

LAKE REGION
STATE COLLEGE
DEVILS LAKE, 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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Transmittal Letter

May 12, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. Doug Darling, President, Lake Region State College

We are pleased to submit this audit of Lake Region 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 Robyn Hoffmann, 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 President Darling and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

Lake Region State College is committed to being a responsive, diverse institution that prepares students for successful living and citizenship in a rapidly changing local, national, and world community. The College provides quality academic education, career and technical education, workforce training, educational outreach opportunities, and life-long learning within the North Dakota University System.

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 Lake Region 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.

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

No.

LAFRC Audit Communications

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

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Lake Region State College include useful lives of capital assets 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 it is reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All significant audit adjustments we proposed for Lake Region State College were recorded during the fiscal years 2013 and 2012 North Dakota University System audits. These adjustments were to reclassify cash, invested in capital assets, unrestricted and expendable net position, and can be seen in the fiscal years 2013 and 2012 NDUS audit reports.

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 Lake Region 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 Lake Region 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 Lake Region 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 Lake Region State College and are they in compliance with these laws?
3. Are there areas of Lake Region State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Lake Region 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.

Lake Region State College has operations in the following locations. Each location was included in the audit scope:

- Main campus in Devils Lake
- Grand Forks Air Force Base campus

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 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.
- Reviewed segregation of duties in all program areas.

- Performed walk-throughs in all program areas documenting client procedures.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Lake Region 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 Lake Region State College's financial position and results of operations in a manner similar to that used for financial reporting in the private sector and do not include note disclosures. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

Financial Summary

Assets decreased by \$1 million in fiscal year 2013 primarily due to a decrease in cash of \$5.5 million and an increase in capital assets of \$4.5 million. The decrease in cash is due to spending the cash on hand from the Notes Payable proceeds that were received in fiscal year 2012 for the Wind Energy Project. The increase in capital assets is due to the capitalization of the Wind Energy Project in fiscal year 2013.

Revenues for Lake Region State College remained fairly constant except state appropriations (which comprise 39% of total revenues) decreased approximately \$3.1 million. This decrease is due to general fund appropriations received in 2012 for the Wind Energy Project.

Expenses remained fairly constant between fiscal year 2013 and 2012.

Analysis of Significant Changes in Operations

There were no significant changes in operations at Lake Region State College during the audit period.

Analysis of Significant Variances - Budgeted and Actual Expenditures

Lake Region 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 | \$ 2,507,349 | \$ 7,964,968 |
| Investments | 105,000 | 105,000 |
| Accounts receivable, net | 520,218 | 519,875 |
| Due from other NDUS institutions | 42,868 | 47,922 |
| Due from state general fund | 97,869 | 294,830 |
| Grants & contracts receivables, net | 636,510 | 604,599 |
| Inventories | 313,764 | 258,568 |
| Notes receivable, net | 335,707 | 357,650 |
| Other assets | 25,834 | 25,832 |
| Capital assets, net | 10,707,278 | 6,249,581 |
| Total Assets | \$ 15,292,397 | \$ 16,428,825 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 350,362 | \$ 334,285 |
| Accrued payroll | 488,102 | 427,012 |
| Unearned revenue | 432,999 | 437,850 |
| Deposits | 241,372 | 283,739 |
| Due to others | 5,677,649 | 5,820,175 |
| Total Liabilities | \$ 7,190,484 | \$ 7,303,061 |
| NET POSITION | | |
| Invested in capital assets | \$ 5,474,389 | \$ 5,418,246 |
| Restricted for: | | |
| Expendable: | | |
| Scholarships and Fellowships | 3,777 | |
| Research | 50,604 | 50,604 |
| Loans | 360,846 | 383,545 |
| Debt service | | 195,349 |
| Unrestricted | 2,212,297 | 3,078,020 |
| Total Net Position | \$ 8,101,913 | \$ 9,125,764 |

Statement of Revenues, Expenses, and Changes in Net Position

| | June 30, 2013 | June 30, 2012 |
|---|-----------------------|----------------------|
| REVENUES AND OTHER ADDITIONS | | |
| State appropriations | \$ 4,760,483 | \$ 7,883,963 |
| Student tuition and fees | 3,688,708 | 4,095,205 |
| Federal grants and contracts | 2,127,243 | 2,892,260 |
| Auxiliary enterprises | 1,478,198 | 1,424,632 |
| Sales and services of educational departments | 775,501 | 666,860 |
| Gifts | 593,438 | 560,977 |
| State and local grants and contracts | 590,256 | 668,550 |
| Capital grants and gifts | 78,497 | 105,000 |
| Investments income | 10,268 | 10,310 |
| Nongovernmental grants and contracts | 8,224 | 18,516 |
| Other nonoperating revenues | 65 | 1 |
| Insurance proceeds | | 104 |
| Total revenues and other additions | \$ 14,110,881 | \$ 18,326,378 |
| EXPENSES AND OTHER DEDUCTIONS | | |
| Salaries and wages | \$ 9,602,744 | \$ 9,374,061 |
| Operating expenses | 3,240,374 | 4,444,162 |
| Depreciation | 738,842 | 482,955 |
| Cost of sales and services | 581,782 | 693,433 |
| Scholarships and fellowships | 392,946 | 444,448 |
| Data processing | 358,200 | 375,918 |
| Interest on capital asset-related debt | 211,259 | 42,557 |
| Other expenses | 8,585 | 5,266 |
| Total expenses and other deductions | \$ 15,134,732 | \$ 15,862,800 |
| Revenue (under) over expenses | \$ (1,023,851) | \$ 2,463,578 |
| NET POSITION | | |
| Net Position-beginning of the year | \$ 9,125,764 | \$ 6,662,186 |
| Net Position-end of the year | \$ 8,101,913 | \$ 9,125,764 |

Statement of Appropriations

For The Biennium Ended June 30, 2013

| Expenses by line item | Original | | Final | | Unexpended Appropriation |
|---------------------------|---------------------|---------------------|----------------------|----------------------|-----------------------------|
| | Appropriation | Adjustments | Appropriation | Expenses | |
| Operating Expenses | \$ 8,619,243 | \$ 384,371 | \$ 9,003,614 | \$ 9,003,614 | |
| Capital Assets | 1,021,367 | | 1,021,367 | 1,012,687 | \$ 8,680 |
| Capital Assets-Carryover | | 2,609,920 | 2,609,920 | 2,609,920 | |
| Totals | \$ 9,640,610 | \$ 2,994,291 | \$ 12,634,901 | \$ 12,626,221 | \$ 8,680 |
| Expenses by source | | | | | |
| General fund | \$ 9,640,610 | \$ 2,994,291 | \$ 12,634,901 | \$ 12,626,221 | \$ 8,680 |
| Totals | \$ 9,640,610 | \$ 2,994,291 | \$ 12,634,901 | \$ 12,626,221 | \$ 8,680 |

Appropriation Adjustments:

Operating Expenses

The \$384,371 increase is a transfer from the NDUS for equity and student affordability pursuant to 2011 HB1003, section 6.

Capital Assets-Carryover

The \$2,609,920 increase is unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11. The expenditures for this line item were for the Wind Energy project.

Internal Control

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

Internal Controls Subjected to 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 Lake Region 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).
- 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).
- Being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Purchasing, including bidding (NDCC 54-44.4-01, 05, 06, 54-44.7-02).
- 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.

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www.nd.gov/auditor/

or by contacting the
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