Client Code 229

WILLISTON STATE COLLEGE

WILLISTON, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

January 28, 2016

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, 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 Hoffman, 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 President Nadolny and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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 College is committed to providing educational opportunities that are accessible, affordable, life-changing, and life-long.

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 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?*

   Other than our finding addressing "Inadequate Oversight of Capital Improvements" (page 15), Williston State College was in compliance with significant statutes, laws, rules and regulations under which it was created and is functioning.

3. *Was internal control adequate and functioning effectively?*

   No. We noted five internal control matters that need to be addressed:
   - Lack of Supporting Documentation (page 12)
   - Lack of Controls Surrounding Cash and Revenues (page 18)
   - Lack of Controls Surrounding Payroll (page 20)
   - Lack of Control Surrounding Expenditures (page 21)
   - Lack of Controls Surrounding Purchase Card Expenditures (page 22)

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

   Yes, there were two reportable indications of a lack of efficiency in financial operations and management of Williston State College including "Inadequate Oversight of Capital Improvements" (page 15), as well as "Inadequate Controls over Non-Cash Adjustments" (page 24).

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

   No. There were five prior recommendations that were not implemented as follows:
   - Lack of Controls Surrounding Purchase Card Expenditures
   - Lack of Controls surrounding Cash and Revenues
   - Lack of Controls Surrounding Payroll
   - Lack of Controls Surrounding Expenditures
   - Inadequate Controls over Non-Cash Adjustments

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

   Yes, a management letter containing two recommendations relating to monitoring of access roles and non-cash adjustments was issued and is included on page 25 of this report, along with management's 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.*

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

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.*

   There were no significant audit adjustments.

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

1. What are the highest risk areas of Williston 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 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, 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.

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 the fiscal years 2014 and 2015 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 controls were operating effectively and 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.
- Interviewed appropriate agency personnel.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- 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. 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 Williston State College were primarily supported by appropriations from the state's general fund. This is supplemented by student tuition and fees, and federal funding.

Financial Summary

Total assets increased by $12 million in fiscal year 2015 primarily due to an increase in capital assets for the Stevens Hall renovation project and the new Petroleum Safety and Technology Center.

Total liabilities increased by $2.6 million in fiscal year 2015. This was caused by a $2.3 million construction loan for the Petroleum Safety and Technology Center. In addition to this, Williston State College had to record a pension liability of $800,000 due to implementing the GASB 68 standard which relates to the recognition of pension liabilities and expenses, and deferred outflows and inflows.

Total revenues increased by $1.5 million during fiscal year 2015. This increase was mainly due to the Williston State College Foundation and the Challenge grant matching program which provided $1.5 million for the New Petroleum Safety and Technology Center Building.

Total expenses for Williston State College remained consistent between fiscal year 2015 and 2014, with total expenses decreasing by $200,000 in fiscal year 2015.

Analysis of Significant Changes in Operations

Williston State College allocated funding to add two full-time finance and budget personnel to assist with compliance, segregation of duties, and providing timely financial information to budget managers. In addition to the finance and budget employees, Williston also added a full-time security person to expand the coverage levels on campus.

To better accommodate regional business needs, Williston State College established a Transportation Technology program to replace the Diesel Tech program. They also added coursework in "Automation and Control" in the Petroleum Production Technology program. Additionally, the Agriculture programs at Williston State College are being revamped to accommodate the changing regional needs.

Analysis of Significant Variances - Budgeted and Actual Expenditures

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

Financial Statements

Statement of Net Position

	June 30, 2015	June 30, 2014
ASSETS:		
Cash and cash equivalents	$ 4,161,497	$ 2,072,082
Investments	579,158	579,158
Accounts receivable, net	431,828	(97,551)
Receivable from component units	492,666	487,150
Due from other NDUS institutions	251,254	1,938
Due from state general fund	53,588	1,255,774
Grants and contracts receivable, net	432,165	491,013
Inventories	34,503	75,462
Notes receivable, net	158,737	218,078
Other assets	2,503	
Capital assets, net	52,405,279	41,835,697
Total assets	$ 59,003,178	$ 46,918,801
Deferred outflows of resources	$ 169,409	
LIABILITIES:		
Accounts payable	$ 775,036	$ 1,671,340
Accrued payroll	518,951	589,142
Deferred revenue	180,389	87,059
Deposits	527,575	35,698
Pension liability	801,786	
Other noncurrent liabilities	7,802	7,802
Due to component units	651,876	742,199
Due to others	11,450,966	9,133,883
Total liabilities	$ 14,914,381	$ 12,267,123
Deferred inflows of resources	$ 156,512	
NET POSITION		
Invested in capital assets	$ 40,644,957	$ 32,290,143
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	55,828	56,796
Expendable:		
Scholarships and fellowships	72,665	225,350
Institutional	(408)	(71,809)
Loans	212,742	233,725
Debt service	571,264	570,688
Unrestricted	2,544,646	1,346,785
Total net position	$ 44,101,694	$ 34,651,678

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2015	June 30, 2014
REVENUES AND OTHER ADDITIONS		
State appropriations	$ 6,447,426	$ 7,036,080
State appropriations-capital assets	6,197,488	6,696,856
Sales and services of educational departments	4,455,552	3,538,218
Gifts	3,881,857	2,258,845
Capital grants and gifts	2,192,577	2,633,294
Auxiliary enterprises	2,028,456	1,940,711
Federal grants and contracts	2,534,761	1,596,521
Student tuition and fees	883,034	1,287,370
State and local grants and contracts	552,765	572,602
Other nonoperating revenues	76,501	
Other operating revenue	5,537	4,165
Investment income	2,796	86,490
Insurance proceeds	2,650	
Nongovernmental grants and contracts	(7,616)	46,950
Total revenues and other additions	$ 29,253,784	$ 27,698,102
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	$ 10,632,953	$ 10,491,339
Operating expenses	4,419,892	5,002,891
Depreciation	1,772,138	1,313,567
Interest on capital asset-related debt	624,955	569,837
Cost of sales and services	598,308	771,824
Scholarships and fellowships	384,616	627,773
Data processing	304,642	212,848
Loss on capital assets	272,861	46,123
Other nonoperating expenses		174,191
Total expenses and other deductions	$ 19,010,365	$ 19,210,393
Revenue over expenses	$ 10,243,419	$ 8,487,709
NET POSITION		
Net position-beginning of the year, as restated	$ 33,858,275	$ 26,163,969
Net position-end of the year	$ 44,101,694	$ 34,651,678

Statement of Cash Flows

	June 30, 2015	June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 940,347	$ 1,236,157
Grants and contracts	2,428,497	2,331,343
Payments to suppliers	(5,204,740)	(5,821,384)
Payments to employees	(10,700,806)	(10,393,600)
Payments for scholarships and fellowships	(384,616)	(627,773)
Loans issued to students	(21,750)	(47,066)
Collection of loans to students	48,898	35,952
Auxiliary enterprise charges	2,050,000	1,830,875
Sales and service of educational departments	3,980,126	3,964,379
Cash received (paid) on deposits	59,082	(174,535)
Other receipts (payments)	105,290	(345,476)
Net cash used by operating activities	$ (6,699,672)	$ (8,011,128)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 6,447,426	$ 7,036,080
Grants and gifts received for other than capital purposes	4,592,119	3,054,053
Direct lending receipts	1,255,948	1,697,774
Direct lending disbursements	(1,255,928)	(1,591,186)
Agency fund cash increase (decrease)	203,521	(227,685)
Net cash flows provided by noncapital financing activities	$ 11,243,086	$ 9,969,036
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	$ 2,504,788	
Capital appropriations	7,399,674	$ 5,956,302
Capital grants and gifts received	2,192,573	2,633,291
Proceeds from sale of capital assets		(5,635)
Purchases of capital assets	(13,556,153)	(7,735,025)
Insurance proceeds	2,650	
Principal paid on capital debt and lease	(371,928)	(429,165)
Interest paid on capital debt and lease	(628,415)	(564,153)
Net cash used by capital and related financing activities	$ (2,456,811)	$ (144,385)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	$ 2,812	$ 86,627
Net cash provided by investing activities	$ 2,812	$ 86,627
Net increase in cash	$ 2,089,415	$ 1,900,150
Cash-Beginning of Year	$ 2,072,082	$ 171,932
Cash-End of Year	$ 4,161,497	$ 2,072,082

(Continued on next page)

(Statement of Cash Flows, continued)

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	June 30, 2015	June 30, 2014
Operating loss	$ (8,370,322)	$ (10,228,914)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,772,138	1,313,567
Other nonoperating revenues (expenses)	76,501	(349,646)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(413,358)	384,542
Grant & contract receivables	58,848	910,478
Inventories	40,959	26,710
Notes receivable	59,341	3,832
Other assets		175,450
Accounts payable and accrued liabilities adjusted for interest payable	(5,781)	(151,942)
Pension liability	138,900	
Net change in deferred outflows	(143,414)	
Accrued payroll	(75,329)	56,202
Compensated absences	11,990	41,537
Deferred revenue	90,771	(18,414)
Deposits	59,084	(174,535)
Net cash used by operating activities	$ (6,699,672)	$ (8,011,133)

SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS		
Assets acquired through capital lease		$ 375,000
Assets acquired through special assessment	$ 81,912	
Total non-cash transactions	$ 81,912	$ 375,000

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	$ 12,783,506	$ 700,000	$ 13,483,506	$ 13,483,506	
Capital Assets	16,038,155	(771,268)	15,266,887	14,365,544	$ 901,343
Plant Imrovement Carryover		30,196	30,196	30,196	
Capital Improvements -					
Off System					
Workforce training center		3,225,000	3,225,000	3,225,000	
Capital Off System -					
Carryover					
Workforce training center		4,275,000	4,275,000	3,053,657	1,221,343
Career and Tech center		89,770	89,770	89,770	
Totals	$ 28,821,661	$ 7,548,698	$ 36,370,359	$ 34,247,673	$ 2,122,686
Expenses by source					
General fund	$ 26,321,661	2,458,928	$ 28,780,589	$ 27,879,246	$ 901,343
Special fund	2,500,000	5,089,770	7,589,770	6,368,427	1,221,343
Totals	$ 28,821,661	$ 7,548,698	$ 36,370,359	$ 34,247,673	$ 2,122,686

Appropriation Adjustments:

Operating Expenses
$700,000 is a transfer from the NDUS for the performance funding pool, pursuant to 2015 HB 1003, section 33. This was an emergency measure.

Capital Assets
The ($771,268) adjustment includes:

- $271,181 transfer from the NDUS for deferred maintenance allocations pursuant to 2013 SB 20003, section 21.
- $607,551 transfer from the NDUS for capital project contingency pool. These funds were designated for the Stevens Hall renovation ($517,551) and the Campus drive project ($90,000).
- ($2,500,000) transfer to capital improvements off system line as spending for this project is not received from the state but from other sources (off system) and reported separately to OMB.
- $800,000 transfer from the NDUS for the performance funding pool, pursuant to 2013 HB 1003, section 33. This was an emergency measure.
- $50,000 deficiency appropriation appropriated pursuant to 2015 SB 2023. This was an emergency measure.

Plant Improvement - Carryover
$30,196 is the prior biennium's unspent general funds carried over pursuant to NDCC 54-44.1-11. These funds were designated for asbestos abatement.

Capital Improvements – Off System

The $3,225,000 adjustment for Workforce Training Center includes:

- $2,500,000 transfer from the capital assets line because the spending will be off system.
- $725,000 increased authority authorized by the budget section in March 2014. Total amount authorized was $1,500,000; $775,000 of that amount is included in the $2,500,000 above.

Capital – Off System Carryover

The $4,275,000 adjustment for the Workforce Training Center includes:

- $3,410,000 special fund authority carried over from the prior biennium pursuant to NDCC 54-44.1-11.
- $1,500,000 increase in special fund authority authorized by the budget section in March 2014.
- ($635,000) NDUS correction/adjustment to the carryover amount.

The $89,770 adjustment for the Career and Tech Center is special fund (Permanent Oil Trust 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, 2015, we identified the following areas of Williston 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.

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 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 January 28, 2016.

Lack of Supporting Documentation (Finding 15-1)

Condition:
Williston State College did not have adequate supporting documentation to substantiate transactions. Specifically Williston State College did not have supporting documents for the following transactions:

- Student Finance scholarship and waiver expenditures were missing supporting documentation to substantiate that the transaction was adequately awarded to the student, approved, and coded correctly (80%);
- Expenses were missing supporting documentation (18%);
- Documentation of individuals present for team travel meals was not provided for travel expenses (16%);
- General ledger transactions (ONL) were missing supporting documentation (25%); and
- Refunds were missing supporting documentation (10%).

Criteria:
The NDUS accounting manual states in part that the basic principles of internal control require all transactions should contain proper documentation.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commissions publication *Internal Control - Integrated Framework* states in part that management must also determine how much documentation is needed to assess the effectiveness of internal control. Some level of documentation is always necessary to assure management that the components of internal control are in place and functioning. This may include, for example, documents showing that all shipments are billed or that periodic reconciliations are performed.

NDCC 54-46-05 states in part that the head of each agency shall make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities.

Cause:
There has been high staff turnover and a remodel of the business office caused documents to be lost or misplaced.

Effect:
Unsupported accounting transactions increases the risk misstated financial statements and allow for fraud, waste, and abuse to occur without detection.

Recommendation:

We recommend that Williston State College maintain documentation for all transactions so an adequate audit trail is available.

Williston State College's Response:
Agree. The importance of proper documentation maintenance has been reinforced to ensure all transactions are properly supported and an adequate audit trail is available.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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, 2013, and ending June 30, 2015 (13 SB 2003, chapter 34, 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).
- Gifts, grants, and scholarship expenditures were proper (Article IX, Section 1 of the North Dakota Constitution; NDCC section 1-08-02).
- Fixed asset requirements were followed including record-keeping and lease analysis requirements (NDCC 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 statue (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, 05, 06, 54-44.7-02, and 44-08-01).
- Capital construction (NDCC 15-10-12.1, 12.3, 48-01.2-02, 04, 05, 06, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards.* This finding is included in the Operations section of this report as "Inadequate Oversight of Capital Improvements" (page 15).

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?

Our audit of Williston State College identified the following area of potential improvement to operations, as expressed by our operational objective:

Inadequate Oversight of Capital Improvements (Finding 15-2)

Condition:
Williston State College does not have adequate controls in place for tracking and monitoring capital improvements, as well as noncompliance with SBHE and NDUS policies and procedures, and noncompliance with NDCC. Specifically we noted the following issues while reviewing the Steven's Hall renovation project:

- $6,269,513 in application and certification for payments, including the final project payment, were not signed off on by the architect before making payment to the general contractor;
- Inability to provide bidding and contract documents for kitchen equipment that was purchased for the cafeteria;
- Improper retainage was maintained for the first half of the project;
- The contract amount on the application and certification for payment was increased over $500,000 without receiving change order approval by the architect or by Williston State College; and
- Construction manager at risk selection process, bidding documents, or the bonding information was not maintained.

Criteria:
NDUS Procedure 902.5 (10.4) states: “As set forth in the contract documents, during the construction phase all contractor's payment requests shall be submitted to the A/E for review. Upon approval, three copies shall be forwarded to the institutional representative for payment.”

SBHE 803.1 (3) states in part: Personal property, equipment, or supplies estimated at $25,000 or more must be purchased from formal bids. As many sources as possible, including qualified North Dakota vendors should be solicited.

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.

SBHE Policy 902.3 (9) states: "The contract sum and contract time may be changed only by change order. Change orders may not be utilized to significantly change or expand a project or increase expenditures beyond what has been approved by the Board or legislature or to evade competitive bidding laws or policies. A "change order" means a written order to the contractor signed by the owner and architect and issued after execution of the contract, authorizing a change in the work or an adjustment in the contract sum or contract time."

NDUS Procedure 902.5 (10.2) states: "A change order shall be issued for any change in the work, adjustment to the contract sum, or in the contract time. The budget for the project must have sufficient funds to support any changes in contract amounts. Change orders are not to be utilized as a procedure for substantially increasing the scope of the project. The A/E shall prepare all change orders and submit three copies to the institutional representative for review. The institutional representative shall obtain approval of the change order. Change orders must be signed by 1) the contractor; 2) the A/E; and 3) the institutional representative. Change orders shall contain the following information:

10.2.1 Number of change order.

10.2.2 Original contract amount.

10.2.3 Total amount of previous amendments or change orders.

10.2.4 Amount of present change order request, including a list and cost of each change.

10.2.5 Total revised contract amount."

NDCC 48-01.2-20 states in part that a governing body electing to utilize a construction manager at-risk delivery process for a proposed public improvement shall create a selection committee. The selection committee shall evaluate each submission based on the qualification criteria. The weighting of the qualification criteria must be done in a manner to ensure no subjective bias and encourage the maximum participation of qualified construction managers at-risk. The selection committee shall recommend to the governing body the construction manager at-risk receiving the highest score on the evaluation criteria.

NDCC 48-01.2-22 part 2 states: "A construction manager at-risk selected for a public improvement shall advertise publicly and receive bids from subcontractors for the work items the construction manager at risk chooses not to perform. The governing body may influence the selection of the subcontractors, but only insofar as the governing body's past experience with a subcontractor or a current legal dispute with a subcontractor."

Cause:
Turnover at Williston State College has caused the Stevens Hall Renovation project to have multiple different project managers.

Effect:
An unfamiliarity of SBHE and NDUS policies and procedures and a lack of controls surrounding the monitoring and accounting for the capital project can unnecessarily increase the cost of the project, misstate the financial statements and increase the risk of fraud, waste, and abuse.

Operational Improvement:
We recommend Williston State College review and follow the various SBHE and NDUS policies and procedures as well as NDCC to ensure the following:

- All application and certification for payments are reviewed and approved by the architect before payment is made;
- Bidding documentation is maintained for all personal property, equipment or supplies over $25,000;
- Proper retainage is calculated and maintained;
- All change orders are documented and signed by the appropriate personnel before adjusting the contract amount; and
- All selection, bidding, and bonding documentation for capital Improvement projects is maintained.

Williston State College Response:
Agree.

- *All application and certification for payments will continue to be reviewed and approved by the architect. Documentation of this approval will be kept in a single, secure location. Payments will not be made prior to review and approval by the architect.*
- *Bidding documentation will be maintained as required.*
- *Proper retainage will be maintained.*
- *Change orders were documented and signed by the appropriate personnel before adjusting the contract amount, however, due to office moves and personnel changes, the original documentation cannot be located. Williston State College will ensure improvements are made to proper documentation maintenance.*
- *All selection, bidding, and bonding documentation for capital improvement projects will be maintained in a location which is known to the appropriate staff in Facilities and Finance. This will ensure that if there is staff turnover during a capital project, documentation will be readily available to all who require it.*

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

1. Lack of Controls Surrounding Cash and Revenues

Condition:
During the fiscal year 2012–2013 audit, we noted a lack of controls surrounding cash and revenues.

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

- Lacking 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 daily cash summary, 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 daily reconciliation of student finance to the general ledger to the bank statements;
- Lack of proper approval for amounts billed to students and refunds (3 of 10 items tested);
- Support for 3 of 4 (75%) of ONLs from Lumens Augusoft did not match the general ledger. The total difference was $6,763.50; and
- There is no reconciliation of subsidiary accounts receivable ledger on student finance to the general ledger.

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

Cause:
Williston State College has not taken steps necessary to review and revise internal controls to mitigate the risk of error, theft, or fraud.

Criteria:
The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication *Internal Control - Integrated Framework* states that control activities include approvals, reconciliations, and segregation of duties.

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

- Proper segregation of duties surrounding cash collections and student billings;
- A reconciliation done for student finance to the general ledger and the bank statements;
- Proper approval of amounts billed or refunded to student accounts;
- Adequate reconciliation and resolution of errors between Lumens Augusoft and the general ledger;
- Perform a reconciliation of the subsidiary accounts receivable ledger on student finance to the general ledger.

Williston State College's Response:

Agree.

- *The student finance specialist will review the daily cash summary, daily deposits, daily student charges, student refunds and other postings as of spring 2016. Checks received by mail shall be restrictively endorsed by the accounts payable associate effective summer 2016.*
- *While a reconciliation to the general ledger is not performed daily, a reconciliation by day for the current and prior 2 fiscal years has been prepared. All material adjustments are expected to post by FYE2016.*
- *The posting of Augusoft journals was discontinued July 1, 2015.*
- *A reconciliation of accounts receivable remains a priority goal of Williston State College. Many PeopleSoft controls that impact the debiting and crediting of the accounts receivable account have been reviewed and adjusted as necessary. Corrections and prior period adjustments are made as detected. Monthly reconciliation of current accounts receivable transactions is expected to be fully implemented by June 30, 2017. The reconciliation of balances in the subsidiary accounts receivable ledger to the general ledger involves several prior periods and takes substantial time to review, evaluate and correct. As adequate staff and time allows, Williston State College continues to work towards completion of this reconciliation.*

2. *Lack of Controls Surrounding Payroll*

Condition:
During the fiscal year 2012–2013 audit, we noted a lack of controls surrounding payroll.

Current Status:
Williston State College has inadequate controls in place surrounding payroll. Specifically we noted the following:

- Access rights to change payroll was granted to various business office employees. These individuals have no responsibilities in payroll preparation; and
- There is not a documented independent reconciliation of the salaries entered into PeopleSoft to the approved contracts.

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.

Cause:
Williston State College was unaware of the lack of controls surrounding payroll.

Criteria:
NDUS Procedure 1901.2 (4.1) states in part that control of access to information states in part: Access to information and devices is granted to authorized NDUS personnel as necessary for the performance of their duties and such access should be based on minimal need to perform those duties.

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

Recommendation:
We recommend Williston State College strengthen controls surrounding payroll by:

- Reviewing and limiting payroll access to those with current responsibilities for processing payroll, and
- Performing an independent reconciliation of salaries to approved contracts on at least an annual basis.

Williston State College's Response:
Agree.

- *Implemented. 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.*
- *Implemented. The Director for Human Resources finalizes contracts; the Payroll Associate creates the HRMS contract terms and amounts; the Director of Financial Services reconciles the HRMS contract terms and amounts with the HR provided signed contract.*

3. Lack of Controls Surrounding Expenditures

Condition:
During the fiscal year 2012–2013 audit, we noted a lack of controls surrounding expenditures.

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

- 22 of 32 items (69%) of general ledger transactions (ONL's) did not have proper approval and 4 of 10 items (40%) of travel expenditures did not have proper approval;
- There was one individual responsible for entering invoices for payment, having access to process, void, and reissue checks, and is responsible for mailing checks; and
- Several individuals in the Business Office had access on PeopleSoft to void/reissue checks. These employees do not have any responsibilities in the check voiding/reissuing processes.

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

Cause:
Williston State College has not taken steps necessary to review and revise its internal controls to eliminate or mitigate its internal control risk.

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

NDUS Procedure 1901.2 (4.1) *Control of access to information* states in part that access to information and devices is granted to authorize NDUS personnel as necessary for the performance of their duties and such access should be based on minimal need to perform those duties.

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

- A standardized approval process for expenditures and direct general ledger transactions;
- Segregation of duties, including access rights, between individuals responsible for preparing the invoices; processing, voiding, and reissuing checks; and mailing the checks; and
- A review of the access roles for voiding/reissuing checks to ensure only those necessary individuals have access.

Williston State College's Response:
Agree.

- *A standardized approval process for expenditures and direct general ledger transactions is in place.*
- *Segregation of duties, including access rights, are in place.*
- *A periodic review of all finance access roles, including those for voiding/reissuing checks, is being performed.*

4. *Lack of Controls Surrounding Purchase Card Expenditures*

Condition:
During the fiscal year 2012-2013 audit, we noted a lack of controls surrounding purchase card expenditures.

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

- The agency statement was not signed by the card administrator indicating that it was reconciled to the individual card holder statements in all of the 32 items tested (100%);
- Individual card holder statement was not signed by an appropriate individual indicating the expenses and the related receipts were reviewed and approved (53%);
- Sales tax was paid (16%); 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.

Effect:
The risk of misstatement, fraud, and noncompliance are increased with inadequate reviews, inadequate or missing documentation, and lack of proper controls. Williston State College exposes itself to risk of loss, potential liabilities, and damage to the College's reputation, whether due to error, theft or fraud.

Cause:
Adequate reconciliations and supporting documentation for purchase card transactions are not being maintained.

Criteria:
The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication *Internal Control - Integrated Framework* states that control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

OMB's Fiscal and Administrative Policy #300 Purchasing Card, in part states:

- The supervisor will 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. Cardholder statements and original receipts must be submitted to the agency Card Administrator and maintained on file.
- Card Administrators should run an agency statement with the state's current card provider and reconcile it to the individual statements. They should sign the agency statement denoting reconciliation.

NDCC 57-39.2-04, states in part, there are specifically exempted from the provisions of this chapter and from computation of the amount of tax imposed by it the following: (6) Gross receipts from all sales otherwise taxable under this chapter made to the United States, an Indian tribe, or to any state, including the state of North Dakota, or any of the subdivisions, departments, agencies, or institutions of any state.

Recommendation:
We recommend Williston State College strengthen controls surrounding purchase cards by:

- Ensuring the supervisor signs 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;
- Ensuring the card administrator reconciles the individual statements with the agency statement and signs off to the card statement;
- Ensuring the sales tax is removed from purchases made in North Dakota; and
- Develop a policy or procedure for the temporary or permanent change to credit limits to individual's cards.

Williston State College's Response:
Agree.

- *A procedure is in place which requires the supervisor to sign the cardholder's statement certifying that the purchases were made for state business and that they comply with appropriate rules and regulations.*
- *Williston State College has implemented a monthly process whereby the agency statement is reconciled and approved.*
- *Procedures are in place to ensure employees are aware that purchases made in ND are not subject to ND sales tax, and removal or reimbursement of erroneously charged ND sales tax is the purchaser's responsibility.*
- *A process is in place for the temporary or permanent change to credit limits to individual's cards. Changes are requested by the cardholder's Department Administrator and completed by the Purchase Card Coordinator.*

5. Inadequate Controls over Non-Cash Adjustments

Condition:
During the fiscal year 2012–2013 audit, we noted a lack of controls surrounding non-cash adjustments.

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

- Reconciliation of bookstore and housing credits posted to student accounts are not performed to ensure amounts are proper;
- Supporting documentation for non-cash credit adjustments to student accounts was not maintained.

Effect:
Williston State College lacks assurance regarding the propriety of bookstore credit adjustments recorded to student accounts and erroneous adjustments could be recorded without detection.

Cause:
Williston State College has not adequately developed and implemented proper internal controls surrounding non-cash adjustments.

Criteria:
The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication *Internal Control - Integrated Framework*, states that 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.

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

- Reconcile bookstore and housing credits posted to student accounts to ensure amounts are proper; and
- Ensure support documentation is maintained for all non-cash credit adjustments.

Williston State College's Response:
Agree.

- *Implemented. All bookstore and housing adjustments are being reconciled and approved prior to posting.*
- *Implemented. Supporting documentation is being maintained for all non-cash credit adjustments and a proper separation of duties has been put into effect.*

Management Letter (Informal Recommendations)

January 28, 2016

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, 2015, 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 federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

INADEQUATE MONITORING OF ACCESS ROLES

Condition:
We were unsuccessful in obtaining adequate documented results of Williston State College's monitoring activities for access roles performed in fiscal year 2015 for the Human Capital Management and Campus Solutions Environments of PeopleSoft.

Criteria:
Proper internal controls should provide reasonable assurance that operations are effective and efficient and financial reporting is reliable. An integral part of operational effectiveness and efficiency, as well as ensuring the reliability of financial information is requiring that proper restrictions on the different levels of access are continuously monitored to ensure the integrity of the data. Additionally, proper internal controls also provide reasonable assurance of compliance with applicable laws and regulations. NDUS Procedure 1912.1 identifies risks and requires coordinators to review procedures, keep current on potential threats, and conduct regular risk assessment and an annual evaluation to ensure ongoing compliance. System access and security is an identified risk in NDUS Procedure 1912.1.

Cause:
No documented review of Campus Solution Environments of PeopleSoft could be produced when requested and the review of the Human Capital Management Environment was inadequate.

Effect:
There is noncompliance with NDUS procedure 1912.1. Lack of monitoring an individual's access roles to PeopleSoft increases the risk of unauthorized access which increases the risk of financial statement misstatement and fraud. It also increases the risk that too much control rests in one individual's hands knowingly or unknowingly leading to internal control issues surrounding segregation of duties. If adequate monitoring of access rights does not exist, the following could occur:

- Misappropriation of assets;
- Misstated financial statements;
- Incomplete and inaccurate financial documentation (i.e. errors or irregularities); and
- Improper use of funds or modification of data could go undetected.

Informal Recommendation 15-1:
We recommend Williston State College continuously monitor the access roles to the Human Capital Management and Campus Solutions Environments of PeopleSoft to ensure:

- The proper level of access is granted and/or removed in a timely manner to warrant proper segregation of duties; and
- One of these continuous monitoring of access roles be documented at least yearly.

Williston State College's Response:
Agree. Access roles are being monitored to ensure that the proper level of access is granted and/or removed in a timely manner and monitoring of access roles is performed and documented at least yearly, with the next review scheduled to be completed on or before July 31, 2016.

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.

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

Informal Recommendation 15-2:
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:
Agree. Williston State College has implemented the following practice:
Non-cash adjustments are required to be approved by another individual or department prior to posting by the Student Finance Associate. Upon posting, verification is performed by the Student Finance Specialist.

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 recommendations included in this letter.

Sincerely,

Alex Mehring
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

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Division of State Audit

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