



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Valley City State University

Audit Report for the Biennium Ended June 30, 2021

Client Code 242





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

Since 2017, our team has found that VCSU is not following state procurement laws. VCSU did not follow proper procurement procedures in four of the eight items reviewed.

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HAVE QUESTIONS? ASK US.

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Introduction

Valley City State University

June 6, 2022

We are pleased to submit this audit of Valley City State University 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 Valley City State University 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 Valley City State University (VCSU) did not follow proper procurement procedures in four of the eight items we reviewed. A contract may have been incorrectly awarded, and purchases of a Bobcat vehicle, athletic supplies, and printing services may have been made incorrectly.

BACKGROUND

When forming a Construction Management At-Risk (CMAR) selection committee for public improvement projects, state law requires its members include at least the following four people:

- Administrative individual from the governing body.
- A registered architect.
- A registered engineer.
- A licensed contractor.

In addition to this formation of a selection committee, there must be a request for qualifications (RFQ), which describes the criteria necessary for a project (N.D.C.C. 48-01.2-20, section 1 and 3).

VCSU's selection committee for their Center for the Arts project, which was authorized at \$32 million, did not include the proper members, and their RFQ template did not contain the necessary criteria.

When seeking informal quotes or bids, the North Dakota University System (NDUS) requires the bid be awarded to the lowest cost bidder (NDUS procedure 803.1, section 1). VCSU, after receiving three informal quotes for a Bobcat (a four-wheel, motorized outdoor vehicle), wrongly awarded the bidder with the highest quote of approximately \$47,000. VCSU could have sought an informal proposal, in which a bidder would be selected based on their ability to meet set criteria, not on cost.

The NDUS also requires documentation be kept for purchases of \$10,000 or more (NDUS procedure 803.1, section 4). VCSU did not maintain adequate documentation for two purchases, of athletic supplies and printing services. These purchases totalled approximately \$25,000, and without adequate documentation, we were unable to determine if the purchases were properly procured.

This is a reoccurring issue. Since 2017, our team has found that VCSU is not following state procurement laws.



VCSU did not follow proper procurement **procedures** in four of the eight items reviewed.

RECOMMENDATION

We recommend Valley City State University properly procure commodities and services in compliance with North Dakota Century Code and North Dakota University System procurement procedures.

VALLEY CITY STATE UNIVERSITY RESPONSE

Agree, Valley City State University will procure commodities and services in compliance with North Dakota Century Code and North Dakota University procurement procedures. The university will set up a centralized procurement office to monitor procurement based on the thresholds set forth in N.D.C.C. and stated in NDUS procedures. This office will help train, monitor, and create a guide to ensure laws and policies are followed.



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.
- Verified proper approval and reconciliation of purchase card expenses.
- Verified segregated preparation and approval of journal entries and journal vouchers.
- Verified proper approval of scholarships and waivers.

There were no deficiencies identified.

SCOPE

Valley City State University's sole location is its campus located in Valley City which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population. Where applicable,

populations were stratified to ensure that an appropriate sample was obtained.

- Analyzed financial data in ConnectND to determine areas of risk.
- Interviewed appropriate Valley City State University personnel.
- Inspected documentary evidence.
- Reviewed Valley City State University's policies and procedures.
- Tested compliance with appropriate laws and regulations (2019 House Bill 1003, Chapter 3, Sections 2, 10, 18, 25, and 29).
- Selected a random sample of tuition and fees to ensure proper coding and the correct amounts were charged (State Board of Higher Education policy 805.1, 805.3, and 805.6 and North Dakota University System procedure 805.1)
- Selected a random sample of scholarship and waiver expenses to ensure proper coding and compliance with the scholarship or waiver criteria (N.D.C.C. 15-10-12, N.D.C.C. 15-10-18, N.D.C.C. 54-12-35, N.D.C.C. 37-07.1).
- Selected a random sample of vouchers to ensure the expenses were properly coded, had adequate support, were made for a lawful and official purpose, and travel reimbursement were not in excess of what is allowed by law (N.D.C.C. 44-08-03, 44-08-04, 44-08-05.1, and 54-06-09).
- Selected a random sample of purchase cards to ensure the expense was properly code, charged to the proper fiscal year, and made for a lawful and official purpose (N.D.C.C. 44-08-05.1).

- Judgmentally selected a sample of purchases subject to procurement rules to ensure they were properly coded and in compliance with procurement laws and procedures (N.D.C.C. 48-01.2, 54-44.4, and North Dakota University System procedure 803.1).
- Selected a random sample of journal entries and journal vouchers to ensure proper coding.
- Selected a random sample of sales and service, auxiliary, and gift revenues to ensure proper coding and proper rate was charged.

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 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 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 Finding 2021-01 in this report, 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?

Valley City State University 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 provisions 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 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 their 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.

Continued on following page

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 Valley City State University. No exceptions were identified related to the operations of an information technology system.

Financials

Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2021	JUNE 30, 2020
State Appropriations - Capital Assets	\$ 17,632,482	\$ 3,715,668
State Appropriations	10,698,669	10,393,821
Student Tuition & Fees	7,691,192	7,046,639
Auxiliary Enterprises	2,311,960	2,704,465
Federal Grants & Contracts	1,732,345	1,962,272
Gifts	1,480,553	1,518,376
Federal Grants & Contracts Stimulus	904,362	467,342
Endowment & Investment Income	867,890	616,460
Services and Sales of Educational Departments	622,751	603,393
State Grants & Contracts	61,129	63,146
Nongovernmental Grants & Contracts	28,155	(5,900)
Other	21,025	23,282
Capital Grants and Gifts	4,056	549,093
Total Revenues and Other Additions	\$ 44,056,569	\$ 29,658,057

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 & Wages	\$ 18,204,974	\$ 16,870,142
Operating Expenses	5,047,901	6,759,138
Depreciation Expense	2,042,863	1,974,410
Scholarships & Fellowships	779,704	937,672
Data Processing	721,818	620,560
Interest on Capital Asset - Related Debt	366,513	416,610
Cost of Sales & Services	329,008	522,435
HEERF Act Aid to Students	246,042	206,900
Other	199,319	192,776
Loss on Disposal of Capital Assets	5,715	2,718
Total Expenses and Other Deductions	\$ 27,943,857	\$ 28,503,361
Revenue Over Expenses	\$ 16,112,712	\$ 1,154,696

NET POSITION	JUNE 30, 2021	JUNE 30, 2020
Net Position - Beginning of the Year, as Restated	\$ 38,169,482	\$ 36,898,585
Net Position - End of the Year	\$ 54,282,194	\$ 38,053,281

Source: North Dakota University System Annual Financial Report

Financials

Changes in Fiduciary Net Position

ADDITIONS		JUNE 30, 2021
Services and Sales of Educational Departments		\$ 13,588
Student Tuition and Fees		6,500
Gifts		5,461
Total Additions		\$ 25,549

DEDUCTIONS		JUNE 30, 2021
Operating Expenses		\$ 34,770
Scholarships and Fellowships		420
Salaries & Wages		35
Total Deductions		\$ 35,225
Operating Loss		\$ (9,676)
Decrease in Net Position		\$ (9,676)

NET POSITION		JUNE 30, 2021
Net Position - Beginning of the Year, as Restated		\$ 77,930
Net Position - End of the Year		\$ 68,254

Source: North Dakota University System Annual Financial Report

Appropriations

For the Biennium Ended June 30, 2021

EXPENSES BY LINE ITEM	FINAL APPROPRIATION	EXPENSES	UNEXPECTED APPROPRIATIONS
Operating Expenses	\$ 54,762,438	\$ 54,762,438	\$ -
Capital Assets	1,272,459	934,869	337,590
Capital Assets - Carryover	2,184,826	2,184,826	-
Capital Assets - Off System	52,500,000	19,709,740	32,790,260
Capital Building Fund	870,439	-	870,439
Operating Carryover	15,153	15,153	-
Totals	\$ 111,605,315	\$ 77,607,026	\$ 33,998,289

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEXPECTED APPROPRIATIONS
General	\$ 24,858,912	\$ 24,212,185	\$ 646,727
Special	86,006,050	52,715,635	33,290,415
Federal	740,353	679,206	61,147
Totals	\$ 111,605,315	\$ 77,607,026	\$ 33,998,289

Source: ConnectND Financials



Status of Prior Recommendations

Not Following State Procurement Rules (Finding 2021-01)

Not Implemented

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.

Status: Not Implemented. See Finding 2021-01.



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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