

NORTH DAKOTA STATE
COLLEGE OF SCIENCE
WAHPETON, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

March 14, 2016

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
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, 2015. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Alex Mehring, CPA. Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to President Richman and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

Founded in 1903, the North Dakota State College of Science is one of the oldest two-year comprehensive, residential colleges in the nation. The main campus is located in Wahpeton with a second location in Fargo. The North Dakota State College of Science 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 unmodified opinion was issued on the annual financial report of the North Dakota University System

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

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 15 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.

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

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

The most significant accounting estimates used by the North Dakota State College of Science include useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the estimated useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

In the fiscal year 2014 NDUS financial audit, the North Dakota State College of Science had significant audit adjustments to reclassify unspent bond proceeds for the Forkner/Riley project (\$2.5 million) and to properly reclassify net position per GASB 34 (\$4.6 million). In fiscal year 2015, significant audit adjustments were not necessary.

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, 2015 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 adequate 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, 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.

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 2015 and 2014 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations, which included selecting representative samples to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the 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).

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

Financial Summary

Total assets increased \$9 million in fiscal year 2015 due to various factors:

- Cash and cash equivalents increased \$2.4 million primarily due to receiving a \$600,000 Challenge Grant; tuition rate increase of 3.25% which caused cash to increase over \$1 million; and a decrease of \$800,000 in negative cash for reimbursable instruction grants.
- Due from state general fund increased \$1.4 million primarily due to timing of state appropriations for the Old Main renovation.
- Capital assets increased \$5.8 million primarily due to an increase in construction in progress of \$4.4 million for the Old Main renovation and \$1.3 million for the football complex renovations.

Total liabilities increased \$5.5 million in fiscal year 2015 due to various factors:

- Accounts payable increased \$1.4 million primarily due to recording central stores expenses in the proper year.
- Pension liability increased \$4.1 million due to the North Dakota State College of Science implementing GASB 68 in fiscal year 2015 which recognizes pension liabilities and expense and deferred outflows and inflows of resources.

Total revenues were \$52,045,708 for the year ended June 30, 2015 as compared to \$46,780,905 for the year ended June 30, 2014. The increase is primarily due to state appropriations of capital assets of \$1.9 million and capital grants and gifts of \$1.6 million. The state appropriations of capital asset was for the Old Main renovation. The capital grants and gifts included \$426,000 for the football complex renovation; \$600,000 from a new federal grant (Trade Adjustment Assistance Community College and Career Training Grant Program) to purchase equipment for the advanced manufacturing skill initiative, with the remaining increase from the North Dakota Department of Career and Technical Education to purchase supplies for welding, robotics, and other various other projects.

Total expenses for the North Dakota State College of Science were \$44,315,114 for the year ended June 30, 2015 as compared to \$42,715,114 for the prior year. The increase in total expenses for the audited period reflects primarily general increases in salaries and wages of \$1.9 million or 7% (which also account for 64% of total expenses in both years). All other expenses remained fairly constant.

Analysis of Significant Changes in Operations

There were no significant changes in operations.

Analysis of Significant Variances -Budgeted and Actual Expenditures

There were no significant variances between budgeted and actual expenditures.

Financial Statements

Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
ASSETS		
Cash and cash equivalents	\$ 17,506,234	\$ 15,071,207
Investments	471,792	271,477
Accounts receivable, net	1,246,274	1,411,534
Due from component units	443,826	
Due from other NDUS	88,334	310,396
Due from state general fund	1,559,692	206,587
Grants & contracts receivables, net	1,300,560	1,920,306
Inventories	473,321	345,457
Notes receivable, net	1,254,949	1,484,038
Other assets	20,000	154,512
Capital assets, net	45,255,451	39,438,267
Total assets	<u>\$ 69,620,433</u>	<u>\$ 60,613,781</u>
Deferred Outflows of Resources	\$ 782,732	
LIABILITIES		
Accounts payable	\$ 2,478,664	\$ 1,117,793
Payable to component units	3,217	186,356
Accrued payroll	1,972,521	1,673,987
Unearned revenue	283,042	277,517
Deposits	304,157	303,251
Other liabilities		24,950
Due to others	9,915,399	10,071,867
Pension liability	4,149,542	
Total liabilities	<u>\$ 19,106,542</u>	<u>\$ 13,655,721</u>
Deferred inflows of Resources	\$ 810,007	
NET POSITION		
Invested in capital assets	\$ 36,695,866	\$ 30,666,485
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,550	900
Expendable:		
Institutional	824,037	240,135
Loans	3,979,776	3,863,003
Debt service	(222,120)	
Unrestricted	9,207,507	12,187,537
Total net position	<u>\$ 50,486,616</u>	<u>\$ 46,958,060</u>

Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 19,241,456	\$ 18,940,000
Student tuition and fees	7,127,613	8,020,436
State appropriations-capital assets	6,168,105	4,233,005
Auxiliary enterprises	6,117,445	5,511,194
Federal grants and contracts	4,848,899	4,297,709
Sales and services of educational departments	3,195,831	3,321,310
Capital grants and gifts	1,988,629	436,941
State and local grants and contracts	1,453,048	803,043
Gifts	915,454	635,253
Investment income	477,318	376,630
Other nonoperating expenses	214,577	
Other	201,839	172,810
Nongovernmental grants and contracts	95,352	17,000
Insurance Proceeds	142	1,508
Interest on capital asset-related debt		14,066
Total revenues and other additions	<u>\$ 52,045,708</u>	<u>\$ 46,780,905</u>
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 28,615,974	\$ 26,695,163
Operating expenses	9,899,410	10,192,275
Depreciation	3,063,398	2,705,487
Cost of sales and services	920,849	854,514
Scholarships and fellowships	756,633	1,229,326
Data processing	726,004	798,258
Interest on capital asset-related debt	314,102	
Loss on capital assets	18,744	30,911
Other nonoperating expenses		209,180
Total expenses and other deductions	<u>\$ 44,315,114</u>	<u>\$ 42,715,114</u>
Revenue over expenses	<u>\$ 7,730,594</u>	<u>\$ 4,065,791</u>
NET POSITION		
Net Position-beginning of the year, as restated	\$ 42,756,022	\$ 42,892,269
Net Position-end of the year	<u>\$ 50,486,616</u>	<u>\$ 46,958,060</u>

Statement of Cash Flows

	June 30, 2015	June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 7,182,574	\$ 7,974,561
Grants and contracts	3,548,040	1,689,258
Payments to suppliers	(10,466,680)	(11,212,115)
Payments to employees	(28,194,958)	(26,761,797)
Payments for scholarships and fellowships	(756,633)	(1,229,326)
Loans issued to students	(233,988)	(240,350)
Collection of loans to students	463,094	316,744
Auxiliary enterprise charges	6,081,583	5,483,684
Sales and service of educational departments	3,076,168	2,929,195
Cash paid on deposits	(81,065)	(78,882)
Other receipts (payments)	525,979	(410,033)
Net cash used by operating activities	\$ (18,855,886)	\$ (21,539,061)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 19,241,456	\$ 18,940,000
Grants and gifts received for other than capital purposes	4,384,459	3,729,811
Agency fund cash increase	103,687	588,601
Net cash flows provided by noncapital financing activities	\$ 23,729,602	\$ 23,258,412
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 4,815,000	\$ 4,568,343
Capital grants and gifts received	1,988,625	436,942
Purchases of capital assets	(8,891,696)	(6,397,412)
Insurance Proceeds	142	1,508
Principal paid on capital debt and lease	(311,857)	(313,529)
Interest paid on capital debt and lease	(315,452)	136,265
Net cash used by capital and related financing activities	\$ (2,715,238)	\$ (1,567,883)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	\$ 476,549	\$ 476,630
Purchase of investments	(200,000)	
Net cash provided by investing activities	\$ 276,549	\$ 476,630
Net increase in cash	\$ 2,435,027	\$ 628,098
CASH - BEGINNING OF YEAR	\$ 15,071,207	\$ 14,443,109
CASH - END OF YEAR	<u>\$ 17,506,234</u>	<u>\$ 15,071,207</u>

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RECONCILIATION OF NET OPERATING EXPENSES TO NET USED BY OPERATING ACTIVITIES	June 30, 2015	June 30, 2014
Operating loss	\$ (24,411,246)	\$ (23,426,076)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	3,063,398	2,705,487
Other nonoperating revenues (expenses)	189,627	(428,331)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(74,283)	(428,573)
Grant & contract receivables	619,746	(333,936)
Inventories	(127,864)	(196)
Notes receivable	229,090	143,136
Other assets	134,512	(37,952)
Accounts payable and accrued liabilities adjusted for interest payable	1,175,658	422,085
Pension liability	622,976	
Net change in deferred outflows	(648,198)	
Accrued payroll	298,475	91,671
Compensated absences	147,763	(158,305)
Deferred revenue	5,525	(9,186)
Deposits	(81,065)	(78,882)
Net cash used by operating activities	\$ (18,855,886)	\$ (21,539,058)

**SUPPLEMENTAL DISCLOSURE ON NON-CASH
TRANSACTIONS**

Expenses paid by capital lease/special assessment	\$ 7,627	
Net increases (decreases) in value of investments	315	\$ (100,000)
Total non-cash transactions	\$ 7,942	\$ (100,000)

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 38,181,456		\$ 38,181,456	\$ 38,181,456	
Capital Assets	10,448,258	\$ (351,894)	10,096,364	7,642,900	\$ 2,453,464
Capital Assets Carryover		1,746,045	1,746,045	1,745,839	206
Capital Improve-Off system					
Football complex reno		1,500,000	1,500,000	1,308,612	191,388
Cap Proj - Off System - Carryover					
Forker/Riley Dorm		1,699,516	1,699,516	1,698,942	574
Totals	\$ 48,629,714	\$ 4,593,667	\$ 53,223,381	\$ 50,577,749	\$ 2,645,632

Expenses by source

General fund	\$ 47,279,714	\$ 2,744,151	\$ 50,023,865	\$ 47,570,195	\$ 2,453,670
Special fund	1,350,000	1,849,516	3,199,516	3,007,554	191,962
Totals	\$ 48,629,714	\$ 4,593,667	\$ 53,223,381	\$ 50,577,749	\$ 2,645,632

Appropriation Adjustments:

Capital Assets

The (\$351,894) adjustments includes:

- (\$1,350,000) transfer to the capital improvement off system line for the football complex renovation. Revenues for this project are special funds and the expenses are off system and reported to OMB separately.
- \$639,328 transfer from the NDUS for deferred maintenance allocation pursuant to 2013 SB 2003, section 21. \$200,000 transfer from the salaries and benefits line item to the equipment line item was approved by the Emergency Commission. This transfer was made to fund a caliper which was needed to deal with the drought situation.
- \$358,778 transfer from the NDUS for the capital projects contingency allocation. This funding was designated for the Old Main renovation project.

Capital Assets Carryover

The \$1,746,045 adjustment is unspent general funds from the prior biennium, carried over pursuant to NDCC 54-44.1-11. These funds were designated for Bisek Hall (\$1,741,408) and extraordinary repairs (\$4,637).

Capital Improve Off System

The adjustment for the football complex renovation includes the \$1,350,000 transfer from capital assets and \$150,000 increase in special fund authority approved the Board of Higher Education.

Capital Project Off System Carryover

The adjustment for the Forker/Riley dorm renovation includes the prior biennium special fund authority carried over pursuant to NDCC 54-44.1-11.

Internal Control

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

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding capital construction and improvements.

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. 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 14, 2016.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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 ended June 30, 2015 (2013 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 expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC 1-08-02, 15-10-12).
- Fixed asset requirements were followed including surplus property and record keeping (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 06, 13, 18, 19, 20, 21, 22, 23, 25, 54-44.7).
- Conflict of interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

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

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

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota State College of Science in a management letter dated March 14, 2016.

Operations

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

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

We concluded that the operational objectives for capital improvement projects greater than \$250,000 was operating efficiently and effectively. However, we noted an insignificant matter involving operations that we have reported to management of the North Dakota State College of Science in a management letter dated March 14, 2016.

Management Letter (Informal Recommendations)

March 14, 2016

Dennis Gladen
Vice President for Administrative Affairs
North Dakota State College of Science
800 North 6th Street
Wahpeton, North Dakota 58076-0002

Dear Mr. Gladen,

We have performed an audit of the North Dakota State College of Science for the biennium ended June 30, 2015, 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 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.

NONCOMPLIANCE WITH THE UNCLAIMED PROPERTY ACT

Condition:

During our testing of unclaimed property we noted that the North Dakota State College of Science did not submit all outstanding checks that were dated two years old or prior as of 6/30/2015 to unclaimed property.

Criteria:

NDCC 47-30.1-02.1 Uncashed checks - part 1 states "...any checks held, issued, or owing in the ordinary course of the holder's business which remain uncashed by the owner for more than two years after becoming payable are presumed abandoned."

NDCC 47-30.1-17 Report and delivery of abandoned property - part 4 states "The report and property must be delivered by November first of each year for property deemed abandoned as of the preceding June thirtieth."

Cause:

There is a lack of compliance and familiarity with the Unclaimed Property Act.

Effect or Potential Effect:

The North Dakota State College of Science is not in compliance with NDCC 47-30.1-02.1 and NDCC 47-30.1-17.

Informal Recommendation 15-1:

We recommend the North Dakota State College of Science submit to unclaimed property outstanding checks that have been uncashed or shown no interest in for two years or more as of the fiscal year end in compliance with the Unclaimed Property Act.

North Dakota State College of Science's Response:

Agree. While NDSCS is familiar with the Unclaimed Property Act and intends to be compliant, there was an error in the remittance process for the period of 2015. NDSCS will implement a dual review process and be more diligent in the submittal process beginning immediately.

IMPROPER UTILIZATION OF A CLEARING ACCOUNT

Condition:

North Dakota State College of Science is improperly writing checks from the clearing account to replenish their till funds in the instance of a cash short.

Criteria:

NDCC 54-06-08.1 states in part that any check written on the clearing account may be used only to transfer funds to the Bank of North Dakota or the State Treasurer.

Cause:

Management has misinterpreted NDCC.

Effect or Potential Effect:

North Dakota State College of Science is not in compliance with NDCC and is increasing the risk of theft or loss.

Informal Recommendation 15-2:

We recommend the North Dakota State College of Science implement a process to ensure that checks written from the clearing accounts are only utilized to transfer funds to the Bank of North Dakota.

North Dakota State College of Science's Response:

Agree. NDSCS has reviewed and implemented a new process to ensure compliance with NDCC.

INADEQUATE MONITORING OF ACCESS ROLES

Condition:

We were unsuccessful in obtaining the documented results of North Dakota State College of Science's monitoring activities for access roles performed in fiscal year 2015, for the Financial and Human Capital Management 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 Financial and Human Capital Management Environments of PeopleSoft could be produced when requested.

Effect or Potential 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 15-3:

We recommend the North Dakota State College of Science continuously monitor the access roles to the Financial and Human Capital Management Environments of PeopleSoft to ensure:

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

North Dakota State College of Science's Response:

Agree. While NDSCS does a periodic review of Peoplesoft roles and responsibilities, NDSCS will more formally document the process at least annually beginning immediately in fiscal year 2016.

IMPROPER ACCOUNTING AND MONITORING OF CAPITAL IMPROVEMENT PROJECTS

Condition:

During our review of capital improvement projects at North Dakota State College of Science, we noted accounting and monitoring issues, specifically:

- The proper amount of retainage was not withheld for the remodel of the Hektner Student Center once the project reached 50% completion;
- No retainage was withheld for the Construction Manager at Risk Contract on the Old Main remodel;
- Retainage payable was not properly recorded as a liability at June 30, 2014 on the general ledger; and
- Improper capitalization of the Hektner Student Center Improvements.

Criteria:

NDCC 48-01.2-13, states in part: A partial payment estimate must include retentions or retainage as follows: ten percent of each estimate until the project is fifty percent completed with no further retainage on estimates during the continuance of the contract unless unsatisfactory progress or performance is documented. The governing body may, upon completion of ninety-five percent of the contract, pay to the contractor up to ninety-five percent of the amount retained from previous estimates.

NDUS Accounting Manual, page 28, states in part: Construction contracts typically will have a provision for an amount that is retained and paid at the end of the contract, after all final inspection of the work is completed. The cumulative amount the institution has retained on payments to contractors should be recorded in the accounting records at fiscal year-end.

State Fire and Tornado Fund policy manual defines covered property that is insured as an individual building along with completed additions and attached fixtures. The fund will pay for a direct loss or damage to the covered property.

NDCC 26.1-22-09 states in part: In each odd-numbered year, or upon application for insurance, the state board of higher education shall report to the commissioner the insurable value of each public building.

Cause:

North Dakota State College of Science's management was new to the delivery method for the remodel project and was unsure on how to account for capital improvements based on how the funding was received.

Effect or Potential Effect:

There is noncompliance with NDCC and the NDUS Accounting Manual.

Informal Recommendation 15-4:

We recommend that North Dakota State College of Science ensure that:

- Retainage is properly maintained and held for the life of the project;
- Retainage is properly recorded at year end as a liability on the general ledger; and
- Building additions/improvements are capitalized to the building where they occur.

North Dakota State College of Science's Response:

Agree. NDSCS will properly maintain and record retainage payable at year end June 30th, 2016. Also, NDSCS will be more diligent in the proper coding of the capitalization categories and buildings.

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,

A handwritten signature in cursive script that reads "Alex Mehring". The signature is written in black ink and is positioned above the printed name.

Alex Mehring, CPA
Auditor in-charge

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