

BISMARCK
STATE COLLEGE
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

March 25, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Mr. Dave Clark, Interim President, Bismarck State College

We are pleased to submit this audit of Bismarck State College for the biennium ended June 30, 2013. 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.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Mary Feltman, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Interim President Clark and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, reading "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

Since its founding in 1939, Bismarck State College has evolved from a locally based junior college to a state college whose mission fits within system and core missions of institutions governed by the North Dakota State Board of Higher Education. The institution emphasizes the necessity of remaining open to evolutionary change to best fulfill present and future demands, which will be placed upon it.

The purpose of Bismarck State College is to provide an educational environment of the highest caliber at a reasonable cost; to maintain a warm and wholesome social atmosphere; to provide opportunities for advanced knowledge, improved skills, high ideals and ethical standards; and to make learning an enjoyable, rewarding experience.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

The financial statements for Bismarck State College were included in the Annual Financial Report of the North Dakota University System; 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?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

Yes, there was an indication of a lack of efficiency in financial operations and management of Bismarck State College including "Inadequate Controls for Student Residency Determinations" (page 11).

5. Has action been taken on findings and recommendations included in prior audit reports?

Recommendations included in the prior audit were implemented except "Inadequate Controls for Student Residency Determinations" (page 13).

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter addressing inadequate enrollment controls was issued and is included on page 14 of this report, along with management's positive response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

None.

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 Bismarck State College include useful lives of capital assets and allowance for uncollectible receivables. 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 and past history. We evaluated the key factors and assumptions used to develop the estimated useful lives and allowances in determining they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

None.

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 Resource Management System (HRMS), and Campus Solutions are high-risk information technology systems critical to Bismarck State College. No exceptions related to the operations of an information technology system were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of Bismarck State College for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of Bismarck State College's operations and is internal control adequately designed in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Bismarck State College and are they in compliance with these laws?
3. Are there areas of Bismarck State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Bismarck State College is for the biennium ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Bismarck State College's sole location is its Bismarck office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2013 and 2012 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- 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.
- Tested compliance with laws and regulations which included selecting representative samples to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure 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.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Performed walkthroughs in all program areas documenting client procedures.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Bismarck State College's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared in a condensed form to present Bismarck State College's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. Also, the related note disclosures have not been included in this report. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

Financial Summary

Assets increased \$3.4 million in fiscal year 2013 primarily from an increase in capital assets attributable to construction in progress of the Kuntz Building, the National Energy Center of Excellence 4th floor project, and Student Union renovation.

Revenues remained fairly constant between fiscal years 2013 and 2012, except state appropriations, federal grants and contracts, and capital grants and gifts. State appropriations increased \$2 million, primarily due to the timing of drawdowns for the NECE 4th floor project. Federal grants and contracts decreased \$599,000, mainly due to a decrease in Pell grants. Capital grants and gifts increased \$734,000 from Foundation, state and federal grants for equipment, and various capital projects.

All expenses for Bismarck State College remained fairly constant except salaries and wages and scholarships and fellowships. Salaries and wages (which comprise 58% of total expenditures) increased \$653,000 which is an average salary increase of 3%. Scholarships and Fellowships decreased \$545,753 which is primarily due to the decrease in Pell grants in fiscal year 2013.

Analysis of Significant Changes in Operations

Bismarck State College terminated the following programs:

- D.P. in Graphic Design and Communication
- D.P. in Information Processing Specialist
- D.P. in Lineworker, Electrical
- Technical Studies Certificate

Analysis of Significant Variances - Budgeted and Actual Expenditures

Bismarck State College did not have any significant variances for the general fund expenses as reflected on the statement of appropriations.

Financial Statements

Statement of Net Position

	June 30, 2013	June 30, 2012
ASSETS		
Cash and cash equivalents	\$ 12,067,609	\$ 6,034,121
Investments	3,966,000	10,257,380
Accounts receivable, net	660,395	578,978
Receivable from component units	53,088	75,662
Receivable from other NDUS institutions	5,765	
Due from State General Fund	11,996	481,215
Grants & contracts receivables, net	1,513,819	1,365,536
Inventories	903,087	711,191
Notes receivable, net	478,176	462,658
Other assets	505,998	222,525
Unamortized bond discount	237,614	250,115
Capital assets, net	39,463,713	36,042,318
Total assets	\$ 59,867,260	\$ 56,481,699
LIABILITIES		
Accounts payable	\$ 1,326,619	\$ 1,706,063
Payable to component unit	24,977	24,937
Accrued payroll	1,487,410	1,398,655
Deferred revenue	637,030	524,128
Deposits	472,926	470,038
Other liabilities	114,062	124,913
Due to component units	1,852,161	1,964,821
Due to others	12,459,325	12,650,792
Total liabilities	\$ 18,374,510	\$ 18,864,347
NET POSITION		
Invested in capital assets	\$ 31,770,331	\$ 28,867,095
Restricted for:		
Expendable:		
Scholarships and fellowships	222,623	221,641
Institutional	22,504	221,014
Loans	520,905	546,888
Debt service	524,800	480,362
Unrestricted	8,431,587	7,280,352
Total net position	\$ 41,492,750	\$ 37,617,352

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2013	June 30, 2012
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 17,660,331	\$ 15,646,893
Student tuition and fees	11,557,145	11,780,538
Auxiliary enterprises	4,275,812	4,166,182
Federal grants and contracts	6,710,020	7,308,647
Sales and services of educational departments	3,072,623	3,528,699
State and local grants and contracts	1,930,077	2,033,873
Capital grants and gifts	1,181,588	447,674
Gifts	1,039,612	1,413,951
Investments income	26,376	35,024
Nongovernmental grants and contracts	14,519	8,731
Gain on capital assets	11,052	
Other revenue	7,847	8,924
Insurance proceeds		10,297
Total revenues and other additions	<u>\$ 47,487,002</u>	<u>\$ 46,389,433</u>
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 25,597,842	\$ 24,944,661
Operating expenses	10,081,977	10,347,532
Scholarships and fellowships	2,566,512	3,112,265
Cost of sales and services	2,104,189	2,252,162
Depreciation	1,963,518	1,901,688
Interest on capital asset-related debt	536,343	400,661
Data processing	531,541	609,754
Other nonoperating expenses	229,682	61,840
Loss on capital assets		19,199
Total expenses and other deductions	<u>\$ 43,611,604</u>	<u>\$ 43,649,762</u>
Revenue over expense	<u>\$ 3,875,398</u>	<u>\$ 2,739,671</u>
NET POSITION		
Net position-beginning of the year	\$ 37,617,352	\$ 34,877,681
Net position-end of the year	<u>\$ 41,492,750</u>	<u>\$ 37,617,352</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	\$ 26,460,087	\$ 1,168,227	\$ 27,628,314	\$ 27,628,314	
Capital Assets	14,010,606	(8,535,000)	5,475,606	5,310,270	\$ 165,336
Plant Improvement - Carryover		498,796	498,796	498,053	743
Capital Improvements - Off System					
Student Union Renovation		9,000,000	9,000,000	1,380,312	7,619,688
National COE 4th Floor		1,035,000	1,035,000	47,271	987,729
Capital Off System - Carryover					
Tech Center Paint Station		50,334	50,334	50,334	
Totals	\$ 40,470,693	\$ 3,217,357	\$ 43,688,050	\$ 34,914,554	\$ 8,773,496

Expenses by source

General fund	\$ 31,935,693	\$ 1,667,023	\$ 33,602,716	\$ 33,436,637	\$ 166,079
Special fund	8,535,000	1,550,334	10,085,334	1,477,917	8,607,417
Totals	\$ 40,470,693	\$ 3,217,357	\$ 43,688,050	\$ 34,914,554	\$ 8,773,496

Appropriation Adjustments:

Operating Expenses

The appropriation increase of \$1,168,227 was an equity transfer from the North Dakota University System (NDUS) pursuant to 11 HB 1003, section 6.

Capital Assets

The appropriation decrease of \$8,535,000 consists of \$7,500,000 for the Student Union Renovation and \$1,035,000 for the National COE 4th Floor project. The special fund authority for these projects was transferred to the Capital Improvement Off System line item because the expenditures will not be abstracted through the state but will be spent off-system.

Plant Improvement Carryover

The appropriation increase of \$498,796 is unspent general funds carried over from the prior biennium.

Capital Improvement Off System

The Student Union Renovation appropriation increase consists of \$7,500,000 transferred from the Capital Asset line item and \$1,500,000 increase approved by the Budget Section June 19, 2012. The National COE 4th Floor project appropriation increase of \$1,035,000 was a transfer from the Capital Asset line item.

Capital Off System Carryover

The Tech Center Paint Station appropriation increase of \$50,334 is special fund carryover from the prior biennium pursuant to NDCC 54-44.1-11.

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of Bismarck State College's internal control as being the highest risk:

Internal Controls Subjected Review or Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested Bismarck State College's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- North Dakota University System reported to the appropriations committees of the sixty-third Legislative Assembly on the use of one-time funding for the biennium beginning July 1, 2011, and ending June 30, 2013 [11 HB 1003, chapter 3, section 2].
- The unexpended balance resulting from the proceeds of the evidences of indebtedness for the BSC student union renovation and additions were placed in a sinking fund to be used for the retirement of indebtedness. [11 HB1003, chapter 3, section 15].
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Expenses being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

Our audit of Bismarck State College identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding residency determinations:

- Is the supporting documentation adequate?
- Are policies and procedures developed and maintained?
- Is segregation of duties adequate?
- Are reporting requirements sufficient?
- Are independent verifications made?

We also noted another matter involving enrollment operations that we have reported to management of Bismarck State College in a management letter dated March 26, 2014.

Inadequate Controls for Student Residency Determinations (Finding 13-1)

Condition:

Proper controls have not been established for student residency determinations and subsequent changes to student residency status. Consequently, initial student residency determinations could be inaccurate or unauthorized changes could be recorded without detection. Specifically, we noted the following conditions:

- Policies have not been developed and documented to include required supporting documentation and periodic assessment of residency reports.
- Changes to residency status are not approved by an individual independent of recording changes in residency status. The Director of Student Financial Services approves changes and has access to change residency within electronic records.
- Verification of residency changes to supporting documents is not performed by an independent individual.
- Residency reports are not reviewed by an independent individual to identify data errors and other anomalies such as in-state residency with out-of-state addresses.

Criteria:

The criteria for determination of residency for tuition purposes are governed by State Board of Higher Education policy 504 and NDCC 15-10-19.1.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Cause:

Bismarck State College has not considered it necessary to develop policies and procedures surrounding residency status including independent approval procedures and verification methods.

Effect or Potential Effect:

Accurate student residency status determinations are critical because of difference between in-state and out-of-state tuition rates. For the 2012-2013 academic year, Bismarck State College tuition and fees for a 12 credit semester totaled \$2,691.36 for ND residents compared to tuition and fees up to \$7,185.84 for non-residents.

Additionally, FTE resident and nonresident student numbers are supplied to federal and state sources which because of current procedures are likely inaccurate.

Operational Improvement 13-1:

We recommend Bismarck State College strengthen student residency controls to:

- Develop documented policies for student residency determinations;
- Ensure review and approval of student residency changes by an independent individual;
- Verify student residency status by designating an independent individual review reports of student residency changes for proper support and authorization; and,
- Review of residency reports by an independent individual to identify data errors or other anomalies.

Bismarck State College Response:

Agrees, BSC Student Financials created defined guidelines for the student and documentation requirements to be returned with the Application for Resident Status by the student. Internal procedures for residency changes are being defined, along with segregation of duties being looked at.

Prior Recommendations Not Implemented

The following prior recommendations have not been implemented:

Student Residency Determination Controls (Finding 11-3)

Recommendation:

We recommend Bismarck State College strengthen student residency determination controls to:

- Develop documented policies and procedures for student residency determination and changes;
- Require, obtain, and compare proof of residency status for all students;
- Ensure review and approval of student residency changes by an independent individual;
- Verify student residency status by designating an independent individual to review student residency information, on a test basis, for proper support, and authorization.

Status:

Proper controls have not been established for student residency determinations and subsequent changes to student residency status. Consequently, initial student residency determinations could be inaccurate or unauthorized changes could be recorded without detection.

Specifically, we noted the following conditions:

- Policies have not been developed and documented to include required supporting documentation and periodic assessment of residency reports.
- Changes to residency status are not approved by an individual independent of recording changes in residency status. The Director of Student Financial Services approves changes and has access to change residency within electronic records.
- Verification of residency changes to supporting documents is not performed by an independent individual.
- Residency reports are not reviewed by an independent individual to identify data errors and other anomalies such as in-state residency with out-of-state addresses.

For additional information see "Inadequate Controls for Student Residency Determinations" (page 11).

Management Letter (Informal Recommendation)

March 25, 2014

Ms. Tamara Barber
Interim Executive Vice President
Bismarck State College
1500 Edwards Avenue
Bismarck, North Dakota 58501

Dear Ms. Barber:

We have performed an audit of Bismarck State College for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of Bismarck State College's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations

INADEQUATE CONTROLS SURROUNDING ENROLLMENT

Condition:

Proper controls have not been developed surrounding enrollment reporting. Specifically we noted the following:

- Policies have not been fully developed and documented to include the course set-up and the grading process.
- Documented controls were not sufficient to prevent students from registering for classes prior to receiving all enrollment documents.

Criteria:

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Cause:

Bismarck State College did not always properly follow established control procedures for admissions and enrollment matriculation.

Effect or Potential Effect:

Possible inaccurate or inconsistent enrollment reporting to the State Board of Higher Education (SBHE) and Integrated Postsecondary Education Data System (IPEDS).

Informal Recommendation 13-1:

We recommend Bismarck State College strengthen controls surrounding enrollment reporting to:

- Develop documented policies for course set-up and the grading process.
- Ensure that all students submit the required enrollment documents, and submit these before the matriculation date.

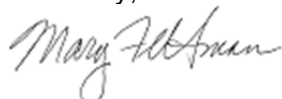
Bismarck State College Response:

BSC Agrees. The Associate Registrar will work with the two campus schedulers to create a detailed policy and procedure for course set-up by June 15, 2014. The grading process policy has already been added to both the "End of Semester Grading Procedure" and the "Weekly Grading Procedure".

BSC has documented procedures for processors to matriculate a student. Furthermore, the Academic Records office has a Term Activation processes that is also followed. The AR office also verifies that the admissions processors have all items in before Term Activating a student. The student in question applied using a paper application, indicating on her application she was attending a High School, this was not the case and the student was earning her GED. Our office put a hold on her account to obtain her record after one semester. The student did not return to BSC. BSC no longer utilizes paper applications as students are required to apply online. This now decreases the chances of student errors in the application process.

I encourage you to call myself at 701-239-7290 or an audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Mary Feltman, CPA
Auditor in-charge

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