



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Bismarck State College

Audit Report for the Two-Year Period Ended June 30, 2022

Client Code 227





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This included 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



Improper Account Coding

State grants and contracts revenues, as well as scholarship and fellowship expenses, were misstated. This caused overstated financial statements.

Read more on page 4



Not Following State Procurement Rules

Bismarck State College did not properly procure five out of twenty-four purchases that were tested.

Read more on page 5

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HAVE QUESTIONS? ASK US.

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Introduction

Bismarck State College

June 7, 2023

We are pleased to submit this audit of Bismarck State College for the two-year period that ended June 30, 2022. 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 the 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 Bismarck 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.

Capitalization: In finance, treating certain expenses as long-term assets rather than immediate costs.

ConnectND: The accounting system for North Dakota.

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?

CONCLUSION

Except for the findings identified in this report, no errors, internal control weaknesses, or potential violations of law were identified.

FINDING
2022-01

Improper Account Coding

WHAT HAPPENED

State grants and contracts revenue, as well as scholarship and fellowship expenses, were misstated. Expenses were also improperly capitalized. These errors caused overstated financial statements.

BACKGROUND

Bismarck State College incorrectly recorded revenues and expenses. Specifically, we noted:

- In fiscal years 2021 and 2022 state grants and contracts revenues of \$474,435 (in 2022) and \$1,651,347 (in 2021), and scholarship expenses of \$510,919 (in 2022) and \$1,652,097 (in 2021) were double recorded in the fiscal year 2022 and fiscal year 2021 NDUS combined financial statements. These funds should be recorded in a liability account.
- \$216,000 of expenses for the re-carpeting project, which included new flooring in the entries and hallways of Jack Science Center, Schafer Hall, and Leach Music Center, was improperly capitalized. The re-carpeting project should have been recorded as an expense.

GASB Statement 34, paragraph 57 states in part that when aggregating data for the financial statements, some amounts reported as transactions between different funds should be eliminated or reclassified.

The North Dakota University System Accounting Manual states in part: "...Expenditures to maintain a capital asset in its normal good state of repair are considered ordinary repairs and replacements. Such items are reported as expenditures and are not capitalized. Examples include placement or repair of floor coverings..."



State grants and contracts revenues, as well as scholarship and fellowship expenses, were misstated. This caused **overstated financial statements.**

RECOMMENDATION

We recommend that Bismarck State College properly code the North Dakota State Grant and various North Dakota scholarships to a liability account and properly code replacement or repair of floor coverings to expenses.

BISMARCK STATE COLLEGE RESPONSE

BSC agrees with recommendation. Bismarck State College has already implemented the change in the FY23 financial statements to use liability account instead of the revenue and expense. BSC has already made the adjustment in FY23 financial statements from the capital account to an expense account based on Generally Accepted Accounting Principles. BSC did expense floor covering project in FY23 due to the fact that it is immaterial to the financial statements.

Not Following State Procurement Rules

WHAT HAPPENED

Without a competitive bidding process, Bismarck State College cannot ensure they are purchasing commodities and services at the best available price.

BACKGROUND

Bismarck State College did not properly procure five out of twenty-four purchases that were tested. Specifically, we noted:

- Advertising services were invoiced for \$45,882 before an actual contract was in place, and proper bidding procedures were not followed.
- There was inadequate procurement documentation for the purchase of equipment for \$25,868 made through a procurement program for universities to purchase items called Omnia Consortium.
- There was inadequate procurement documentation for the purchase of furniture for \$44,475 also made through Omnia Consortium.
- There was not adequate procurement documentation for two vehicles that were purchased for \$32,974. Without this documentation, we were unable to determine if proper procurement occurred.
- Proper documentation was not maintained for individual scoring sheets for the \$132,000 enrollment marketing, research, and advertising services contract. Without this documentation, we were unable to determine if proper procurement occurred.



Bismarck State College **did not properly procure** five out of twenty-four purchases that were tested.

North Dakota University System Procedure 803.1 states in part that for purchases between \$10,000 and \$50,000, informal quotes or proposals must be solicited from at least three vendors or posted online with the appropriate state bidders list. Also, purchases of \$100,000 and over must be purchased using formal sealed bids or a request for proposal. Documentation is required.

RECOMMENDATION

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

BISMARCK STATE COLLEGE RESPONSE

BSC agrees with recommendation. In 2021, BSC conducted an internal review of marketing contracts and procurement which was after the invoice identified during the operational audit. As a result of this review, BSC has strengthened controls, trained staffed, made changes to BSC's contract policy which reduced contract authority. BSC has also implemented disciplinary steps for repeat offenders. When working with consortium vendors, BSC will request the vendor identify the consortium contract number on the invoice. BSC will retain written "no bid" documentation from the vendor on purchase requests. Individual scoring sheets will be maintained during RFP process.

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 that expenses were properly approved.
- Verified that journal entries were prepared by an appropriate individual using proper support.
- Verified that journal entries were properly approved.
- Verified that scholarships and waivers were properly approved.
- Reviewed the authorization for employment and current salary or wage rate.
- Verified that payroll was properly approved.

There were no deficiencies identified.

SCOPE

Bismarck State College's sole location is the Bismarck State College campus in Bismarck, ND which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- 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.
- Inspected documentary evidence.
- Reviewed Bismarck State College's processes, policies, and procedures.
- Analyzed financial data in ConnectND to determine areas of risk.
- Tested compliance with appropriation laws and regulations (2019 House Bill 1003, Chapter 3, Sections 2, 25, 29, 30, and 2021 Senate Bill 2003, Chapter 31, Section 15).
- Selected a random sample of expense vouchers to ensure that the supporting documentation was valid and that the expense was properly coded and made for a lawful and official purpose (N.D.C.C. 44-08-05.1).
- Selected a random sample of journal entries to ensure that the supporting documentation was valid and properly coded.
- Selected a random sample of tuition and fee revenues to ensure proper account coding and compliance with the approved rates.
- Selected a random sample of sales and services, auxiliary enterprises, and gift revenues to ensure proper account coding and that the supporting documentation was valid.
- Selected a random sample of scholarships and waivers to ensure that the scholarship or waiver was properly coded and was in compliance with the scholarship or waiver criteria (N.D.C.C. 15-10-12, 15-10-18.2, 15-10-18.3, 15-10-18.4, 15-10-18.5, 54-12-35, 37-07.1, and State Board of Higher Education policy 820).

- Selected a random sample of payroll to ensure that the earnings were properly calculated.
- Selected a judgmental sample of purchases subject to procurement rules to ensure they were properly coded and in compliance with State Board of Higher Education Policies, North Dakota Universities System procedures, and procurement laws (N.D.C.C. 54-44.4, N.D.C.C. 48-01.2, and North Dakota University System Procedure 803.1).

AUTHORITY AND STANDARDS

This biennial audit of Bismarck 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).

Financials

Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2022	JUNE 30, 2021
Student Tuition and Fees	\$ 13,543,288	\$ 13,862,917
Federal Grants and Contracts	7,931,631	9,737,808
State Grants and Contracts	2,318,006	2,362,927
Nongovernmental Grants and Contracts	376,157	540,945
Sales and Services of Educational Departments	3,122,487	3,552,789
Auxiliary Enterprises	4,321,306	4,150,441
Other	4,970	7,053
State Appropriations	15,850,150	16,228,965
Gifts	2,033,110	1,758,374
Endowment and Investment Income	16,497	26,298
Insurance Proceeds	16,790	21,834
State Appropriations - Capital Assets	28,242	421,388
Capital Grants and Gifts	680,930	1,387,394
Total Revenue and Other Additions	\$ 50,243,564	\$ 54,059,133

Source: North Dakota University System Annual Financial Report

Continued on the following page

Financials

Revenues, Expenses, and Changes in Net Position

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2022	JUNE 30, 2021
Salaries and Wages	\$ 29,935,099	\$ 32,299,736
Operating Expenses	8,866,946	12,532,393
Data Processing	796,237	720,437
Depreciation	3,163,905	2,739,857
Scholarships and Fellowships	3,365,863	3,161,283
HEERF Act Aid to Students	2,017,916	678,906
Costs Of Sales and Services	1,879,074	2,009,306
Interest on Capital Asset-Related Debt	464,635	276,937
Loss on Disposal of Capital Assets	8,084	9,331
Other Nonoperating Expenses	13,989	71,818
Total Expenses and Other Deductions	\$ 50,511,748	\$ 54,500,004
Revenue Over (Under) Expenses	\$ (268,184)	\$ (440,871)

NET POSITION	JUNE 30, 2022	JUNE 30, 2021
Net Position-Beginning of the Year, as Restated	\$ 51,971,515	\$ 55,685,006
Net Position-End of the Year	\$ 51,703,331	\$ 55,244,135

Source: North Dakota University System Annual Financial Report

Financials

Changes in Fiduciary Net Position

ADDITIONS	JUNE 30, 2022	JUNE 30, 2021
Sales and Services of Educational Departments	\$ 259,448	\$ 273,881
Auxiliary Enterprises	48,268	7,633
Other Nonoperating Revenues	991	-
Total Additions	\$ 308,707	\$ 281,514

DEDUCTIONS	JUNE 30, 2022	JUNE 30, 2021
Salaries and Wages	93,479	98,542
Operating Expenses	172,034	152,704
Cost of Sales and Services	(26,215)	1,536
Total Deductions	\$ 239,298	\$ 252,782
Operating Income	69,409	28,732
Increase in Net Position	\$ 69,409	\$ 28,732

NET POSITION	JUNE 30, 2022	JUNE 30, 2021
Net Position - Beginning of the Year, as Restated	\$ 90,449	\$ 60,062
Net Position - End of the Year	\$ 159,858	\$ 88,794

Source: North Dakota University System Annual Financial Report

Appropriations

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATION
Expenses by Line Item			
Operating Expenses	\$ 103,542,909	\$ 103,542,909	\$ -
Capital Assets	1,818,143	313,255	1,504,888
Plant Improvement-Carryover	905,082	851,697	53,385
Capital Building Fund	2,351,386	111,111	2,240,275
Operating Carryover	1,000,000	528,387	471,613
Totals	\$ 109,617,520	\$ 105,347,359	\$ 4,270,161
Expenses by Source			
General	\$ 33,084,420	\$ 32,559,421	\$ 524,999
Special	72,322,355	68,577,193	3,745,162
Federal	4,210,745	4,210,745	-
Totals	\$ 109,617,520	\$ 105,347,359	\$ 4,270,161

Source: ConnectND Financials

Continued on the following page

Appropriations

For the Year Ended June 30, 2022

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATION
Expenses by Line Item			
Operating Expenses	\$ 103,571,387	\$ 52,830,932	\$ 50,740,455
Capital Assets	36,922,561	254,393	36,668,168
Plant Improvement-Carryover	53,385	-	53,385
Operating Carryover	471,613	-	471,613
Totals	\$ 141,018,946	\$ 53,085,325	\$ 87,933,621
Expenses by Source			
General	\$ 32,609,053	\$ 15,878,393	\$ 16,730,660
Special	70,409,893	37,206,932	33,202,961
Federal	38,000,000	-	38,000,000
Totals	\$ 141,018,946	\$ 53,085,325	\$ 87,933,621

Source: ConnectND Financials



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
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