

BISMARCK
STATE COLLEGE
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

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
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

January 20, 2016

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. Larry Skogen, President, Bismarck State College

We are pleased to submit this audit of Bismarck State College for the year ended June 30, 2015. 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 Alex Mehring, CPA. 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 Dr. Skogen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "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 that 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?

No.

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

Yes, all recommendations from the prior audit were implemented.

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

Yes, a management letter was issued and is included on page 15 of this report, regarding retainage for capital improvement projects.

LAFRC Audit Communications

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

In fiscal year 2015, Bismarck State College changed accounting policies related to pensions by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions*. There were no management conflicts of interest or significant unusual transactions noted.

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 that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

Bismarck State College had no significant audit adjustments recorded during the fiscal year 2014 and 2015 audits of the North Dakota University System.

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, 2015 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 adequate 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, 2015. 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 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 campus which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2015 and 2014 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 internal control and 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 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.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- 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)

For the biennium ended June 30, 2015, operations of Bismarck State College were primarily supported by appropriations from the state's general fund, student tuition and fees, and federal grants and contracts.

Financial Summary

Total assets increased \$12.9 million primarily due to the increase in capital assets. This increased because of the renovation of the Student Union (\$3.1 million) and the construction of the Communications and Creative Arts Center (\$9.7 million) in fiscal year 2015.

Total liabilities increased \$2.3 million because pension liability was recorded in fiscal year 2015 for \$2.7 million due to Bismarck State College implementing GASB 68, relating to the recognition of pension liabilities and expense and deferred outflows and inflows of resources.

Total revenues increased \$12 million in fiscal year 2015 due to:

- \$2.2 million increase in state appropriations reflects timing of general fund drawdowns.
- \$8.2 million state appropriations (capital assets) for the Communications and Creative Arts Center.
- \$900,000 increase in gifts provided by the foundation for in-kind donations to meet the matching requirements of the workforce enhancement grant.

Total expenses for Bismarck State College were \$53,224,692 for the year ended June 30, 2015 as compared to \$49,649,943 for the prior year. The increase in total expenses for the audited period reflects primarily salaries and wages and operating expenses (which also account for 84% of total expenditures in both years). Salaries and wages increased \$1.3 million or 4.7%, which reflects average annual salary increases. Operating expenses increased \$2 million due to various reasons: payments to subrecipients increased \$250,000 for a grant for workforce training at other colleges across the state, the carpentry program saw an increase in expenses during 2015 due to finishing one house and starting another, and additional supply and equipment expenses increased \$800,000 for in kind donations by the Foundation. All other expenses remained fairly constant.

Analysis of Significant Changes in Operations

Bismarck State College was approved to implement an Institute for Culture and Public Service.

Analysis of Significant Variances - Budgeted and Actual Expenditures

There were no significant variances in budgeted and actual expenditures.

Financial Statements

Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
ASSETS		
Cash and cash equivalents	\$ 8,649,793	\$ 8,878,063
Investments	3,561,000	3,966,000
Accounts receivable, net	376,246	843,793
Receivable from component units	44,737	56,903
Due from other NDUS institutions	246,884	150,015
Due from state general fund	1,841,034	800,661
Grants & contracts receivables, net	3,212,861	2,503,513
Inventories	619,473	756,846
Notes receivable, net	338,093	481,598
Other assets	150,744	313,496
Unamortized bond discount		47,872
Capital assets, net	57,885,747	45,211,314
Total assets	<u>\$ 76,926,612</u>	<u>\$ 64,010,074</u>
Deferred outflows of resources	\$ 583,201	
LIABILITIES		
Accounts payable	\$ 5,512,114	\$ 3,296,606
Payable to component unit	40,433	25,631
Accrued payroll	1,624,203	1,567,487
Deferred revenue	1,264,802	763,773
Deposits	604,726	553,194
Other liabilities	164,897	117,547
Due to component units	1,643,755	1,868,401
Due to others	12,020,858	12,339,050
Pension liability	2,764,634	
Total liabilities	<u>\$ 25,640,422</u>	<u>\$ 20,531,689</u>
Deferred inflows of resources	\$ 535,056	
NET POSITION		
Invested in capital assets	\$ 44,382,931	\$ 33,306,170
Restricted for:		
Expendable:		
Scholarships and fellowships	159,385	209,808
Institutional	5,250	61,805
Loans	491,587	498,910
Debt service	31,704	456,607
Unrestricted	6,233,478	8,945,085
Total net position	<u>\$ 51,304,335</u>	<u>\$ 43,478,385</u>

Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 17,592,698	\$ 15,369,704
Student tuition and fees	12,896,932	12,255,832
State appropriations-capital assets	10,351,198	2,124,975
Federal grants and contracts	9,187,451	9,812,906
Auxiliary enterprises	4,157,774	4,165,580
Sales and services of educational departments	3,961,990	4,076,581
Gifts	2,286,680	1,384,374
State and local grants and contracts	2,086,353	1,899,131
Capital grants and gifts	1,151,769	700,262
Nongovernmental grants and contracts	149,796	10,712
Investment income	18,077	13,501
Other	13,643	8,769
Total revenues and other additions	<u>\$ 63,854,361</u>	<u>\$ 51,822,327</u>
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 28,487,259	\$ 27,212,702
Operating expenses	16,235,305	14,249,097
Depreciation	2,325,579	2,205,516
Cost of sales and services	2,212,850	2,080,810
Scholarships and fellowships	1,906,600	2,317,984
Data processing	978,965	855,096
Other nonoperating expenses	567,137	121,914
Interest on capital asset-related debt	505,173	530,430
Loss on capital assets	5,824	76,394
Total expenses and other deductions	<u>\$ 53,224,692</u>	<u>\$ 49,649,943</u>
Revenue over expenses	<u>\$ 10,629,669</u>	<u>\$ 2,172,384</u>
NET POSITION		
Net position-beginning of the year, as restated	\$ 40,674,666	\$ 41,306,001
Net position-end of the year	<u>\$ 51,304,335</u>	<u>\$ 43,478,385</u>

Statement of Cash Flows

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 13,286,867	\$ 12,165,937
Grants and contracts	8,019,252	7,401,563
Payments to suppliers	(18,355,604)	(16,497,208)
Payments to employees	(28,407,504)	(27,110,624)
Payments for scholarships and fellowships	(1,906,600)	(2,317,984)
Loans issued to students		(123,307)
Collection of loans to students	122,500	89,137
Auxiliary enterprise charges	4,175,194	4,138,809
Sales and service of educational departments	4,087,344	4,140,748
Cash received (paid) on deposits	6,202	(24,124)
Other receipts	176,395	16,665
Net cash used by operating activities	<u>\$ (18,795,954)</u>	<u>\$ (18,120,388)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 17,583,950	\$ 15,369,704
Grants and gifts received for other than capital purposes	4,971,968	4,707,182
Direct lending receipts	8,818,215	8,925,588
Direct lending disbursements	(8,834,513)	(8,878,953)
Agency fund cash increase (decrease)	458,947	(109,271)
Other nonoperating expenses	(3,951)	
Net cash flows provided by noncapital financing activities	<u>\$ 22,994,616</u>	<u>\$ 20,014,250</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 3,005,000	
Capital appropriations	9,319,574	\$ 1,336,310
Capital grants and gifts received	1,095,421	645,259
Purchases of capital assets	(13,624,342)	(5,831,937)
Principal paid on capital debt and lease	(847,927)	(715,871)
Deposits with capital debt payment trustees	(2,930,000)	
Interest paid on capital debt and lease	(462,807)	(530,668)
Net cash used by capital and related financing activities	<u>\$ (4,445,081)</u>	<u>\$ (5,096,907)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 3,741,000	\$ 3,255,000
Interest on investments	18,149	13,501
Purchase of investments	(3,741,000)	(3,255,000)
Net cash provided by investing activities	<u>\$ 18,149</u>	<u>\$ 13,501</u>
Net decrease in cash	<u>\$ (228,270)</u>	<u>\$ (3,189,544)</u>
CASH - BEGINNING OF YEAR	<u>\$ 8,878,063</u>	<u>\$ 12,067,609</u>
CASH - END OF YEAR	<u>\$ 8,649,793</u>	<u>\$ 8,878,065</u>

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	June 30, 2015	June 30, 2014
Operating loss	\$ (22,387,619)	\$ (20,023,187)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	2,325,579	2,205,516
Other nonoperating expenses		(184,605)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(4,031)	(182,048)
Grant & contract receivables	(709,348)	(989,695)
Inventories	137,373	146,241
Notes receivable	143,505	(3,423)
Other assets	162,751	379,253
Accounts payable and accrued liabilities adjusted for interest payable	948,850	326,864
Pension liability	407,739	
Net change in deferred outflows	(450,088)	
Accrued payroll	56,716	80,077
Compensated absences	65,388	22,000
Deferred revenue	501,028	126,743
Deposits	6,201	(24,125)
Net cash used by operating activities	\$ (18,795,955)	\$ (18,120,389)

**SUPPLEMENTAL DISCLOSURE ON NONCASH
TRANSACTIONS**

Assets acquired through capital lease		\$ 474,965
Expenses paid by capital lease/special assessments	\$ 569,701	114,871
Gifts of capital assets	56,348	55,005
Total non-cash transactions	\$ 626,049	\$ 644,841

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 32,653,654	\$ 309,889	\$ 32,963,543	\$ 32,962,402	\$ 1,141
Capital Assets	19,717,673	(5,644,794)	14,072,879	11,788,540	2,284,339
Capital Improve-Carryover		165,336	165,336	165,261	75
Capital Improve-Off System					
Communication and					
Creative Arts Center		6,665,000	6,665,000	221,422	6,443,578
Capital-Off System -					
Carryover					
NECE 4th Floor		987,729	987,729		987,729
Student Union Addn/Reno		7,619,688	7,619,688	7,053,226	566,462
Totals	\$ 52,371,327	\$ 10,102,848	\$ 62,474,175	\$ 52,190,851	\$ 10,283,324

Expenses by source

General fund	\$ 45,706,327	\$ 1,495,431	\$ 47,201,758	\$ 44,916,203	\$ 2,285,555
Special fund	6,665,000	8,607,417	15,272,417	7,274,648	7,997,769
Totals	\$ 52,371,327	\$ 10,102,848	\$ 62,474,175	\$ 52,190,851	\$ 10,283,324

Appropriation Adjustments:

Operating Expenses

The \$309,889 increase includes a \$300,000 transfer from Capital Assets for the Humanities Initiatives pursuant to 2013 SB 2003, section 26 and \$9,889 transfer from OMB for the health insurance pool, pursuant to 2013 HB 1015, section 8.

Capital Assets

- This adjustment includes a \$6,665,000 transfer to the Capital Improvement Off System line. This was transferred because funding for this project are not received from the state but from other sources and the expenses for this project are reported separately to OMB.
- \$300,000 transfer to Operating Expense for the Humanities Initiatives pursuant to 2013 SB 2003, section 26.
- \$759,580 transfer from the NDUS for deferred maintenance allocation pursuant to 2013 SB 2003, section 21.
- \$560,626 transfer from the NDUS for capital projects contingency pool pursuant to 2013 SB 2003, section 24. This funding was designated for the Communication and Creative Arts Center.

Capital Improvement Carryover

This amount was the unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11 for extraordinary repairs (\$21,051), Kuntz Building (\$1,881) and NECE 4th Floor (\$142,405).

Capital Improvement Off System

This amount was a transfer from the Capital Assets line for the Communication and Creative Arts Center. This transfer was done because the funding is from special funds and the expenditures are reported off system.

Capital Off System Carryover

These amounts are the unspent special fund authority from the prior biennium carried over pursuant to NDCC 54-44.1-11.

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of Bismarck State College's internal control as being the highest risk:

Internal Controls Subjected to 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.
- Controls surrounding capital construction and improvements.

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, 2015, 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 ended June 30, 2015 (13 SB 2003, chapter 34, section 2).
- Proper use/approval of petty cash/till funds (NDCC 54-06-08.1 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Gifts, grants, and scholarship expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC section 1-08-02 and NDCC 15-10-12).
- Fixed asset requirements were followed including surplus property, record keeping, and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 13, 18, 21, 22, 23, 25, 54-44.7)
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of Bismarck State College in a management letter dated January 20, 2016.

Operations

In our audit for the biennium ended June 30, 2015, we identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding capital improvement projects greater than \$250,000:

- Are capital construction and improvement contracts authorized and awarded in compliance with applicable rules and regulations?
- Are project expenses within the approved amounts and are revisions properly supported and approved?
- Are payments to the contractor properly approved and in accordance with the contract?
- Are construction in progress and capital assets properly reported and managed by qualified personnel?

We concluded that the operational objectives for capital improvement projects greater than \$250,000 was operating efficiently and effectively. However, we noted an insignificant matter involving operations that we have reported to management of Bismarck State College in a management letter dated January 20, 2016.

Management Letter (Informal Recommendations)

January 20, 2016

Ms. Tamara Barber
Associate Vice President for Finance and Operations
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, 2015, 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 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 recommendation.

IMPROPER RETAINAGE FOR CAPITAL IMPROVEMENT PROJECTS

Condition:

Bismarck State College did not maintain adequate retainage for the Communications and Creative Arts Center capital improvement project.

Criteria:

NDCC 48-01.2-13, states in part, a partial payment estimate must include retentions or retainage as follows: ten percent of each estimate until the project is fifty percent completed with no further retainage on estimates during the continuance of the contract unless unsatisfactory progress or performance is documented.

Cause:

Bismarck State College was unaware of the NDCC retainage requirements.

Effect or Potential Effect:

There is noncompliance with the NDCC.

Informal Recommendation 15-1:

We recommend Bismarck State College ensure the retainage rate specified in NDCC is maintained for all capital improvement projects.

Bismarck State College's Response:

Agree. The project was approved by NDUS legal counsel using 5 percent retainage for the entire project length, which is standard contractor retainage. By the end of the project, the 10 percent retainage had been realized, so risk to the project was minimal. However, in the future, BSC will be sure contracts are following NDCC 48-01.2-13 as it relates to retainage of 10 percent until the project is fifty percent completed.

I encourage you to call me at 701-239-7285 or an audit manager at 701-239-7291 if you have any questions about the implementation of the recommendation included in this letter.

Sincerely,



Alex Mehring, CPA
Auditor in-charge

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