

MINOT STATE UNIVERSITY

MINOT, 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

February 17, 2016

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

We are pleased to submit this audit of Minot 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 Mary Feltman, 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 Shirley 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?

No.

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

Yes, all recommendations from the prior audit were implemented.

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, Minot State University 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 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.

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, 2015 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, 2015. 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 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 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.
- 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, 2015, 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 increased \$8 million in fiscal year 2015 due to various factors:

- Cash and cash equivalents increased \$6 million primarily due to a \$3.3 million bond refunding and \$1 million remaining of a \$3 million local appropriation from the city of Minot for the athletic facility renovation. The remaining amount of the increase was due to the timing of state appropriations.
- Capital assets increased \$3.5 million primarily due to construction in progress for the press box, plant building, and flood projects.

Total liabilities increased \$7 million in fiscal year 2015:

- Pension liability was recorded in fiscal year 2015 for \$3.5 million due to Minot State University implementing GASB 68 relating to recognizing pension liabilities and expense and deferred outflows and inflows of resources.
- Due to others increased \$3.3 million from the bond refunding discussed above. They received the funds in fiscal year 2015 but the bond was not callable until fiscal year 2016, resulting in an increase in cash and due to others.

Revenues increased \$4 million in fiscal year 2015 primarily due to \$2.3 million local appropriation from the city of Minot for the athletic facility renovation with the remainder due to the timing of state appropriations. All other revenues remained fairly constant.

Total expenses for Minot State University were \$56,640,132 for the year ended June 30, 2015 as compared to \$57,198,120 for the prior year. All expenses remained fairly constant.

Analysis of Significant Changes in Operations

Minot State University was approved to:

- Terminate a B.S.Ed. with a major in Education of the Deaf, effective spring 2015.
- Terminate the B.S.E. with a request for termination at the BSC Campus; effective March 2014.

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, 2015	June 30, 2014
ASSETS		
Cash & cash equivalents	\$ 22,351,537	\$ 16,237,470
Investments	1,399,660	1,856,935
Accounts receivable, net	654,844	1,321,955
Due from other NDUS institutions	199,127	165,453
Due from component unit	591,730	556,165
Due from state general fund	144,266	67,987
Grants and contracts receivables, net	1,044,896	1,527,786
Notes receivable, net	2,631,886	2,763,895
Unamortized bond discount	5,354	
Other assets	42,872	65,621
Capital assets, net	85,540,181	81,954,354
Total assets	\$ 114,606,353	\$ 106,517,621
Deferred outflows of resources	\$ 657,131	
LIABILITIES		
Accounts payable	\$ 1,136,868	\$ 1,129,774
Accrued payroll	2,241,711	2,144,809
Unearned revenue	1,187,683	652,024
Deposits	723,964	663,502
Pension liability	3,446,702	
Other noncurrent liabilities	(2,300)	72,922
Due to others	17,945,359	14,939,123
Total liabilities	\$ 26,679,987	\$ 19,602,154
Deferred inflows of resources	\$ 672,810	
NET POSITION		
Invested in capital assets	\$ 68,729,253	\$ 68,211,560
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	33,775	40,000
Expendable:		
Scholarships and fellowships	890,163	846,042
Institutional	589,920	865,687
Loans	3,126,739	3,137,763
Debt service	4,629,438	883,796
Unrestricted	9,911,399	12,930,619
Total net position	\$ 87,910,687	\$ 86,915,467

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2015	June 30, 2014
REVENUES AND OTHER ADDITIONS		
State appropriations	\$ 22,915,106	\$ 21,395,105
Student tuition and fees	14,153,131	14,741,543
Federal grants and contracts	8,067,536	8,575,462
Auxiliary enterprises	4,209,525	4,330,493
State appropriations-capital assets	3,796,288	1,950,302
Local appropriations	2,305,344	694,640
Sales and services of educational departments	1,976,214	1,573,569
Gifts	1,670,276	1,614,330
State and local grants and contracts	1,415,213	1,502,916
Capital grants and gifts	461,747	697,063
Nongovernmental grants and contracts	294,588	320,129
Other	91,534	74,230
Investment income	40,204	(89,965)
Insurance proceeds	7,829	
Total revenue and other additions	\$ 61,404,535	\$ 57,379,817
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 37,776,346	\$ 36,876,446
Operating expenses	12,746,553	14,489,967
Depreciation	3,759,665	3,249,885
Scholarships and fellowships	1,057,787	1,275,533
Interest on capital asset-related debt	644,410	830,429
Data processing	521,663	453,745
Other nonoperating expenses	114,265	1,104
Loss on capital assets	19,443	20,391
Cost of sales and services		620
Total expenses and other deductions	\$ 56,640,132	\$ 57,198,120
Revenues over expenses	\$ 4,764,403	\$ 181,697
NET POSITION		
Net position-beginning of the year, as restated	\$ 83,146,284	\$ 86,733,770
Net position-end of the year	\$ 87,910,687	\$ 86,915,467

Statement of Cash Flows

	June 30, 2015	June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 14,974,585	\$ 13,965,683
Grants and contracts	6,907,481	7,589,177
Payments to suppliers	(13,018,012)	(14,533,053)
Payments to employees	(37,942,145)	(37,057,024)
Payments for scholarships and fellowships	(1,057,787)	(1,275,533)
Loans issued to students	(624,826)	(459,745)
Collection of loans to students	689,214	435,700
Auxiliary enterprise charges	4,257,334	4,313,178
Sales and service of educational departments	2,199,829	1,070,744
Cash received on deposits	7,294	41,521
Other receipts (payments)	(195,443)	342,263
Net cash used by operating activities	\$ (23,802,476)	\$ (25,567,089)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 22,915,106	\$ 21,395,105
Local appropriations	2,305,344	
Grants and gifts received for other than capital purposes	5,019,565	4,879,881
Direct lending receipts	8,251,995	9,326,541
Direct lending disbursements	(8,230,698)	(9,324,259)
Agency fund cash increase	65,686	9,031
Net cash flows provided by noncapital financing activities	\$ 30,326,998	\$ 26,286,299
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 3,305,000	
Capital appropriations	3,720,009	\$ 2,043,816
Capital grants and gifts received	461,745	697,061
Purchases of capital assets	(7,366,328)	(5,049,394)
Insurance proceeds	7,829	
Principal paid on capital debt and lease	(346,252)	(335,830)
Interest paid on capital debt and lease	(695,058)	(829,481)
Net cash used by capital and related financing activities	\$ (913,055)	\$ (3,473,828)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	\$ 457,275	\$ 2,268,446
Interest on investments	45,326	55,986
Net cash provided by investing activities	\$ 502,601	\$ 2,324,432
Net increase (decrease) in cash	\$ 6,114,068	\$ (430,186)
Cash-Beginning of Year	\$ 16,237,469	\$ 16,667,656
Cash-End of Year	\$ 22,351,537	\$ 16,237,470

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	<u>June 30, 2015</u>	<u>June 30, 2014</u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (28,931,652)	\$ (27,782,045)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	3,759,665	3,249,885
Other nonoperating expenses	(309,724)	(198,727)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	571,062	(713,570)
Grant & contract receivables	407,521	(255,137)
Notes receivable	132,009	118,888
Other assets	22,748	730,980
Accounts payable and accrued liabilities adjusted for interest payable	168,740	8,653
Pension liability	238,584	
Net change in deferred outflows	(545,384)	
Accrued payroll	88,015	(253,072)
Compensated absences	52,987	72,494
Deferred revenue	535,659	(586,958)
Deposits	7,294	41,521
Net cash used by operating activities	<u>\$ (23,802,476)</u>	<u>\$ (25,567,089)</u>

**SUPPLEMENTAL DISCLOSURE ON NON-CASH
TRANSACTIONS**

Assets acquired through capital lease	\$	7,485
Net decreases in value of investments		(105,563)
Total non-cash transactions	<u>\$</u>	<u>(98,078)</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	\$ 46,310,211	\$ (199,421)	\$ 46,110,790	\$ 46,110,790	
Capital Assets	14,432,215	(10,894,669)	3,537,546	1,865,651	\$ 1,671,895
Capital Assets Carryover		2,078,959	2,078,959	2,078,959	
Capital Improvements - Off System					
Plant Services building		1,785	1,785		1,785
Athletic Facilities reno		11,620,961	11,620,961	4,141,978	7,478,983
Capital Off System - Carryover					
Geothermal energy project		6,234,555	6,234,555	648	6,233,907
Landscaping		745,134	745,134		745,134
Student Wellness center		893,192	893,192	57,821	835,371
Totals	\$ 60,742,426	\$ 10,480,496	\$ 71,222,922	\$ 54,255,847	\$ 16,967,075

Expenses by source

General fund	\$ 48,940,641	\$ 2,786,654	\$ 51,727,295	\$ 50,055,400	\$ 1,671,895
Special fund	11,801,785	7,693,842	19,495,627	4,200,447	15,295,180
Totals	\$ 60,742,426	\$ 10,480,496	\$ 71,222,922	\$ 54,255,847	\$ 16,967,075

Appropriation Adjustments:

Operating Expenses

The adjustment of (\$199,421) includes a decrease of \$2,500,000 pursuant to 2013 SB 2003 section 30 for flood recovery funding that was given to the university in fiscal year 2013; an increase of \$1,800,579 deficiency appropriation pursuant to 2015 SB 2023 and a \$500,000 transfer from the NDUS for the performance funding pool pursuant to 2015 HB 1003 sections 33. The latter two sections were emergency measures.

Capital Assets

The reduction of \$10,894,669 is comprised of a decrease of \$11,801,785 to transfer special fund authority to the Capital Improvement-Off System line item, and increase of \$830,318 from the NDUS for deferred maintenance allocation and an increase of \$76,798 from the NDUS for capital projects contingency pool. 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 deferred maintenance allocation transfer was pursuant to 2013 SB 2003, section 21 and the capital projects contingency pool transfer was pursuant to 2013 SB 2003, section 24.

Capital Assets Carryover

The \$2,078,959 increase is the unspent general fund carryover from the prior biennium pursuant to 54-44.1-11.

Capital Improvements – Off System

\$11,622,746 was comprised of special fund authority transferred from the Capital Asset line for the plant services building (\$1,785); and athletic facilities renovation (\$11,800,000). There was also a reduction of \$179,039 for prior year expenses for the athletic facilities renovation.

Capital – Off System Carryover

The \$7,872,881 is special fund authority carried over from the prior biennium for the geothermal energy project (\$6,234,555); landscaping (\$745,134); wellness center (\$893,192); and plant services building (\$893,192), pursuant to 54-44.1-11.

Internal Control

In our audit for the biennium ended June 30, 2015, 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.
- 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 a matter involving internal control that we have reported to management of Minot State University in a management letter dated February 17, 2016.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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 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, 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, 44-08-01).
- Capital Construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 06, 07, 09, 10, 13, 18, 21, 22, 23, 25, 54-44.7).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

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

The results of our tests disclosed 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 a certain inconsequential or insignificant instances of non-compliance that we have reported to management of Minot State University in a management letter dated February 17, 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 Minot State University in a management letter dated February 17, 2016.

Management Letter (Informal Recommendations)

February 17, 2016

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

Dear Mr. Winiger:

We have performed an audit of Minot 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 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.

TRANSFERS TO THE BANK OF NORTH DAKOTA

Condition:

Minot State University is not transferring money from the clearing account to the Bank of North Dakota on a monthly basis.

Criteria:

Article X. Section 12, part 1 of the ND Constitution states that all public moneys, from whatever source derived, shall be paid over monthly by the public official, employee, agent, director, manager, board, bureau, or institution of the state receiving the same, to the State Treasurer, and

deposited by him to the credit of the state, and shall be paid out and disbursed only pursuant to appropriation first made by the legislature.

Cause:

Client had not completed reconciliations necessary to determine amounts to be transferred.

Effect or Potential Effect:

They are not in compliance with the ND Constitution.

Informal Recommendation 15-1:

We recommend Minot State University transfer money from the clearing account to the Bank of North Dakota at least monthly.

Minot State University's Response:

Agree. Recommendation was implemented immediately. MiSU assigned an additional employee to assist with the process to ensure transfers are made monthly.

INADEQUATE CONTROLS OVER CAPITAL IMPROVEMENTS

Condition:

We noted the following while reviewing the Athletic Facility Renovation (Press Box) capital improvement project:

- The contract amount for phase II of the project was increased with an unapproved change order totaling \$3,037; and
- No retainage was withheld for phase I of the capital improvement project.

Criteria:

NDCC 48-01.2-13, states in part that a partial payment estimate must include retentions or retainage as follows: 10% of each estimate until the project is 50% 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 95% of the contract, pay to the contractor up to 95% of the amount retained from previous estimates. The remaining amount retained must be paid to the contractor in the amounts and at the times approved by the architect or engineer. The governing body shall make final payment of all moneys due to the contractor following completion of all work, acceptance of the project by the governing body, and the provision of necessary releases.

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

Cause:

Too much reliance is put into the managing firm of the capital improvement project, thus lowering the monitoring controls at Minot State University.

Effect or Potential Effect:

Inadequate controls surrounding the monitoring of capital projects can unnecessarily increase the cost of the project, misstate the financial statements, and increase the risk of fraud, waste, and abuse.

Informal Recommendation 15-2:

We recommend Minot State University:

- Monitor change orders to ensure that all change orders are documented and signed by all the appropriate personnel before allowing the contract amount to be adjusted;
- Ensure that the proper retainage is withheld.

Minot State University's Response:

Agree. The facilities management company, Advanced Facilities Services (AFS), hired by MSU will monitor all change orders and will ensure that proper retainage is withheld.

INADEQUATE MONITORING OF ACCESS ROLES

Condition:

We were unsuccessful in obtaining the documented results of Minot State University's monitoring activities for access roles performed in fiscal year 2015, for the Financial, Human Capital Management, and Campus Solutions Environments of PeopleSoft.

Criteria:

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

Cause:

No documented review of Financial, Human Capital Management, and Campus Solution 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 Minot State University continuously monitor the access roles to the Financial, Human Capital Management, and Campus Solutions Environments of PeopleSoft to ensure:

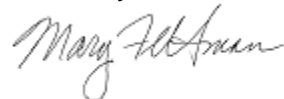
- the proper level of access is granted and/or removed in a timely manner to warrant proper segregation of duties; and
- one of these continuous monitoring of access roles be documented at least yearly.

Minot State University's Response:

Agree. MiSU will develop a method of documenting role reviews in the three Peoplesoft environments by June 30, 2016.

I encourage you to call me at 701-239-7290 or an audit manager at 701-239-7291 if you have any questions about the implementation of recommendations included in this letter.

Sincerely,



Mary Feltman, CPA
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
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