

NORTH DAKOTA STATE
COLLEGE OF SCIENCE
WAPHETON, 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 26, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. John Richman, President, North Dakota State College of Science

We are pleased to submit this audit of the North Dakota State College of Science 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 Cory Wigdahl, CFE. 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 Richman 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

NDSCS is a two-year, comprehensive, residential college with its main campus located in Wahpeton, ND, and a second site, referred to as NDSCS-Fargo located on 19th Avenue North in Fargo, ND. NDSCS offers degrees, certificates, and diplomas in traditional career and technical studies as well as the liberal arts. The college also offers a variety of distance education and online courses.

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 the North Dakota State College of Science were included in the Annual Financial Report of the North Dakota University System; an unqualified opinion was issued on the annual financial report of the North Dakota University System.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

There were no recommendations included in the prior audit report.

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

Yes, a management letter was issued and is included on page 13 of this report, along with management's response indicates concurrence to the two findings addressing fund classification and segregation of expenditure duties.

LAFRC Audit Communications

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

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

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

The most significant accounting estimates used by the North Dakota State College of Science include the 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 judgment based on historical 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 estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

- 9. Identify any significant audit adjustments.*

All significant audit adjustments we proposed for the North Dakota State College of Science were recorded during the fiscal year 2013 and 2012 audits of the North Dakota University System. The adjustments were to reclassify net position and restricted cash and can be seen in the fiscal year 2013 and fiscal year 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 the North Dakota State College of Science. 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 the North Dakota State College of Science 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 the North Dakota State College of Science'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 the North Dakota State College of Science and are they in compliance with these laws?
3. Are there areas of the North Dakota State College of Science's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota State College of Science 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.

The North Dakota State College of Science has operations at the Wahpeton campus and the Skills and Technology Training Center in Fargo. Each location was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2013 and 2012 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested compliance with laws and regulations which included selecting representative samples to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Reviewed segregation of duties in all program areas.
- Performed walkthroughs in all program areas documenting client procedures.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Interviewed appropriate agency personnel.
- Observed North Dakota State College of Science'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 the North Dakota State College of Science's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. Also, the related note disclosures have not been included in this report. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

Financial Summary

North Dakota State College of Science's assets increased \$7.9 million in fiscal year 2013. This increase is due to the net effect of a decrease in cash and investments of \$7 million and an increase in capital assets of \$13.5 million. Cash and investments decreased due to payment from bond proceeds for the Forkner and Riley Hall remodel projects. Capital assets increased due to construction in progress being added to capital assets for the Forkner and Riley Hall projects. All other balances on the statement of net assets remained fairly constant.

Revenues increased \$7.3 million in fiscal year 2013 due to the timing of state appropriations. The North Dakota State College of Science received \$7.9 million for the Bisek Hall expansion in fiscal year 2013 compared to \$1.1 million received in the prior year. All other revenues remained fairly constant.

Total expenses increased only \$90,000 in fiscal 2013, however there were two significant changes. Salaries and wages increased \$900,000 and operating expenses decreased \$1.4 million. The increase in salaries and wages of 3.6% is due to normal performance, market, and equity adjustments. The decrease in operating expenses of 11.6% is primarily due to the timing of the completion of the student center dining update in fiscal year 2012. All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

Five North Dakota State College of Science (NDSCS) employees received a campus award for their work on energy savings projects. The group's efforts resulted in NDSCS receiving \$635,000 in grants for energy improvements and equipment upgrades. NDSCS expects to see a decrease in energy consumption by about 8 to 10 percent.

Analysis of Significant Variances - Budgeted and Actual Expenditures

North Dakota State College of Science had no significant variances of budget and actual expenditures.

Financial Statements

Statement of Net Position

	June 30, 2013	June 30, 2012
ASSETS		
Cash and cash equivalents	\$ 14,443,109	\$ 15,521,637
Investments	371,477	6,266,464
Accounts receivable, net	1,572,234	1,081,988
Due from other NDUS	129,391	
Due from State General Fund	541,924	207,630
Grants & contracts receivables, net	1,586,370	836,818
Inventories	345,261	353,843
Notes receivable, net	1,627,175	1,912,569
Unamortized bond discounts & cost of issuance	240,084	250,300
Capital assets, net	32,649,706	19,179,789
Total assets	\$ 53,506,731	\$ 45,611,038
LIABILITIES		
Accounts payable	\$ 888,931	\$ 785,030
Accrued payroll	1,585,782	1,554,777
Unearned revenue	286,703	344,037
Deposits	192,791	193,301
Other liabilities	4,017	5,253
Due to others	10,543,701	10,491,620
Total liabilities	\$ 13,501,925	\$ 13,374,018
NET POSITION		
Invested in capital assets	\$ 28,423,895	\$ 16,889,304
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	900	900
Expendable:		
Institutional	111,927	3,203,424
Loans	3,824,220	3,763,254
Unrestricted	7,643,864	8,380,138
Total net position	\$ 40,004,806	\$ 32,237,020

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2013	June 30, 2012
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 26,005,983	\$ 18,667,630
Student tuition and fees	8,051,150	8,092,699
Auxiliary enterprises	4,832,004	4,709,980
Federal grants and contracts	4,551,128	5,228,897
Sales and services of educational departmen	3,173,213	3,035,024
State and local grants and contracts	898,157	1,293,792
Capital grants and gifts	729,279	166,724
Gifts	648,869	549,121
Investments income	277,129	290,387
Other revenue	220,844	102,901
Insurance Proceeds	31,705	937
Nongovernmental grants and contracts	28,500	29,068
Total revenues and other additions	\$ 49,447,961	\$ 42,167,160
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 25,905,013	\$ 25,000,684
Operating expenses	10,339,214	11,690,016
Depreciation	2,211,952	2,104,729
Scholarships and fellowships	1,088,435	1,446,439
Data processing	910,116	504,450
Cost of sales and services	746,196	753,987
Interest on capital asset-related debt	358,187	48,514
Inter-institutional Transfers	84,724	
Loss on capital assets	36,337	4,202
Other expense		37,581
Total expenses and other deductions	\$ 41,680,174	\$ 41,590,602
Revenue over expenses	\$ 7,767,787	\$ 576,558
NET POSITION		
Net position-beginning of the year	\$ 32,237,022	\$ 31,660,464
Net position-end of the year	\$ 40,004,809	\$ 32,237,022

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 33,614,146	\$ 705,863	\$ 34,320,009	\$ 34,320,009	
Capital Assets	22,071,045	(10,700,000)	11,371,045	9,625,000	\$ 1,746,045
Capital Asset-Carryover		450,162	450,162	450,162	
Capital Improvements - Off System					
Bisek Hall renovation		200,000	200,000		200,000
Frank Vertin complex		1,500,000	1,500,000	50,000	1,450,000
Riley Hall renovation		4,000,000	4,000,000	3,064,807	935,193
Forkner Hall renovation		5,000,000	5,000,000	3,981,547	1,018,453
Totals	\$ 55,685,191	\$ 1,156,025	\$ 56,841,216	\$ 51,491,525	\$ 5,349,691
Expenses by source					
General fund	\$ 44,985,191	\$ 1,156,025	\$ 46,141,216	\$ 44,395,171	\$ 1,746,045
Special fund	10,700,000		10,700,000	7,096,354	3,603,646
Totals	\$ 55,685,191	\$ 1,156,025	\$ 56,841,216	\$ 51,491,525	\$ 5,349,691

Appropriation Adjustments:

Operating Expenses

The increase of \$705,863 is the equity transfer from the NDUS pursuant to 2011 HB1003, section 6.

Capital Assets

Special fund authority for various project were transferred to the Capital Improvement – Off System line item because funding is not received from the state but from other sources and reported separately. This funding was appropriated pursuant to 2011 HB1003.

Capital Asset-Carryover

The increase of \$450,162 was the unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11.

Capital Improvement – Off System

The following were transfers of special fund authority from the Capital Assets line:

- \$200,000 for the Bisek Hall renovation
- \$1,500,000 for the Frank Vertin complex
- \$4,000,000 for the Riley Hall renovation
- \$5,000,000 for the Forkner Hall renovation

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the North Dakota State College of Science'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 expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota State College of Science in a management letter dated March 26, 2014.

Compliance With Legislative Intent

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

- North Dakota University System reported to the appropriations committees of the sixty-third legislative assembly on the use of one-time funding for the biennium beginning July 1, 2011, and ending June 30, 2013 [11 HB 1003, chapter 3, section 2].
- The unexpended balance resulting from the proceeds of the evidences of indebtedness for the NDSCS Forkner hall renovation and Riley hall renovation were placed in a sinking fund to be used for the retirement of indebtedness. [11 HB 1003, chapter 3, section 15].
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Gifts are used in compliance with the wishes of the donor. (Article IX, Section 1 of the ND Constitution, NDCC section 1-08-02, and NDCC section 15-10-12).
- 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).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08, 48-02-12).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

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

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

Management Letter (Informal Recommendations)

March 26, 2014

Mr. Dennis Gladen
Vice President for Administrative Affairs
North Dakota State College of Science
800 North 6th Street
Wahpeton, North Dakota 58076

Dear Mr. Gladen:

We have performed an audit of the North Dakota State College of Science for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota State College of Science'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.

FUND CLASSIFICATION

Condition:

NDSCS had one fund out of the eight we tested in our test of private gifts, grants, and contracts classified as restricted, but there was no external restriction on the fund. The Memorial Scholarship fund, 55675, was money set aside by the institution from the memorial and interest received was used for scholarships.

Criteria:

Non-endowed scholarship funds (55675) are to be used only for funds restricted by a donor for the purpose of providing scholarships for the institution's students.

One of the major tenets of a properly functioning internal control system is to ensure the reliability of financial statements.

GASB Statement 34, paragraph 34, states: net assets should be reported as restricted when constraints placed on net asset use are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Internally established constraints are designations and do not meet the GASB definition for restrictions.

Cause:

NDSCS set it up this way since they were using the money for scholarships, but did not realize there was no external requirement for the money causing it to be restricted.

Effect or Potential Effect:

Improper fund/net asset classification leads to consistency issues between campuses and also does not fairly present the financial statements in conformity with generally accepted accounting principles.

Informal Recommendation 13-1:

We recommend NDSCS reclassify the Memorial Scholarship, 55675, into an unrestricted fund since there is no external restriction on the gift to the campus and review all other funds currently classified as restricted to ensure that they meet the GASB definition of restricted funds.

North Dakota State College of Science Response:

NDSCS agrees. NDSCS will move this fund activity into a range of funds that is to be considered unrestricted, although no net assets are held in this fund currently. The re-coding will be done prior to June 30, 2014.

SEGREGATION OF DUTIES SURROUNDING EXPENDITURES

Condition:

NDSCS has conflicting duties in the expenditure area. One individual has the ability to enter vouchers/purchase orders, correct/change vouchers and purchase orders, print checks, cancel supporting documents, compare checks to disbursement records and mail checks. Additionally, several personnel have access to both PeopleSoft AP (disbursement function) and PeopleSoft GL (recording function).

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:

NDSCS has not reviewed or developed procedures regarding segregation of duties.

Effect or Potential Effect:

Misappropriation of assets or fraud is possible without adequate segregation of duties.

Informal Recommendation 13-2:

We recommend NDSCS review segregation of duties in the expenditure area:

- to ensure the same personnel do not enter vouchers/purchase orders, correct/change vouchers and purchase orders, print checks, cancel supporting documents, compare checks to disbursement records and mail checks;
- to determine if AP access and GL access can be segregated among personnel in the expenditure area; and
- to determine if personnel can perform their duties with review only access of AP and GL.

North Dakota State College of Science Response:

NDSCS agrees. A review of these duties is currently in process and changes will be completed prior to June 30, 2014.

I encourage you to call myself at 701-239-7296 or the 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,



Cory Wigdahl, CFE
Auditor in-charge

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