

MINOT STATE UNIVERSITY

MINOT, 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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STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

March 25, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. David Fuller, President, Minot State University

We are pleased to submit this audit of Minot State University 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 Mary Feltman, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Fuller 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

Minot State University is a regional, public institution located in the northwest region of North Dakota, serving students from Minot, the region, state, nation, and other countries. Undergraduate and graduate courses and programs are offered on campus and at a distance, through face-to-face, online, and alternative modes of delivery. Non-credit and professional training and experiences are offered to students and community members.

General studies and a variety of programs are offered in the arts and sciences, business, and education and health sciences. Offering more than 60 undergraduate majors and several graduate degrees, Minot State University has positioned themselves to meet growth in fields such as criminal justice, education, management, nursing, social work, the sciences, energy economics and finance, and management information systems.

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 Minot 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?

Yes, there were indications of a lack of efficiency in financial operations and management of Minot State University including "Inadequate Controls for Waiver Adjustments to Student Accounts" (page 13), and "Inadequate Controls Surrounding Student Enrollment Reporting" (page 14).

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

Recommendations included in the prior audit were implemented except "Controls surrounding Tuition Waivers" (page 16).

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 17 of this report, along with management's response to the three recommendations relative to controls over credit adjustments and residency determinations and segregation of duties surrounding credit adjustments.

LAFRC Audit Communications

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

None 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 Minot State University 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.*

Minot State University had no significant audit adjustments recorded during the fiscal year 2012 and 2013 audits of the North Dakota University System.

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 Minot 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 Minot State University 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 Minot State University'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 Minot State University and are they in compliance with these laws?
3. Are there areas of Minot State University's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of Minot State University is for the biennium ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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.

Minot State University's sole location is its Minot campus which 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.
- Tested potential improvements to operations.
- 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.
- Observed Minot 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 Minot 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, 2013, operations of Minot State University were primarily supported by appropriations from the state's general fund. This was supplemented by student tuition and fees and federal funding.

Financial Summary

Total assets decreased \$1.4 million in fiscal year 2013 due to various factors:

- Cash and cash equivalents increased \$2.1 million primarily due to the timing of plant items that were not reimbursed at June 30, 2012. In fiscal year 2012 there was a due from for \$3.98 million for Sodexo, Beaver Lodge, and University Heights remodels. They received these funds in fiscal year 2013 but only expended \$2.4 million. In addition, at June 30, 2012 they had a negative cash balance of \$622,000 that was not reimbursed at year end but was received in fiscal year 2013.
- Other assets decreased \$3.6 million because a due from other funds was recorded in fiscal year 2012 for Sodexo, Beaver Lodge, and University Heights remodels.

Total liabilities decreased \$6.3 million in FY13:

- Accounts payable decreased \$2.5 million for additional fiscal year 2012 capital improvement projects, primarily \$1.1 million for the Geothermal conversion project, \$854,000 for the Wellness center renovation, \$359,000 for ARRA energy improvements, and \$248,000 for a fiber network rebuild.
- Other noncurrent liabilities decreased \$4 million primarily because of the due to other funds for Sodexo, Beaver Lodge, and University Heights remodels.

Revenues decreased \$1.7 million in fiscal year 2013 primarily due to changes in state appropriations, federal grants and contracts, and capital grants and gifts. State appropriations increased \$1.6 million in fiscal year 2013 due to an increase in flood mitigation funds for the Beaver Lodge (\$2.5 million) and a decrease in funding for the Geothermal Conversion project (\$1.4 million). Federal grants and contracts decreased \$1.9 million because of grants received in fiscal year 2012 for the Great Plains Center (\$950,000) and Great Plains Autism Spectrum Disorders Treatment Program (\$840,000). Capital grants and gifts decreased \$1.3 million due to funding received in fiscal year 2012 for the Slaaten Center (\$572,000) and the Sodexo remodel (\$687,000). All other revenues remained fairly constant.

There were no significant changes in expenses between fiscal years 2013 and 2012.

Analysis of Significant Changes in Operations

Minot State University was approved to:

- offer an Early Childhood Special Education program certificate at a distance,
- offer a Deaf/Hard of Hearing Education program certificate at a distance,
- offer BSE in Early Childhood Education both traditionally and at a distance,
- offer a Special Education Strategist program certificate at a distance,

- offer a Learning Disabilities graduate program certificate both traditionally and at a distance, and
- New Program: Minor in Art History.

The North Dakota Center for Persons with Disabilities – a Minot State University Center of Excellence received a \$840,000 grant from the U.S. Department of Health and Human Services to support its work on autism spectrum disorders and to improve services for children and youth.

Minot State University received approval to carry forward a four-year grandfathering period through 2017-2018 for currently enrolled and admitted students enrolling through the fall of 2014 at the University, with the cutoff being the last day to enroll for the fall 2014 semester, and to permit the University to charge the in-state resident tuition rate to all students, regardless of residency status. All other students admitted in spring 2014, and thereafter, will be charged tuition rates according to the new rate schedule.

Analysis of Significant Variances - Budgeted and Actual Expenditures

There were no significant variances in budgeted and actual expenditures.

Financial Statements

Statement of Net Position

	June 30, 2013	June 30, 2012
ASSETS		
Cash & cash equivalents	\$ 16,667,656	\$ 14,587,455
Investments	4,230,944	4,221,835
Accounts receivable, net	845,519	923,696
Due from other NDUS institutions	85,132	110,974
Due from component unit	467,772	1,091,569
Due from state general fund	161,501	1,051,297
Grants and contracts receivables, net	1,285,909	2,437,981
Notes receivable, net	2,882,783	3,078,223
Unamortized bond discount and cost of issuance	270,545	284,101
Other assets	512,380	4,086,497
Capital assets, net	80,135,460	77,054,298
Total Assets	<u>\$ 107,545,601</u>	<u>\$ 108,927,926</u>
LIABILITIES		
Accounts payable	\$ 1,134,764	\$ 3,636,644
Due to component units	1,000	
Accrued payroll	2,406,359	2,117,726
Unearned revenue	1,238,983	801,650
Deposits	565,209	590,266
Other noncurrent liabilities		4,045,758
Due to others	15,194,973	15,668,530
Total Liabilities	<u>\$ 20,541,288</u>	<u>\$ 26,860,574</u>
NET POSITION		
Invested in capital assets	\$ 66,334,869	\$ 62,748,343
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	1,250,229	1,163,391
Expendable:		
Scholarships and fellowships	686,542	710,467
Research	4,330	4,204
Institutional	860,693	547,560
Loans	3,203,852	3,243,001
Debt service	916,249	904,650
Unrestricted	13,747,549	12,745,736
Total Net Position	<u>\$ 87,004,313</u>	<u>\$ 82,067,352</u>

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2013		June 30, 2012
REVENUES AND OTHER ADDITIONS			
State appropriations	\$ 24,779,415	\$	23,192,286
Student tuition and fees	13,900,069		14,296,228
Federal grants and contracts	9,034,208		10,923,685
Auxiliary enterprises	4,171,767		3,968,983
Gifts	1,674,621		1,598,879
Capital grants and gifts	1,520,348		2,847,087
State and local grants and contracts	1,382,889		1,377,650
Sales and services of educational departments	1,212,640		1,013,778
Nongovernmental grants and contracts	333,594		501,149
Investments income	152,146		103,708
Other revenue	78,428		68,753
Gain on capital assets	11,940		
Insurance proceeds			10,586
Total revenues and other additions	\$ 58,252,065	\$	59,902,772
EXPENSES AND OTHER DEDUCTIONS			
Salaries and wages	\$ 35,805,438	\$	35,971,791
Operating expenses	11,617,916		11,815,679
Depreciation	3,211,672		3,015,600
Scholarships and fellowships	1,417,196		1,638,955
Interest on capital asset-related debt	852,047		751,005
Data processing	408,683		476,682
Costs of sales and services	2,152		670
Loss on capital assets			5,031
Total expenses and other deductions	\$ 53,315,104	\$	53,675,413
Revenues over expenses	\$ 4,936,961	\$	6,227,359
NET POSITION			
Net position-beginning of the year	\$ 82,067,352	\$	75,839,993
Net position-end of the year	\$ 87,004,313	\$	82,067,352

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 37,271,353	\$ 3,067,621	\$ 40,338,974	\$ 40,338,974	
Capital Assets	21,784,175	(15,981,810)	5,802,365	4,734,164	\$ 1,068,201
Capital Assets Carryover		3,910,722	3,910,722	2,899,965	1,010,757
Capital Improvements- Off System					
Geothermal energy project		8,384,668	8,384,668	2,152,838	6,231,830
Landscape plan		800,000	800,000	14,257	785,743
Old Main class remodel		750,000	750,000	468,697	281,303
Resident apartments		3,500,000	3,500,000		3,500,000
Food Service remodel		1,500,000	1,500,000	1,286,229	213,771
Plant Services building		600,000	600,000	24,172	575,828
Capital Project-Off System- Carryover					
Student Wellness center		9,528,679	9,528,679	8,635,487	893,192
Totals	\$ 59,055,528	\$ 16,059,880	\$ 75,115,408	\$ 60,554,783	\$ 14,560,625
Expenses by source					
General fund	\$ 43,020,973	\$ 7,031,088	\$ 50,052,061	\$ 47,973,103	\$ 2,078,958
Special fund	16,034,555	9,028,792	25,063,347	12,581,680	12,481,667
Totals	\$ 59,055,528	\$ 16,059,880	\$ 75,115,408	\$ 60,554,783	\$ 14,560,625

Appropriation Adjustments:

Operating Expenses

The \$3,067,621 increase is comprised of \$567,621 equity transfer from the NDUS and \$2.5 million for flood recovery funding. The equity transfer was pursuant to 2011 HB 1003, section 6 and the flood recovery funding was pursuant to 2013 SB2003, section 30 and the emergency clause in 2013 SB1015, section 43.

Capital Assets

The reduction of \$15,981,810 is comprised of a decrease of \$15,534,668 to transfer special fund authority to the Capital Improvement-Off System line item, an increase of \$52,745 for a deficiency appropriation and a reduction of \$499,887 for prior biennium expenses of the Geothermal energy project. The transfer to the Off System line item was done because the funding is not received from the state but from other sources and reported separately. The deficiency appropriation was pursuant to 2013 HB1023.

Capital Improvements – Off System

\$15,534,668 was special fund authority transferred from the Capital Asset line for the Geothermal energy project (\$8,384,668), Landscape plan (\$800,000), Old Main class remodel (\$750,000), Resident apartments (\$3,500,000), Food Service remodel (\$1,500,000), and the Plant Services building (\$600,000).

Capital Improvements – Off System

The \$9,528,679 is special fund authority carried over from the prior biennium for the Student Wellness center pursuant to 54-44.1-11.

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of Minot State University's internal control as being the highest risk:

Internal Controls Subjected Review or Testing:

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

The criteria used to evaluate internal control 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.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested Minot 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 beginning July 1, 2011, and ending June 30, 2013 [11 HB 1003, chapter 3, section 2].
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Conflict of Interest (NDCC 12.1-13-03 and NDCC 48-01.2-08)
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- 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.

Operations

Our audit of Minot State University identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding tuition/fee waivers and enrollment reporting:

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

We also noted other matters involving credit adjustment and student residency operations that we have reported to management of Minot State University in a management letter dated March 25, 2014.

Inadequate Controls for Waiver Adjustments to Student Accounts (Finding 13-1)

Condition:

Minot State University grants various tuition waivers including waivers for employee spouse and dependents, international athletes, veteran spouse/dependent and cultural diversity students. Control procedures to ensure proper documentation for verifying student identity are not adequate for these waivers. Specifically, we noted the following conditions:

- Segregation of duties have not been developed to ensure the individual responsible for approving Great Plains and Cultural Diversity waivers does not apply credits to student accounts.
- Verifications of relationships are not being done on awarded Employee spouse/dependent waivers.
- The Cultural Diversity waivers (2) selected for testing did not meet the criteria. This error projected to \$151,787.
- Policies and criteria for International Athletic waivers have not been developed.

Criteria:

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

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

Cause:

Minot State University has not developed policies and procedures for awarding Great Plains, Employee Spouse and Dependents, Cultural Diversity, and International Athletic student waivers or considered the adequate segregation of duties surrounding Great Plains and Cultural Diversity waivers.

Effect or Potential Effect:

Possible improper waivers granted to students. Tuition waivers granted for Great Plains, Employee Spouse and Dependents, Cultural Diversity, International and Athletic students for the Fall 2011 term through March 2013 totaled approximately \$2,275,000.

Operational Improvement:

We recommend Minot State University strengthen controls surrounding tuition waivers by:

- Developing documented policies for awarding tuition waivers to Employee Spouse and Dependent, Cultural Diversity, and International Athletic students.
- Verifying relationships for waivers awarded to Employee Spouse/Dependent students.
- Ensuring approval of waivers is not completed by an individual responsible for applying credits to student accounts.

Minot State University's Response:

MSU agrees with the recommendation that we can strengthen controls. However, none of the waivers reviewed were granted improperly.

For the cultural diversity waivers, these students were approved for a waiver by the Athletic Director and the Financial Aid Office awarded a waiver at the approved amount. However, we acknowledge that an incorrect waiver code was used.

Documented policies for awarding the Employee Spouse/Dependent, Veteran Spouse/Dependent and Cultural Diversity waivers are established and followed. The International Athlete waiver has been discontinued.

The Employee Spouse/Dependent policy will be improved to require documentation of relationships.

In agreement with the recommendation, staff members responsible for approving Great Plains and Cultural Diversity waivers will not be responsible for applying the credits to the student accounts in the future.

Inadequate Controls Surrounding Student Enrollment Reporting (Finding 13-2)**Condition:**

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

- Policies and procedures have not been fully developed and documented to include course exclusions and enrollment reporting.
- Segregation of duties have not been developed to ensure the course exclusion table is reviewed by an individual independent of notifying the University System technical specialists of revisions to the table and knowledgeable of course set up.
- Segregation of duties have not been developed to ensure the enrollment reports are reviewed by an individual independent of preparation

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:

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

Effect or Potential Effect:

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

Operational Improvement:

We recommend Minot State University strengthen controls surrounding student enrollment reporting to:

- Develop documented policies and procedures including course exclusions and enrollment reporting.
- Segregate duties to ensure
 - the course exclusion table is reviewed by an individual knowledgeable of course set up and independent of notifying the University System of revisions.
 - enrollment reporting to the SBHE and IPEDS is reviewed by an individual independent of preparation.

Minot State University's Response:

We agree with the recommendation to develop more robust policies and procedures. However, course exclusion options are set behind the scenes by CTS staff (formerly SITS). In addition, two independent offices—Institutional Research (IR) and Registrar—verify data for enrollment and IPEDS reports. All enrollment reports and cohorts are independently confirmed by both the IR Office and the Registrar's Office prior to being frozen in ConnectND. All IPEDS data is entered by the IR Office utilizing validated and frozen census enrollment reports.

The campus will ensure that both the Registrar & IR offices review and maintain the non-degree table, which includes developmental courses not reported in the NDUS enrollment reports.

Prior Recommendation Not Implemented

The following prior recommendation has not been implemented:

Controls Surrounding Tuition Waivers (Finding 11-1)

Recommendation:

We recommend Minot State University strengthen tuition waiver controls to:

- Develop documented awarding policies and procedures;
- Develop documented waiver eligibility and award criteria and selection methods;
- Implement application forms;
- Require and obtain proof of age and economic hardship prior to awards;
- Ensure review and approval by an independent individual;
- Develop documented monitoring policies and procedures; and,
- Verify amounts posted to student accounts by an independent individual, on a test basis, for proper support and authorization.

Status:

Minot State University grants various tuition waivers including waivers for employee spouse and dependents, International Athletes, veteran spouse/dependent, and cultural diversity students. Control procedures to ensure proper documentation for verifying student identify are not adequate for these waivers. Specifically, we noted the following conditions:

- Segregation of duties have not been developed to ensure the individual responsible for approving Great Plains and Cultural Diversity waivers does not apply credits to student accounts.
- Verifications of relationships are not being done on awarded Employee spouse/dependent waivers.
- The Cultural Diversity waivers (2) selected for testing did not meet the criteria. This error projected to \$151,787.
- Policies and criteria for International Athletic waivers have not been developed.

For additional information see "Inadequate Controls for Waiver Adjustments to Student Accounts" (page 13).

Management Letter (Informal Recommendations)

March 25, 2014

Mr. Brian Foisy
Vice President for Administration and Finance
Minot State University
500 University Avenue West
Minot, North Dakota 58707

Dear Mr. Foisy:

We have performed an audit of Minot State University for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of Minot 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 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.

INADEQUATE CONTROLS FOR CREDIT ADJUSTMENTS TO STUDENT ACCOUNTS

Condition:

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

- Processing and monitoring processes and procedures for library and parking fee credit adjustments are not documented.
- Support documentation for non-cash credit adjustments was not maintained on file.

Criteria:

State Board of Higher Education Policy 830.2, Refund Policy, directs each institution to adopt written procedures for institutional charges to comply with requirements of federal law and

implementing regulations and the refund policy concerning refunds to students. Institutional charges is defined in the refund policy as tuition, fees, room, board, and other education-related charges assessed the student by the institution.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Cause:

Minot State University has not adequately developed and implemented policies and procedures for processing library and parking fee credits to student accounts.

Effect or Potential Effect:

Minot State University lacks assurance regarding the propriety of library and parking fee credit adjustments recorded to student accounts and erroneous adjustments could be recorded without detection. Furthermore, unauthorized and improper refund payments could be processed without detection. During fiscal year 2012 and 2013 (through March 2013), library and parking fee credit adjustments recorded to student accounts totaled approximately \$11,000.

Informal Recommendation 13-1:

We recommend Minot State University strengthen controls for non-cash adjustments posted to student accounts to:

- Develop documented processing and monitoring policies and procedures;
- Ensure support documentation is maintained for all non-cash credit adjustments.

Minot State University's Response:

Minot State University agrees. We will document processes and procedures for all non-cash credit adjustments. Included in the procedures will be the requirement of maintaining support documentation for each non-cash credit adjustment. These procedures will be documented by December 31, 2014.

INADEQUATE CONTROLS FOR STUDENT RESIDENCY DETERMINATIONS

Condition:

Proper controls have not been established for student residency determinations and subsequent changes to student residency status. Consequently, initial student residency determinations could be inaccurate or unauthorized changes could be recorded without detection. Specifically, we noted the following conditions:

- Policies have not been developed and documented to include required supporting documentation and periodic assessment of residency reports.
- Proper proof of residency status is not required for older than average students and students that obtained a general equivalency diploma.
- Changes to residency status are not approved by an individual independent of recording changes in residency status. The Business Accounts Manager approves changes and has access to change residency within electronic records.
- Verification of residency changes to supporting documents is not performed by an independent individual.
- Residency reports are not reviewed by an independent individual to identify data errors and other anomalies such as in-state residency with out-of-state addresses.

Criteria:

Criteria for determination of residency for tuition purposes is governed by the State Board of Higher Education policy 504 and NDCC 15-10-19.1.

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:

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

Effect or Potential Effect:

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

Informal Recommendation 13-2:

We recommend Minot State University strengthen student residency controls to:

- Develop documented policies for student residency determination and changes;
- Require, obtain, and compare proof of residency status for all students;
- Ensure review and approval of student residency changes by an independent individual;
- Verify student residency status by designating an independent individual review reports of student residency changes for proper support and authorization; and,
- Review of residency reports by an independent individual to identify data errors or other anomalies.

Minot State University's Response:

MiSU agrees. MiSU follows NDUS policies for determining residency. As part of the process, MiSU maintains supporting documentation for the changes. The duty of approval of residency changes will be performed by an individual independent of the person recording the changes. After the system has been updated, verification will be performed by the person who approved the change. This change will be made by June 30, 2014.

LACK OF SEGREGATION OF DUTIES SURROUNDING CREDIT ADJUSTMENTS TO STUDENT ACCOUNTS**Condition:**

Minot State University has not developed proper procedures to ensure non-cash credit adjustments are posted to student accounts by an individual that does not have access to cash. The Student Account Analyst posts to student accounts and has access to cash.

Criteria:

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

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Cause:

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

Effect or Potential Effect:

Minot State University assurance regarding the propriety of cash collections and non-cash credit adjustments recorded to student accounts. Unauthorized and improper credits could be applied to student accounts. During fiscal year 2012 and 2013 (through March 2013), non-cash credit adjustments recorded to student accounts totaled approximately \$2.4 million.

Informal Recommendation 13-3:

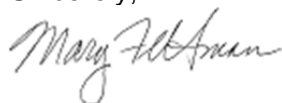
We recommend Minot State University strengthens controls to ensure non-cash credit adjustments are recorded to student accounts by an individual independent of access to handle cash.

Minot State University's Response:

MiSU agrees. MiSU will strengthen its controls to ensure that an individual without access to cash processes non-cash adjustments. This change will be made by June 30, 2014.

I encourage you to call myself at 701-239-7290 or an audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Mary Feltman
Auditor in-charge

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

(701) 328-2241