota University System Annual Financial Report



# Appropriations

For the Biennium Ended June 30, 2021

EXPENSES BY LINE ITEM	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Operating Expenses	\$ 38,439,940	\$ 37,516,466	\$ 923,474
Capital Assets	2,725,667	622,272	2,103,395
Capital Assets-Carryover	1,018,815	1,018,815	-
Capital Building Fund	1,854,750	111,111	1,743,639
<b>Totals</b>	<b>\$ 44,039,172</b>	<b>\$ 39,268,664</b>	<b>\$ 4,770,508</b>

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
General	\$ 14,075,206	\$ 13,971,811	\$ 103,395
Special	29,083,153	24,416,040	4,667,113
Federal	880,813	880,813	-
<b>Totals</b>	<b>\$ 44,039,172</b>	<b>\$ 39,268,664</b>	<b>\$ 4,770,508</b>

Source: ConnectND Financials



# Status of Prior Recommendations

## Not Following State Procurement Rules (Finding 2019-01)

### Not Implemented

**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.

**Status:** Not Implemented. Please see Finding 2021-01.



Office of the  
State Auditor


NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

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