

WILLISTON
STATE COLLEGE
WILLISTON, 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

March 25, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. Raymond Nadolny, President, Williston State College

We are pleased to submit this audit of Williston 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 Nadolny 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

Williston State College is an open admission, learner-centered, comprehensive community college of the North Dakota University System providing academic transfer and occupational education, workforce training, and cultural activities to residents of North Dakota, the Upper Plains, and beyond. Williston State is committed to providing educational opportunities that are accessible, affordable, life-changing, and life-long.

The Legislative Audit and Fiscal Review Committee (LAFRC) has requested 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 Williston 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?

Other than our five findings addressing the Lack of Controls Surrounding: Cash and Revenues (page 12); Fixed Assets (page 13); Payroll (page 14); Expenditures (page 15); and Purchase Card Expenditures (page 16), we determined internal control was adequate.

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

Yes, there were three reportable indications of a lack of efficiency in financial operations and management of Williston State College including Inadequate Controls Surrounding: Tuition and Fee Waivers (page 19); Non-Cash Adjustments to Student Accounts (page 20); and Enrollment Reporting (page 21).

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.*

Yes, a management letter containing four recommendations related to non-cash adjustments, student residency, debt and inventory controls was issued and is included on page 23 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 Williston 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 for uncollectible receivables 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 Williston State College were recorded during fiscal years 2013 (4 adjustments) and 2012 (2 adjustments) North Dakota University System audits. These adjustments 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 Williston 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 Williston 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 Williston 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 Williston State College and are they in compliance with these laws?
3. Are there areas of Williston State College's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Williston 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 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.

Williston State College's sole location is its main campus in Williston which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from 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 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 Williston 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 Williston State College's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. The accompanying financial statements do not include notes to the financial statement and are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

Financial Summary

Assets increased \$2 million in fiscal year 2013 primarily due to an increase in capital assets for campus branding and the Science Lab addition. The decrease in Unrestricted Net Position of approximately \$750,000 is primarily due to spending in the Workforce Training program.

Revenues remained fairly constant between fiscal year 2013 and 2012.

Expenses for Williston State College remained fairly constant except salaries and wages, depreciation, and scholarships and fellowships. Salaries and wages (which comprise 56% of total expenses) increased approximately \$1 million, which is due to several factors. There was a 3% employee raise approved in the 2011-2013 biennium, there was general fund appropriation given to address employee retention and recruitment, and lastly, the Workforce Training program expanded with the opening of the Career and Technical Center. Depreciation expense decreased by approximately \$450,000 and scholarships and fellowships expense increased by approximately \$580,000, the fluctuations are due to corrections of accounting errors.

Analysis of Significant Changes in Operations

Williston State College terminated the following programs:

- P.C. in Administrative Assistant Health Information Management
- P.C. in Administrative Assistant Information Processing Technology
- P.C. in Agronomy Technician
- A.A.S., P.C. in Entrepreneurship
- Certificate of Completion in American Studies

Analysis of Significant Variances - Budgeted and Actual Expenditures

Williston 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 & cash equivalents	\$ 171,932	\$ 727,753
Investments	579,158	579,158
Accounts receivable, net	197,580	483,098
Receivable from component units	487,151	392,161
Due from state general fund	515,222	403,477
Grants & contracts receivables, net	1,401,491	1,459,359
Inventories	102,172	102,172
Notes receivable, net	214,614	246,527
Other assets		10,632
Unamortized bond discount & issuance	175,450	179,200
Capital assets, net	33,895,183	31,040,266
Total Assets	<u>\$ 37,739,953</u>	<u>\$ 35,623,803</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 770,068	\$ 646,415
Accrued payroll	540,749	492,808
Unearned revenue	102,963	235,767
Deposits	90,205	267,378
Other noncurrent liabilities	7,802	7,802
Due to component units	559,356	559,356
Due to others	9,329,353	9,507,973
Total Liabilities	<u>\$ 11,400,496</u>	<u>\$ 11,717,499</u>
NET POSITION		
Invested in capital assets	\$ 24,468,604	\$ 21,404,837
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	56,736	56,495
Expendable:		
Scholarships and fellowships		30,454
Institutional	572,725	306,026
Loans	246,214	269,799
Debt service	569,668	659,111
Unrestricted	425,510	1,179,582
Total Net Position	<u>\$ 26,339,457</u>	<u>\$ 23,906,304</u>

Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 7,670,842	\$ 7,172,524
Sales and services of educational departments	3,035,913	3,019,197
Auxiliary enterprises	2,086,380	2,486,755
State and local grants and contracts	1,729,803	541,890
Student tuition and fees	1,184,780	1,555,077
Federal grants and contracts	1,035,004	1,857,833
Gifts	921,852	1,238,783
Capital grants and gifts	510,013	951,072
Other operating revenue	57,137	30,032
Investments income	1,118	5,820
Nongovernmental grants and contracts	2,782	88,855
Total revenues and other additions	<u>\$ 18,235,624</u>	<u>\$ 18,947,838</u>
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 9,051,580	\$ 8,027,227
Operating expenses	3,780,833	3,675,367
Depreciation	814,856	365,003
Cost of sales and services	801,166	774,444
Interest on capital asset-related debt	584,686	370,177
Scholarships and fellowships	430,456	1,017,871
Data processing	242,710	373,661
Other nonoperating expenses	87,658	
Loss on capital assets	8,526	5,674
Total expenses and other deductions	<u>\$ 15,802,471</u>	<u>\$ 14,609,424</u>
Revenue over expenses	<u>\$ 2,433,153</u>	<u>\$ 4,338,414</u>
NET POSITION		
Net Position-beginning of the year	\$ 23,906,304	\$ 19,567,890
Net Position-end of the year	<u>\$ 26,339,457</u>	<u>\$ 23,906,304</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 8,500,897	\$ 1,748,788	\$ 10,249,685	\$ 10,249,685	
Capital Assets	5,242,801	(1,625,000)	3,617,801	3,587,605	\$ 30,196
Capital Assets-Carryover		2,476,373	2,476,373	2,341,136	135,237
Capital Improvement - Off System					
Workforce Training		6,238,267	6,238,267	94,204	6,144,063
Campus Branding		800,000	800,000		800,000
Capital Project Off System - Carryover					
Virtual Center		998,400	998,400		998,400
Science Lab		590,000	590,000	5,990	584,010
Residence Hall		2,416,020	2,416,020	2,159,926	256,094
Totals	\$ 13,743,698	\$ 13,642,848	\$ 27,386,546	\$ 18,438,546	\$ 8,948,000
Expenses by source					
General fund	\$ 11,518,698	\$ 4,052,088	\$ 15,570,786	\$ 15,540,590	\$ 30,196
Special fund	2,225,000	9,590,760	11,815,760	2,897,956	8,917,804
Totals	\$ 13,743,698	\$ 13,642,848	\$ 27,386,546	\$ 18,438,546	\$ 8,948,000

Appropriation Adjustments:

Operating Expenses

The \$1,748,788 increase consists of the following adjustments:

- \$348,788 equity adjustment transferred from the NDUS pursuant to 2011 HB1003, section 6.
- \$2,000,000 adjustment for public safety or unusual/unexpected expenses due to the oil impact pursuant to 2011 HB1477.
- (\$600,000) transfer to the capital assets line for the oil impact expenses above.

Capital Assets

The \$1,625,000 decrease consists of the following adjustments:

- (\$2,225,000) transfer of special fund authority to the Capital Improvement –Off System line for projects that are not funded with state funds but from other sources and reported separately to OMB.
- \$600,000 transfer from the Operating Expense line for oil impact expenses pursuant to 2011 HB 1477.

Capital Assets-Carryover

The \$2,476,373 increase consists of prior biennium unspent general funds of \$1,703,300 (\$1,559,590 for the Science Lab) and prior biennium unspent Oil Trust Tax funds of \$773,073 for the Virtual Center.

Capital Improvement-Off System

The \$6,238,267 increase for the Workforce Training Center project consists of the following adjustments:

- \$1,725,000 special fund authority transferred from the Capital Asset line initially authorized in 2011 HB1003.
- \$1,685,000 increase in special fund authority to be paid from a \$10,000 donation and \$1,675,000 workforce training revenues was approved by the Budget Section June 11, 2011.
- \$2,828,267 increase in special fund authority to be paid from private gift and grant funds was approved by the Budget Section June 19, 2012.

The \$800,000 increase for the Campus Branding project consists of the following adjustments:

- \$500,000 special fund authority transferred from the Capital Asset line initially authorized in 2011 HB1003.
- \$1,500,000 increase in special fund authority to be paid with private donation funds was approved by the Budget Section June 11, 2011.
- (\$1,200,000) decrease in special fund authority due to a reduction in scope of the project was approved by the Budget Section December 13, 2011.

Capital Project-Off System-Carryover

The Virtual Center adjustment of \$998,400 is the unspent special fund authority carried over from the prior biennium pursuant to NDCC 54-44.1-11. This project has additional authority of \$773,073 included in the Capital Assets-Carryover line.

The Science Lab adjustment of \$590,000 is unspent special fund authority carried over from the prior biennium pursuant to NDCC 54-44.1-11. This project has additional general fund authority of \$1,320,000 included in the Capital Assets line and \$1,559,590 included in the Capital Assets-Carryover line.

The Residence Hall adjustment of \$2,416,020 is unspent special fund authority carried over 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 the Williston 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 are 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 that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

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 identified the following significant deficiencies in internal control. We also noted other matters involving internal control that we have reported to management of Williston State College in a management letter dated March 25, 2014.

Lack of Controls Surrounding Cash and Revenues (Finding 13-1)

Condition:

Williston State College lacked controls in the following areas in cash and revenue:

- There is no daily reconciliation of cash receipts to the Student Finance to the General Ledger to the bank statements.
- There is no reconciliation of TouchNet to Student Finance.
- There is no segregation of duties surrounding cash collections as there is one individual responsible for restrictively endorsing checks, posting the revenue to student accounts, reconciling the receipts to the cash drawer each night, preparing the daily deposit, and preparing the student billings. This individual also has access to make adjustments and voids to student accounts.
- There is no approval of billings, voids, or adjustments to student accounts.
- There is no reconciliation of subsidiary accounts receivable ledger on Student Finance to the General Ledger.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework states that Control Activities include approvals, reconciliations, and segregation of duties.

Cause:

Williston State College has experienced extreme turnover during our audit period and has not taken steps necessary to review and revise internal controls to mitigate the risk of error, theft, or fraud.

Effect:

Williston State College is susceptible to increased risk of theft or fraud occurring and not being detected in a timely manner.

Recommendation:

We recommend Williston State College implement controls to ensure there is:

- A daily reconciliation of cash receipts to the Student Finance module to the General Ledger to the bank statement is performed and approved;
- A reconciliation of TouchNet to Student Finance be done and approved by the proper personnel;
- Proper segregation of duties surrounding cash collections and student billings;
- Proper approval of billings, voids, and adjustments to student accounts; and
- Perform a reconciliation of the subsidiary accounts receivable ledger on Student Finance to the General Ledger.

Williston State College's Response:

Williston State College agrees with these recommendations. Duties that have already shifted from the Student Finance Associate to other employees include: reversing charges, preparing the end of day cashier reconciliation, and student billings. Since the operational audit, the sole Student Finance employee was on leave for 3 months, and then returned to a new position on the campus. A new Student finance employee has since been hired and is still being trained on essential functions. If no additional turnover occurs, WSC will develop a daily reconciliation of SF and TouchNet transactions that shall involve departments preparing deposits, the Student Finance Associate, and the Director of Financial Services prior to the start of the Fall 2014 semester

Lack of Controls Surrounding Fixed Assets (Finding 13-2)**Condition:**

Williston State College has weak controls in place surrounding fixed assets. The following was noted:

- At the end of our audit period, there was no individual assigned the responsibility of recording or approving updates to assets into the Asset Management module in PeopleSoft.
- There were an excessive number of individuals having access to add, change, or delete fixed asset records, including the former controller.
- There was no inventory count completed for the fiscal year ended June 30, 2013.
- There is no policy or procedure in place to investigate missing assets.

- The individual responsible for the approval of deletions of fixed assets also has access to the fixed asset records.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* states Risk Assessment should include objectives that relate to the safeguarding of resources. COSO also states Control Activities include approvals, reconciliations, and segregation of duties.

Cause:

Williston State College has experienced extreme turnover during our audit period and has not taken steps necessary to review and revise internal controls to mitigate the risk of error, theft, or fraud.

Effect:

Fixed assets could be missing and there is the potential of theft of assets.

Recommendation:

We recommend Williston State College strengthen controls surrounding fixed assets by:

- Assigning an individual(s) the responsibility of recording and approving updates to assets into the Asset Management module;
- Reducing the number of individuals having access to input data to the Asset Management module;
- Completing an annual fixed assets inventory;
- Adopting a policy and procedure for investigating missing assets; and
- Properly segregating the duties surrounding fixed asset records.

Williston State College's Response:

Williston State College agrees with these recommendations. WSC has taken steps to limit access to the AM module in PeopleSoft. Since completion of the operational audit, WSC's interim controller resigned from WSC. WSC currently has no available resource to train on the use of the AM module to add and maintain assets, nor to prepare necessary inventories. WSC is seeking assistance of outside consultants to assist with the duties of the vacant controller position. WSC is also requesting assistance by SITS employees to conduct on-site training on the AM module.

Lack of Controls Surrounding Payroll (Finding 13-3)

Condition:

Williston State College has weak controls in place surrounding the processing of payroll. The following was noted:

- During our audit period, the individual responsible for preparing payroll was also responsible for approving payroll.
- Access rights to payroll included the former controller and the VP for Business Services. These individuals have no responsibilities in payroll preparation.
- There is not an independent reconciliation of the salaries entered into PeopleSoft to the approved contracts.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* states Control Activities include approvals, reconciliations, and segregation of duties.

Cause:

Williston State College was unaware of the lack of controls surrounding payroll and they do not review payroll duties and processes on a regular and ongoing basis.

Effect:

There is an increased risk of error or fraud including the possibility that a fictitious employee could be created and go undetected in the normal course of business.

Recommendation:

We recommend Williston State College strengthen controls surrounding payroll by:

- Segregating the duties of payroll preparation and approval;
- Reviewing and limiting payroll access to those with current responsibilities for payroll; and
- Performing an independent reconciliation of salaries to approved contracts on at least an annual basis.

Williston State College's Response:

Williston State College agrees with these recommendations. As of January 1, 2014 the payroll register is being approved by the Chief Financial officer each pay period. In April, a formal process was implemented, and is being followed. Payroll access is being reviewed and updated when necessary by the Director for Human Resources. Access rights to payroll no longer include the former controller or the VP for Business Services.

Lack of Controls Surrounding Expenditures (Finding 13-4)**Condition:**

Williston State College has weak controls in place surrounding expenditures. The following was noted:

- There was one individual responsible for entering an invoice for payment, having access to process, void, and reissue checks, and is responsible for mailing checks;
- Several individuals in the Business Office had access on PeopleSoft to the General Ledger including the former controller; and
- There is no standardized approval system in place as Williston State College does not require a Request for Purchase/Purchase Order to be completed by the individual requesting an item prior to purchase.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* states Control Activities include segregation of duties and approvals.

Cause:

Williston State College has experienced extreme turnover during our audit period and has not reviewed and revised its internal controls to eliminate or mitigate its internal control risk.

Effect:

Williston State College is susceptible to an increase risk of error, theft or fraud occurring and going undetected or not being caught in a timely manner.

Recommendation:

We recommend Williston State College implement controls surrounding expenditures to ensure there is:

- Segregation of duties, including access rights, between individuals responsible for preparing the invoices; processing, voiding, and reissuing checks; and mailing the checks;
- A review of the access roles for the general ledger to determine who needs access and remove access for former employees to ensure proper segregation of duties; and
- A standardized process for the request for purchases, to ensure purchases are properly approved.

Williston State College's Response:

Williston State College agrees with these recommendations. PeopleSoft access is being monitored and reviewed. There have been some updates and removals. With the staffing issues in finance, the former controller has been asked to assist with some duties at various times. Therefore her access has not yet been removed, but is being monitored. There is now a standardized approval system in place for purchasing. A Purchase Procedure was approved by Cabinet on March 10, 2014. There is also a new Request for Purchase form to be used.

Lack of Controls Surrounding Purchase Card Expenditures (Finding 13-5)**Condition:**

Williston State College has weak controls in place surrounding purchase card expenditures. The following was noted:

- Purchase cardholder supervisors were not signing off on the cardholder's statement certifying the purchases were made for the use of state business and that they comply with appropriate procurement rules and regulations;
- Purchase cardholders did not have the proper procurement training; and
- There is no policy or procedure in place when a temporary or permanent change to the credit limit of an individual's purchase card is increased or decreased.

Criteria:

According to OMB Policy 300 and the J.P. Morgan Chase Purchasing Card Manual:

- Cardholders are to reconcile their receipts to their monthly statement, sign it, and submit it to their supervisor for review.
- Supervisors should sign the cardholder's statement certifying the purchases were made for the use of state business and that they comply with appropriate procurement rules and regulations.

Cause:

It appears Williston State College has not properly reviewed purchase card policies and provided sufficient training to p-card administrator and holders.

Effect:

Increased risk potential for errors or misappropriation of assets going undetected in the normal course of business.

Recommendation:

We recommend Williston State College:

- Review Office of Management and Budget Purchase Card Policy 300 and the Purchase Card Manual;
- Ensure supervisors sign the cardholder's statement certifying that the purchases were made for the use of state business and that they comply with appropriate procurement rules and regulations;
- Ensure all purchase cardholders receive adequate training before obtaining a purchase card; and
- Develop a policy or procedure for the temporary or permanent change to credit limits to individual's cards.

Williston State College's Response:

Williston State College agrees with these recommendations. The OMB Purchase Card Policy 300 and the Purchase Card Manual were reviewed. A new Purchase Card Monthly Statement Report was developed in November. This form requires a supervisor signature. The budget manager needs to initial each individual purchase and the coding for the expenditure. A revised Purchase Card Procedure was approved by Cabinet on October 28, 2013. This was reviewed and discussed at a meeting with all Purchase Card holders on November 21, 2013. Temporary changes to purchase card limits are requested by the Budget Manager, approved by the CFO and made by the Purchase Card Coordinator. This is not included in the written procedures at this time. The card limits were reviewed with Division leaders last fall and changes were made as requested.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested Williston 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).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Bond Revenues and Reserves (NDCC 15-55-03, 15-55-06).

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 have occurred or are 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 Williston State College identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding non-cash adjustments, tuition/fee waivers, and enrollment reporting:

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

We also noted a certain matter involving residency determination operations that we have reported to management of Williston State College in a management letter dated March 25, 2014.

Inadequate Controls Surrounding Tuition and Fee Waivers (Finding 13-6)

Condition:

Williston State College grants various tuition waivers including waivers for Cultural Diversity, Veteran Spouse/Dependent, Employee Spouse and Dependent, Presidential, and Technology. Control procedures surrounding the awarding of these waivers are not adequate. Specifically, we noted the following conditions:

- Policies for Cultural Diversity, Technology, and Presidential waivers have not been developed;
- Verifications of relationships are not being done on awarded Employee Spouse/Dependent waivers;
- Verifications of residency are not required for Veteran Spouse/Dependent;
- Application process for the Dual Credit and Technology waivers are not in place;
- Segregation of duties has not been developed to ensure the individual responsible for applying credits to student accounts does not have access to cash. This individual is also responsible for running the report that generates the list of students that will receive a Dual-Credit/Technology waiver;
- Lacking independent verification to ensure the approved waivers were posted properly to the student account.

Criteria:

State Board of Higher Education Policy 820 – Tuition Waivers, directs each institution may adopt procedures providing for waiver of tuition and fees.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control – Integrated Framework: Proper design and implementation of internal control policies and procedures for verification methods are necessary to ensure objectives are effectively achieved.

Cause:

Williston State College has not developed proper policies and procedures for awarding Employee Spouse/Dependent, Cultural Diversity, Veteran Spouse/Dependent, Dual Credit, Technology, and Presidential student waivers.

Effect or Potential Effect:

There is a possibility of improper waivers granted to students. Tuition waivers granted for Employee Spouse and Dependent, Cultural Diversity, Diversity Spouse/Dependent, Dual Credit, Technology, and Presidential students for the fall 2011 term through March 2013 totaled approximately \$ 350,000.

Operational Improvement:

We recommend Williston State College strengthen controls surrounding tuition waivers by:

- Developing documented policies for awarding tuition waivers to Cultural Diversity, Technology, and Presidential students;
- Verifying relationships for waivers awarded to Employee Spouse and Dependent students;
- Verifying residency for waivers awarded to Veteran Spouse/Dependent;
- Implementing an application process for Dual Credit and Technology waivers;
- Ensuring the individual who applies credits to the student accounts does not have access to cash; and
- Develop an independent verification to ensure the approved waivers were posted properly to student accounts.

Williston State College's Response:

Williston State College agrees with these recommendations. Policies and processes are being developed for awarding waivers and verifying eligibility for these waivers. Some of this has already occurred and been implemented. When we are fully staffed and trained we will be able to segregate duties and implement controls relating to applying the credits to student accounts and developing an independent verification process.

***Inadequate Controls Over Non-Cash Adjustments to Student Accounts
(Finding 13-7)*****Condition:**

Control surrounding bookstore non-cash credit adjustments and student refunds are inadequate. Specifically, we noted the following conditions:

- Processing and monitoring policies and procedures are not documented;
- Review and approval of bookstore credits is not performed by an appropriate individual. All bookstore employees, including students, process and approve bookstore returns by sending credit receipts to the Student Finance Associate;
- Reconciliation of bookstore and housing credits posted to student accounts are not performed to ensure amounts are proper; and
- Six out of eight items tested did not have supporting documentation for non-cash credit adjustments to student accounts maintained on file.

Criteria:

State Board of Higher Education Policy 830.2, Refund Policy, directs each institution to adopt written procedures for institutional charges to comply with requirements of federal law and implementing regulations and the refund policy concerning refunds to students. Institutional charges is defined in the refund policy as tuition, fees, room, board, and other education-related charges assessed the student by the institution.

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:

Williston State College has not adequately developed and implemented policies and procedures for processing bookstore and housing credits to student accounts.

Effect or Potential Effect:

Williston State College lacks assurance regarding the propriety of bookstore and housing credit adjustments recorded to student accounts and erroneous adjustments could be recorded without detection. Furthermore, unauthorized and improper refund payments could be processed without detection. During fiscal year 2012 and 2013 (through March 2013), bookstore credit adjustments recorded to student accounts totaled approximately \$10,800 and \$562,700 for housing credit adjustments.

Operational Improvement:

We recommend Williston State College strengthen controls surrounding bookstore and housing credit adjustments posted to student accounts to:

- Develop complete documented processing and monitoring policies and procedures;
- Ensure review and approval by an appropriate individual;
- Reconcile bookstore and housing credits posted to student accounts to ensure amounts are proper;
- Ensure support documentation is maintained for all non-cash credit adjustments.

Williston State College's Response:

Williston State College agrees with these recommendations. Since the operational audit, the sole Student Finance employee was on leave for 3 months, then returned to a new position on the campus. A new Student finance employee has since been hired and is still being trained on essential functions. A new Housing Director has also been hired since the operational audit. If no additional turnover occurs, WSC will develop procedures for review and reconciliation of non-cash adjustments during fiscal year 2015.

Inadequate Controls Surrounding Enrollment Reporting (Finding 13-8)

Condition:

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

- Policies have not been fully developed and documented to include course exclusions and enrollment reporting;
- Segregation of duties have not been developed to ensure the enrollment reports are reviewed by an individual independent of preparation;
- Matriculation criteria have not been developed to ensure required enrollment documents are received prior to allowing the student to register for classes.

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:

Williston State College has not adequately reviewed the student enrollment reporting process and developed proper policies and procedures.

Effect or Potential Effect:

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

Operational Improvement:

We recommend Williston State College strengthen controls surrounding student enrollment to:

- Develop documented policies and procedures including course exclusions and enrollment reporting;
- Segregate duties to ensure enrollment reporting to the SBHE and IPEDS is reviewed by an individual independent of preparation; and
- Implement matriculation criteria to ensure the required enrollment documents are received prior to the student registering for classes.

Williston State College's Response:

Williston State College agrees with the recommendation and has approved procedure for enrollment reporting in response to this audit finding. The procedure has established formal guidelines in which to review and internally audit enrollment reports before census submission. The Registrar/Director for Effectiveness is also tasked with the position of keyholder. Williston State College plans to name a keyholder independent of data entry before the opening of Fall 2014 data collection. Turnover and staffing issues have prevented this to this point. In order to be clearer in working with this process Williston State College is currently preparing procedure, to be approved on or before September 1st, 2014, to state conditional acceptance procedure. The procedure will document any temporary exemptions that are in accordance with state board policy and procedure.

Management Letter (Informal Recommendations)

March 25, 2014

Ms. Laurie Furuseth, CPA
Chief Financial Officer
Williston State College
1410 University Avenue
Williston, ND 58802

Dear Ms. Furuseth:

We have performed an audit of Williston 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 Williston 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.

LACK OF CONTROLS SURROUNDING INVENTORY

Condition:

Williston State College has weak controls in place surrounding bookstore inventory and sales.

The following was noted:

- The bookstore has cameras that cover the floor area, but not the tills or the storage area where inventory was kept. In addition, the bookstore manager noted the storage area where inventory was kept was locked at all times, but we observed the door to be open each time we walked by.
- Log-in IDs to the cash registers are known by all employees. In addition, terminated employees' log-in IDs were not removed from the system.
- The same individuals that have access to perform a sale, void, or refund are the same individuals responsible for performing the reconciliation of deposits to sales.

- The bookstore does not maintain a real-time inventory system and therefore, inventory costs are not tracked and the beginning sales are not compared to ending inventory.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* states that Risk Assessment should include objectives that relate to the safeguarding of resources.

Cause:

Williston State College has experienced extreme turnover during our audit period and does not perform regular reviews of internal controls and associated risks.

Effect or Potential Effect:

Williston State College has an increased risk and is therefore susceptible to errors, theft, or fraud occurring and going undetected in the normal course of business.

Informal Recommendation 13-1:

We recommend Williston State College strengthen controls surrounding bookstore inventory and sales by:

- Increasing camera coverage to include the tills and storage areas;
- Locking the storage area;
- Ensuring employees do not share log-in ID's;
- Removing terminated employee log-in ID's at the time of termination;
- Ensuring the duties of sales and reconciliation of sales to deposits are performed by separate individuals; and
- Implementing a real-time inventory system if at all possible.

Williston State College's Response:

Williston State College agrees with these recommendations.

- *We plan on increasing security camera coverage when the new store is built. The move to the new location is planned for January, 2015. It does not make financial sense to install additional camera coverage in the current location.*
- *The storage area in new bookstore location will be secure and will only be accessible to bookstore personnel.*
- *Bookstore personnel do not share log in ID's.*
- *When an employee is terminated their computer is wiped clean by our IT department.*
- *All bookstore personnel perform sales and reconciliation of sales as we don't have the personnel to separate those duties at this time.*
- *The WSC bookstore takes a physical inventory count at the end of the fiscal year. A point of sales system to keep real time inventory is too costly and not realistic for a small store.*

LACK OF CONTROLS SURROUNDING DEBT

Condition:

Williston State College had weak controls in place surrounding debt transactions. The following control was lacking:

- In regards to bonds payable, there is no reconciliation of the amounts paid to the statements received each month.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* states that Control Activities include reconciliations.

Cause:

Williston State College has experienced extreme turnover during our audit period.

Effect or Potential Effect:

Without proper internal controls surrounding long term debt, the possibility of improper amounts reported on the financial statement may occur.

Informal Recommendation 13-2:

We recommend Williston State College strengthens controls surrounding debt transactions by:

- Performing a reconciliation of bonds payable transaction to the statements received each month.

Williston State College's Response:

Williston State College agrees with this recommendation. Although not in place yet, WSC intends to begin performing reconciliation of bonds payable transactions to the statements received. Our goal is to have this implemented by June 30, 2014.

INADEQUATE CONTROLS FOR STUDENT RESIDENCY DETERMINATIONS**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 and procedures have not been developed and documented to include required supporting documentation and periodic assessment of residency reports;
- Proper proof of initial residency status is not required for older than average students and students that obtained a general equivalency diploma;
- Proper proof of residency redetermination is not required;
- Changes to residency status are not approved by an individual independent of recording changes in residency status. The Business Accounts Manager 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; and
- 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:

Williston State College has not properly developed policies and procedures surrounding residency status including documentation requirements, independent approval procedures, and verification methods for both initial and redeterminations of student residency.

Effect or Potential Effect:

The student residency status is reported on for IPEDS and to the State Board of Higher Education. Improper recording of student residency status could cause both state and federal data to be incorrect.

Informal Recommendation 13-3:

We recommend Williston State College strengthens student residency controls to:

- Develop documented policies and procedures for student residency determination and changes;
- Require, obtain, and compare proof of residency status for all students;
- Require approval of resident status changes by an individual independent of the person making the change.
- 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.

Williston State College's Response:

Williston State College agrees with this recommendation. High turnover and inexperience in key positions has prevented us from developing the procedures and documenting the steps taken in the area of student residency. As staff is properly trained we will take these recommendations into account when developing and implementing adequate procedures.

LACK OF SEGREGATION OF DUTIES FOR NON-CASH ADJUSTMENTS**Condition:**

Williston State College has not developed proper procedures to ensure non-cash credit adjustments are posted to student accounts by an individual that does not have access to cash. The Student Finance Associate acts as the cashier and posts all non-cash credits to student accounts.

Criteria:

State Board of Higher Education Policy 830.2, Refund Policy, directs each institution to adopt written procedures for institutional charges to comply with requirements of federal law and implementing regulations and the refund policy concerning refunds to students. Institutional charges is defined in the refund policy as tuition, fees, room, board, and other education-related charges assessed the student by the institution.

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:

Williston State College has not adequately developed and implemented policies and procedures for non-cash credits to student accounts.

Effect or Potential Effect:

Williston State College lacks assurance regarding the propriety of cash collections and non-cash credit adjustments recorded to student accounts. Unauthorized and improper credits could be applied to student accounts. From fiscal year 2012 through March of 2013 non-cash credit adjustments were approximately \$570,000.

Informal Recommendation 13-4:

We recommend Williston State College strengthen controls to ensure non-cash credit adjustments are recorded to student accounts by an individual independent of access to handle cash.

Williston State College's Response:

Williston State College agrees with this informal recommendation. Within the last few months, WSC has hired new and inexperienced people in the positions of Director of Housing and Student Finance Associate. With the high turnover in these areas, we have been unable to train, cross train and segregate duties as we would like. When staff is fully trained, we will take this recommendation into account as we assign and segregate duties.

I encourage you to call me at 701-239-7291 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,



Robyn Hoffmann, CPA
Auditor in-charge

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Division of State Audit

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