

MAYVILLE  
STATE UNIVERSITY  
MAYVILLE, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2015

Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Senator Jerry Klein – Chairman  
Representative Chet Pollert – Vice Chairman***

Representatives

*Patrick Hatlestad  
Jerry Kelsh  
Keith Kempenich  
Lawrence R. Klemin  
Gary Kreidt  
Andrew G. Maragos  
Bob Martinson  
Corey Mock  
Mike Nathe  
Marvin E. Nelson  
Robert J. Skarphol*

Senators

*Judy Lee  
David O'Connell*

# Contents

---

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>5</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Analysis of Significant Changes in Operations</i>	<i>6</i>
<i>Analysis of Significant Variances - Budgeted and Actual Expenditures</i>	<i>6</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Net Position</i>	<i>7</i>
<i>Statement of Revenues, Expenses, and Changes in Net Position</i>	<i>8</i>
<i>Statement of Cash Flows</i>	<i>9</i>
<i>Statement of Appropriations</i>	<i>11</i>
<i>Internal Control</i>	<i>12</i>
<i>Compliance With Legislative Intent</i>	<i>13</i>
<i>Operations</i>	<i>14</i>
<i>Management Letter (Informal Recommendations)</i>	<i>15</i>



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO BRANCH OFFICE  
1655 43<sup>rd</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

---

March 10, 2016

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
North Dakota State Board of Higher Education  
Dr. Gary Hagen, President, Mayville State University

We are pleased to submit this audit of Mayville State University 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 Travis Klinkhammer, 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 Hagen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

Robert R. Peterson  
State Auditor

# *Executive Summary*

---

## *Introduction*

Since its establishment through the state constitution in 1889, Mayville State University is one of North Dakota's original colleges. Teachers Colleges (then called "Normal Schools") had grown rapidly since their introduction into the field of American higher education soon after the Civil War. The North Dakota Constitutional Convention of 1889 located sites for the nine original state institutions and funded them by a 30,000 acre land grant, leaving organization to the First Legislative Assembly. Classes of the Mayville Normal School began in 1890, with funds for a building (Old Main) provided by the Second Legislative Assembly in early 1891, where classes were initially held in 1893. Since then, Mayville State has steadily grown and progressed. In 1925, the State Board of Higher Education (SBHE) authorized Mayville State to grant a Bachelor of Arts in Education. The Mayville Normal School thus became a "teachers college," providing general education and offering a four-year degree. Successive additions strengthened the curriculum and, as enrollment grew, new buildings appeared. The institution's present name, Mayville State University, was approved by the legislature in 1987.

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 Mayville State University 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 containing two recommendations related to noncompliance with the Unclaimed Property Act and Allowance for Doubtful Accounts procedures was issued and included beginning on page 15 of this report, along with management's response. Management agreed with both recommendations.

### **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, Mayville State University changed accounting policies related to pensions by adopting GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. There were no management conflicts of interest 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 Mayville State University 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 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.*

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 the Mayville State University. 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 Mayville State University 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 Mayville State University's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to Mayville State University and are they in compliance with these laws?
3. Are there areas of Mayville State University's operations where we can help to improve efficiency or effectiveness?

## **Audit Scope**

This audit of the Mayville State University 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.

Mayville State University's sole location is its main campus in Mayville, which 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 Mayville State University'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 Mayville State University'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 Mayville State University were primarily supported by appropriations from the state's general fund. This was supplemented by student tuition and fees, federal grants and contracts, and auxiliary enterprises.

### ***Financial Summary***

Assets increased by \$3 million in fiscal year 2015 primarily due to an increase in capital assets for work done on the old gymnasium replacements project and campus wide drainage project. In fiscal year 2015, there was a due from the state general fund (\$1.2 million) in regards to reimbursements owed by the state for the construction progress made on the old gymnasium replacement project which also contributed to the asset increase.

Liabilities increased by \$1.7 million in fiscal year 2015 due to recording a pension liability. This was due to Mayville State University's implementation of GASB 68 relating to recognizing pension liabilities and expense and deferred outflows and inflows of resources.

Revenues for Mayville State University remained fairly constant except for state capital appropriations. State capital appropriations increased approximately \$2.6 million. This is due to one-time funding from the 2013 Legislature for the construction of the old gymnasium replacement project and the campus wide drainage project.

The increase in expenses for salaries and benefits reflected the general salary increases coupled with Mayville State University adding six new full-time positions in their Head Start program due to receiving a new federal grant, as well as adding three new full-time positions in their recently approved nursing program.

### ***Analysis of Significant Changes in Operations***

The Mayville State University received approval for Bachelor of Science in nursing program.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

Mayville State University did not have any significant variances for the general fund expenses as reflected on the statement of appropriations.

# Financial Statements

---

## Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,722,124	\$ 3,962,515
Investments	500,466	500,948
Accounts receivable, net	918,508	544,172
Due from other NDUS institutions	18,112	49,250
Due from component units	6,850	16,741
Due from state general fund	1,267,083	
Grants & contracts receivables, net	230,256	261,614
Inventories	257,793	257,421
Notes receivable, net	136,258	510,324
Other assets	140,540	100,063
Unamortized bond discount	44,339	47,380
Capital assets, net	27,376,135	25,378,404
<b>Total assets</b>	<u>\$ 34,618,464</u>	<u>\$ 31,628,832</u>
<b>Deferred outflows of resources</b>	\$ 372,922	\$ 22,797
<b>LIABILITIES</b>		
Accounts payable	\$ 1,128,132	\$ 531,533
Accrued payroll	908,048	792,040
Unearned revenue	259,201	256,570
Deposits	39,442	221,710
Other liabilities	28,046	
Due to others	10,587,867	11,151,732
Pension liability	1,684,741	
<b>Total liabilities</b>	<u>\$ 14,635,477</u>	<u>\$ 12,953,585</u>
<b>Deferred inflows of resources</b>	328,868	
<b>NET POSITION</b>		
Invested in capital assets	\$ 17,296,056	\$ 14,723,412
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	17,524	17,524
Expendable:		
Scholarships and fellowships	186,564	4,208
Institutional	328,962	332,173
Loans	571,989	545,202
Capital projects		(282,215)
Debt service	380,791	324,555
Unrestricted	1,245,155	3,033,185
<b>Total net position</b>	<u>\$ 20,027,041</u>	<u>\$ 18,698,044</u>

## Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2015</u> <u>June 30, 2014</u>	
<b>REVENUES AND OTHER ADDITIONS</b>		
State appropriations	\$ 7,326,424	\$ 7,038,000
Student tuition and fees	4,541,479	3,973,830
State appropriations-capital assets	3,643,678	1,022,396
Federal grants and contracts	2,771,491	4,007,975
Auxiliary enterprises	2,375,095	2,295,768
State and local grants and contracts	1,753,583	351,254
Sales and services of educational departments	959,806	855,417
Gifts	794,128	1,104,033
Tax Revenues	203,857	186,763
Investment income	134,249	127,364
Other	21,677	(23,219)
Capital grants and gifts	13,095	572,051
Nongovernmental grants and contracts	7,471	50,000
Local appropriations	4,066	
<b>Total revenues and other additions</b>	<u>\$ 24,550,099</u>	<u>\$ 21,561,632</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Salaries and wages	\$ 13,596,560	\$ 12,445,745
Operating expenses	3,958,402	4,147,693
Depreciation	1,452,878	1,239,641
Cost of sales and services	888,405	869,511
Interest on capital asset-related debt	542,494	594,505
Other nonoperating expenses	522,473	527,673
Scholarships and fellowships	393,109	473,668
Data processing	168,506	152,341
Loss on capital assets		3,804
<b>Total expenses and other deductions</b>	<u>\$ 21,522,827</u>	<u>\$ 20,454,581</u>
<b>Revenue over expenses</b>	\$ 3,027,272	\$ 1,107,051
<b>NET POSITION</b>		
Net position-beginning of year, as restated	<u>\$ 16,999,769</u>	<u>\$ 17,590,993</u>
Net position-end of the year	<u>\$ 20,027,041</u>	<u>\$ 18,698,044</u>

## Statement of Cash Flows

	June 30, 2015	June 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 4,561,663	\$ 4,010,238
Grants and contracts	3,140,512	3,027,461
Payments to suppliers	(4,446,936)	(4,754,545)
Payments to employees	(13,473,769)	(12,328,984)
Payments for scholarships and fellowships	(393,109)	(473,668)
Loans issued to students	(126,813)	(85,400)
Collection of loans to students	147,976	80,227
Auxiliary enterprise charges	2,356,617	2,287,765
Sales and service of educational departments	911,857	902,751
Cash paid on deposits	(175,680)	(8,733)
Other payments	(7,428)	(100,249)
<b>Net cash used by operating activities</b>	<b>\$ (7,505,110)</b>	<b>\$ (7,443,137)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 7,326,424	\$ 7,038,000
Grants and gifts received for other than capital purposes	2,205,228	2,453,293
Direct Lending Receipts	4,132,706	3,797,999
Direct Lending Disbursements	(4,117,854)	(3,774,574)
Agency fund cash increase (decrease)	27,036	(30,900)
Tax Revenues	203,857	186,763
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 9,777,397</b>	<b>\$ 9,670,581</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt		\$ 1,850,000
Capital appropriations	\$ 2,376,595	1,022,396
Capital grants and gifts received	13,095	572,052
Purchases of capital assets	(3,384,979)	(1,841,169)
Principal paid on capital debt and lease	(1,114,933)	(1,009,995)
Deposits with capital debt payment trustees		(1,766,470)
Interest paid on capital debt and lease	(536,721)	(626,952)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (2,646,943)</b>	<b>\$ (1,800,138)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	\$ 133,783	\$ 127,364
Purchase of investments	482	(8,592)
<b>Net cash provided by investing activities</b>	<b>\$ 134,265</b>	<b>\$ 118,772</b>
<b>Net (decrease) increase in cash</b>	<b>\$ (240,391)</b>	<b>\$ 546,078</b>
CASH - BEGINNING OF YEAR	3,962,515	3,416,437
CASH - END OF YEAR	<b>\$ 3,722,124</b>	<b>\$ 3,962,515</b>

(Continued on next page)

(Continued from previous page)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (9,438,358)	\$ (9,166,834)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	1,452,878	1,239,641
Other nonoperating revenues (expenses)	11,371	(76,717)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(16,657)	59,761
Grant & contract receivables	15,001	(32,508)
Inventories	(372)	(9,672)
Notes receivable	12,007	51,030
Other assets	(40,476)	50,219
Accounts payable and accrued liabilities adjusted for interest payable	549,753	208,085
Pension liability	260,713	
Net change in deferred outflows	(300,569)	
Net change in deferred inflows		
Accrued payroll	115,444	83,304
Compensated absences	47,203	33,458
Deferred revenue	2,631	125,832
Deposits	(175,680)	(8,733)
<b>Net cash used by operating activities</b>	<u>\$ (7,505,111)</u>	<u>\$ (7,443,134)</u>
 <b>SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS</b>		
Expenses paid by capital lease/special assessment	\$ 535,420	\$ 455,650
<b>Total non-cash transactions</b>	<u>\$ 535,420</u>	<u>\$ 455,650</u>

## Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 14,364,424		\$ 14,364,424	\$ 14,364,424	
Capital Assets	8,022,642	\$ 748,276	8,770,918	3,820,957	\$ 4,949,961
Capital Assets-Carryover		12,640	12,640	12,640	
Capital Proj-Off System - Carryover					
Northwest Hall Rehab		590,955	590,955	585,147	5,808
Agassiz Hall Renovation		19,339	19,339		19,339
Science Library Complex		5,473	5,473	1,204	4,269
<b>Totals</b>	<b>\$ 22,387,066</b>	<b>\$ 1,376,683</b>	<b>\$ 23,763,749</b>	<b>\$ 18,784,372</b>	<b>\$ 4,979,377</b>
<b>Expenses by source</b>					
General fund	\$ 22,387,066	\$ 760,916	\$ 23,147,982	\$ 18,198,021	\$ 4,949,961
Special fund		615,767	615,767	586,351	29,416
<b>Totals</b>	<b>\$ 22,387,066</b>	<b>\$ 1,376,683</b>	<b>\$ 23,763,749</b>	<b>\$ 18,784,372</b>	<b>\$ 4,979,377</b>

### Appropriation Adjustments:

#### Capital Assets

The adjustment for capital assets includes:

- \$340,043 transfer from the NDUS for the capital project contingency pool pursuant to 2013 SB 2003, section 24. \$95,559 was designated for campus drainage and \$244,484 for the old gymnasium replacement and improvements.
- \$408,233 transfer from the NDUS for the deferred maintenance allocation pursuant to 2013 SB 2003, section 21.

#### Capital Assets - Carryover

This was the unspent general fund authority from the prior biennium carried over pursuant to NDCC 54-44.1-11. These funds were designated for extraordinary repairs.

#### Capital Project-Off System-Carryover

The special fund authority for these projects was 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 the Mayville State University'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 Mayville State University in a management letter dated March 10, 2016.

## *Compliance With Legislative Intent*

---

In our audit for the biennium ended June 30, 2015, we identified and tested Mayville State University'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 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 expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC section 1-08-02, 15-10-12).
- Fixed asset requirements were followed including surplus property, record keeping and lease analysis requirements (NDCC 54-44-04.6, 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 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).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 13, 18, 19, 20, 21, 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 of employees (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 Mayville State University in a management letter dated March 10, 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 agency personnel?

We concluded the operational objectives for capital improvement projects greater than \$250,000 was operating efficiently and effectively.

## ***Management Letter (Informal Recommendations)***

---

March 10, 2016

Mr. Steven Bensen  
Vice President of Business Affairs  
Mayville State University  
330 Third Street NE  
Mayville, ND 58257

Dear Mr. Bensen:

We have performed an audit of the Mayville State University for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of the Mayville State University'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.

### **UNCLAIMED PROPERTY ACT**

**Condition:**

During our testing of unclaimed property, we noted Mayville State University did not comply with the Unclaimed Property Act for fiscal years 2014 and 2015 by submitting outstanding checks that had not been cashed or shown an interest in for two years or longer.

**Criteria:**

Per North Dakota Century Code (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." Also, per 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:**

There is non-compliance with NDCC 47-30.1-02.1 and NDCC 47-30.1-17.

**Informal Recommendation 15-1:**

We recommend Mayville State University 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 to be in compliance with the Unclaimed Property Act.

**Mayville State University Response:**

*Agree. The accountant is responsible to submit uncashed check to the North Dakota Unclaimed Property Division. The accountant will submit uncashed checks two or more years old after the fiscal year. Instead of one year old, which has been the current practice. This will be completed by November 2016.*

## ALLOWANCE FOR DOUBTFUL ACCOUNTS

**Condition:**

Mayville State University has been using percentages based on the aging category of the accounts receivable to estimate their allowance for doubtful accounts. In fiscal year 2015 and 2014, the allowance for doubtful accounts was \$406,063 and \$375,947, respectively. Also, we noted in fiscal years 2015 and 2014, Mayville State University only wrote off \$6,669 and \$12,530 of accounts receivable, respectively. It is our opinion that the estimate for the allowance for doubtful accounts is not based on prior results, percentages used are not relevant to the amounts actually written off, and/or accounts receivables are not being written off timely.

**Criteria:**

Generally accepted accounting principles dictate that the allowance for doubtful accounts should be based on relevant, sufficient, and reliable data. Also, an adequate review of the allowance calculation should be done to ensure the assumptions used to calculate the allowance are reasonable.

**Cause:**

Mayville State University has used the same percentages to record allowance for doubtful accounts for years, and has not re-evaluated the accuracy of the estimate.

**Effect or Potential Effect:**

The allowance for doubtful accounts and bad debt expense are potentially misstated.

**Informal Recommendation 15-2:**

We recommend Mayville State University evaluate the allowance for doubtful accounts to determine if the estimate is relevant, sufficient, and reliable.

**Mayville State University Response:**

*Agree. The Controller evaluates the allowance for doubtful accounts at year end. In FY2014, the percentage for 30+ days accounts was increased to 55.0% from 35.3%. Mayville State is in the process of setting up the system to write off student accounts. Once the student accounts are written off, the allowance account will be in line. The Controller plans to have the system set up in early FY2017 and start writing off student accounts.*

I encourage you to call me at 701-239-7294 or an audit manager at 701-239-7291 if you have any questions about the implementation of recommendations included in this letter.

Sincerely,



Travis Klinkhammer, CPA  
Auditor in-charge

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241