

VALLEY CITY STATE  
UNIVERSITY

VALLEY CITY, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2013

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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March 25, 2014

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

We are pleased to submit this audit of Valley City 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 Robyn Hoffmann, 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 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 that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## ***Introduction***

Valley City State University (VCSU) is a public, regional university offering exceptional programs in an active, learner-centered community that promotes meaningful scholarship, ethical service, and the skilled use of technology. As an important knowledge resource, VCSU offers programs and outreach that enrich the quality of life in North Dakota and beyond. Through flexible, accessible, and innovative baccalaureate and master's programs, VCSU prepares students to succeed as educators, leaders, and engaged citizens in an increasingly complex and diverse society.

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 Valley City 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 Valley City State University including: Inadequate Controls for Bookstore Credit Adjustments to Student Accounts (page 13); Inadequate Controls Surrounding Tuition and Fee Waivers (page 14); Inadequate Controls Surrounding Student Enrollment Reporting (page 15); and Inadequate Controls for Student Residence Determination (page 17).

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

There were no recommendations included in the prior audit report.

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

Yes, a management letter was issued which included three recommendations regarding support for team travel, cash/revenue controls, and credit adjustments to student accounts and is included on page 20 of this report, along with management's positive 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.*

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 Valley City 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 they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All significant audit adjustments we proposed for Valley City State University were recorded during the fiscal years 2013 and 2012 North Dakota University System audits. These adjustments involved the crossover refunding in fiscal year 2013 and net assets in fiscal year 2012 and can be seen in the fiscal years 2013 and 2012 NDUS audit reports.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

*14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Campus Solutions are high-risk information technology systems critical to Valley City State University. No exceptions related to the operations of an information technology system were noted.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

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

## ***Audit Scope***

This audit of Valley City 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 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.

Valley City State University's sole location is its main campus in Valley City 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 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 walk-throughs in all program areas documenting client procedures.
- Interviewed appropriate agency personnel.



- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Valley City 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***

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The accompanying financial statements have been prepared in a condensed form to present Valley City State University's financial position and results of operations in a manner similar to that used for financial reporting in the private sector and do not include note disclosures. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

### ***Financial Summary***

Assets increased by \$7 million in fiscal year 2013 primarily due to an increase in cash of \$1.5 million and capital assets of \$5.8 million. The increase in cash is due to cash in escrow at US Bank for the Series 2013 Housing and Auxiliary Facilities Refunding Revenue Bonds that were let in June 2013, but not called until July 1, 2013. The increase in capital assets is due to construction for the Rhoades Science Center.

Liabilities increased by \$1.5 million in fiscal year 2013 primarily due to a \$1 million decrease in accounts payable and a \$2.5 million increase in due to others. The decrease in accounts payable is due to the timing of payments between the fiscal years. The increase in due to others is because of new Housing and Auxiliary Facilities Refunding Revenue Bond let in June.

Revenues for Valley City State University remained fairly constant except state appropriations. State appropriations (which comprise 52% of total revenues) increased approximately \$2.8 million. This increase is due mainly to general fund appropriations received in 2013 for the Rhoades Science Center renovation project.

Expenses remained fairly constant between fiscal year 2013 and 2012.

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

Valley City State University added the following:

- New major in Medical Laboratory Science both traditionally and at a distance;
- New program for a B.S. in Athletic Training;
- Major in Software Engineering;
- Program Approval and Distance Learning Credit Activities – Concentration in Elementary Education with M. Ed. Program; and
- Program Approval and Distance Learning Credit Activities – Concentration in English Education with M. Ed. Program.

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

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

# Financial Statements

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## Statement of Net Position

	June 30, 2013	June 30, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,591,432	\$ 3,006,627
Investments	2,740,183	2,807,509
Accounts receivable, net	746,529	163,312
Due from component units	113,129	99,010
Receivable from other NDUS institutions	34,120	
Due from state general fund	180,375	855,950
Grants & contracts receivables, net	229,317	360,943
Inventories	159,466	159,361
Notes receivable, net	678,453	658,416
Other assets	75,361	94,948
Unamortized bond discount	149,329	178,665
Capital assets, net	20,828,713	14,999,721
<b>Total Assets</b>	<b>\$ 30,526,407</b>	<b>\$ 23,384,462</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 196,709	\$ 1,272,889
Accrued payroll	938,917	843,713
Unearned revenue	339,007	331,233
Deposits	166,956	163,084
Due to others	9,517,888	7,043,160
<b>Total Liabilities</b>	<b>\$ 11,159,477</b>	<b>\$ 9,654,079</b>
<b>NET POSITION</b>		
Invested in capital assets	\$ 11,925,341	\$ 8,592,638
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	498,762	508,763
Expendable:		
Scholarships and fellowships	197,748	102,007
Institutional	656,051	530,338
Loans	682,174	681,857
Debt service	2,852,052	335,690
Other	310,555	245,507
Unrestricted	2,244,247	2,733,583
<b>Total Net Position</b>	<b>\$ 19,366,930</b>	<b>\$ 13,730,383</b>

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>REVENUES AND OTHER ADDITIONS</b>		
State appropriations	\$ 15,237,641	\$ 12,392,029
Student tuition and fees	5,602,656	5,534,220
Auxiliary enterprises	2,349,418	2,512,284
Federal grants and contracts	2,339,792	2,737,872
Gifts	1,110,358	1,308,414
Sales and services of educational departments	378,113	341,775
Investments income	296,917	171,432
Nongovernmental grants and contracts	252,500	372,933
State and local grants and contracts	91,713	34,021
Gain on capital assets	24,688	14,343
Other	13,090	13,368
Insurance Proceeds	12,586	22,960
<b>Total revenues and other additions</b>	<u>\$ 27,709,472</u>	<u>\$ 25,455,651</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Salaries and wages	\$ 13,904,548	\$ 13,351,713
Operating expenses	5,299,677	6,251,225
Depreciation	914,005	1,010,234
Scholarships and fellowships	716,773	647,716
Cost of sales and services	465,749	561,942
Data processing	368,603	459,743
Interest on capital asset-related debt	280,137	408,732
Other nonoperating expenses	123,433	
<b>Total expenses and other deductions</b>	<u>\$ 22,072,925</u>	<u>\$ 22,691,305</u>
<b>Revenue over expenses</b>	<u>\$ 5,636,547</u>	<u>\$ 2,764,346</u>
<b>NET POSITION</b>		
Net Position-beginning of the year	\$ 13,730,383	\$ 10,966,037
Net Position-end of the year	<u>\$ 19,366,930</u>	<u>\$ 13,730,383</u>

## Statement of Appropriations

### For The Biennium Ended June 30, 2013

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	\$ 17,405,738	\$ 289,003	\$ 17,694,741	\$ 17,694,741	
Capital Assets	11,771,735	(1,015,000)	10,756,735	9,482,054	\$ 1,274,681
Capital Assets-Carryover		452,875	452,875	452,875	
Capital Improvement - Off System					
Rhoades Science Center		200,000	200,000		200,000
Lokken Field Turf Project		815,000	815,000	755,526	59,474
Capital Project Off System - Carryover					
Snoeyenbos Renovation		458,983	458,983	453,344	5,639
<b>Totals</b>	<b>\$ 29,177,473</b>	<b>\$ 1,200,861</b>	<b>\$ 30,378,334</b>	<b>\$ 28,838,540</b>	<b>\$ 1,539,794</b>
<b>Expenses by source</b>					
General fund	\$ 28,162,473	\$ 741,878	\$ 28,904,351	\$ 27,629,670	\$ 1,274,681
Special fund	1,015,000	458,983	1,473,983	1,208,870	265,113
<b>Totals</b>	<b>\$ 29,177,473</b>	<b>\$ 1,200,861</b>	<b>\$ 30,378,334</b>	<b>\$ 28,838,540</b>	<b>\$ 1,539,794</b>

### Appropriation Adjustments:

#### Operating Expenses

The \$289,003 appropriation increase was an equity transfer from the NDUS pursuant to 2011 HB1003, section 6.

#### Capital Assets

\$1,015,000 was special fund authority transferred to the Capital Improvement – Off System line as funding for these projects will not be received from the state but from other sources. The expenditures for these projects are reported separately to OMB. This special fund authority was appropriated in 2011 HB 1003.

#### Capital Assets - Carryover

The \$452,875 increase was the prior biennium unspent general fund carried over pursuant to NDCC 54-44.1-11.

#### Capital Improvement – Off System

The special fund authority transferred from the Capital Asset line is for the Rhoades Science Center (\$200,000) and the Lokken Field Turf Project (\$815,000).

#### Capital Project – Off System - Carryover

The \$458,983 appropriation increase is the unspent special fund authority for the Snoeyenbos Renovation project that was carried over pursuant to NDCC 54-44.1-11.

## ***Internal Control***

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

### ***Internal Controls Subjected to Review or Testing:***

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of 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. However, we noted other matters involving internal control that we have reported to management of Valley City State University in a management letter dated March 25, 2014 included in this report.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2013, we identified and tested Valley City 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).
- 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).
- Being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Leases properly reported in OMB budget data (NDCC 54-44.1-06).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).

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 instance of non-compliance that we have reported to management of Valley City State University in a management letter dated March 25, 2014 included in this report.

## *Operations*

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Our audit of Valley City State University identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding bookstore non-cash adjustments, tuition/fee waivers, enrollment reporting and residency determinations:

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

We also noted a certain matter involving operations that we have reported to management of Valley City State University in a management letter dated March 25, 2014 included in this report.

### ***Inadequate Controls for Bookstore Credit Adjustments to Student Accounts (Finding 13-1)***

#### **Condition:**

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

- Processing and monitoring policies are not documented;
- Review and approval of bookstore credits is not performed by an appropriate individual;
- All bookstore employees, including students, process and approve bookstore returns by sending a list to the business office; and
- Reconciliation of bookstore credits posted to student accounts is not performed to ensure amounts are proper.

#### **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 management objectives are effectively achieved.

#### **Cause:**

Valley City State University has not adequately developed and implemented policies and procedures for processing bookstore credits to student accounts.



**Effect or Potential Effect:**

Valley City State University lacks assurance regarding the propriety of bookstore credit adjustment 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), bookstore credit adjustments recorded to student accounts totaled approximately \$28,000.

**Operational Improvement:**

We recommend Valley City State University strengthen controls surrounding bookstore credit adjustments posted to student accounts to:

- Develop documented processing and monitoring policies;
- Ensure review and approval by an appropriate individual;
- Reconcile bookstore credits posted to student accounts to ensure amounts are proper.

**Valley City State University's Response:**

*Agree. VCSU Bookstore Manager will develop policies to process and monitor bookstore credit adjustments by end of Fiscal Year 2014. Bookstore Manager will verify and approve all charges and credits against student accounts and reconcile them against daily cash register receipts prior to sending to the Business Office. Accounts Receivables Specialist will send SF generated report after charges and credits are posted to student accounts for Bookstore Manager to reconcile against original credits and charges.*

**Inadequate Controls Surrounding Tuition and Fee Waivers (Finding 13-2)****Condition:**

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

- Passports for international students are not specifically required;
- Tracking procedures to ensure passports for international students are obtained have not been developed;
- Procedures to obtain tax returns or support beyond the application to verify employee spouse or dependents were not evident; and
- Application for a cultural diversity waiver could not be located.

**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 publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for verification methods are necessary to ensure management objectives are effectively achieved.

**Cause:**

Valley City State University has not developed proper policies and procedures for awarding spouse and dependent, international student and cultural diversity waivers.

**Effect or Potential Effect:**

There is a possibility of improper waivers granted to students. Tuition waivers granted for employee spouse and dependent, international students, and cultural diversity for the fall 2011 term through March 2013 totaled approximately \$925,000.

**Operational Improvement:**

We recommend Valley City State University strengthen controls surrounding tuition waivers by developing proper policies and procedures to:

- Require passports for international students;
- Develop tracking procedures to ensure passports for international students are obtained;
- Ensure evidence of verification procedures to verify employee spouse and dependents; and
- Consistently receive all required support documentation for cultural diversity waivers.

**Valley City State University's Response:**

*Agree. VCSU will require students to provide a copy of their valid passport when submitting waiver applications. Additional fields will be added to the waiver form to track submitted documentation. The Human Resource Department as of Fiscal Year 2014 requires proof for all employee spouse and dependent tuition waivers. Documentation is tracked and stored in the HR office.*

***Inadequate Controls Surrounding Student Enrollment Reporting (Finding 13-3)*****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, student admissions, and enrollment reporting;
- Tracking procedures are not adequate to ensure medical insurance and passports are obtained for international students and proper identification is obtained for military students;
- 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 has not been developed to ensure the enrollment reports are reviewed by an individual independent of preparation; and
- Matriculation criteria have not been developed to ensure required enrollment documents are received prior to allowing the student to register for classes.

**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 management objectives are effectively achieved.

**Cause:**

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

**Effect or Potential Effect:**

There is an increased risk of inaccurate or inconsistent enrollment reporting to the State Board of Higher Education (SBHE) and Integrated Postsecondary Education Data System (IPEDS).

**Operational Improvement:**

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

- Develop documented policies and procedures including course exclusions, student admissions and enrollment reporting;
- Obtain and develop tracking procedures to ensure proper enrollment documents are received prior to student course registration;
- 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;
- Segregate duties to ensure enrollment reporting to the SBHE and IPEDS is reviewed by an individual independent of preparation;
- Develop matriculation criteria to ensure all enrollment documents are received prior to allowing the student to register for classes.

**Valley City State University's Response:**

*VCSU agrees with the recommendation.*

*VCSU will create campus specific documentation based on NDUS policies and procedures for course exclusions (SBHE Policy and NDUS Procedures 403), student admission (SBHE Policy and NDUS Procedures 402), and enrollment reporting (SBHE Policy 440).*

*VCSU will create a written record regarding our business practice of conditionally admitting students for course registration prior to receiving all final enrollment documents. When enrollment documents display proper progress toward meeting admission requirements, in-progress documents allow a student to be conditionally admitted and matriculated. Both in-progress and final enrollment documents are tracked in Campus Connection, our student administration system. If a student is deemed inadmissible upon review of final documents, admission is revoked.*

*Segregated duties for the course exclusion table will be expanded to include an external review of the non-degree and developmental course enrollment reports prior to the census date of each term. Courses are proposed by an academic department, approved by faculty committees, and*

*entered from the approved curriculum by an Assistant Registrar before a written request is submitted by the Registrar to the NDUS Student Records Analysts for addition to the course exclusion table.*

*Our Institutional Researcher became the IPEDS key holder starting with the 2013-2014 reporting cycle. The Institutional Researcher has access to the same system generated reports as the Registrar with respect to SBHE information.*

### ***Inadequate Controls for Student Residency Determination (Finding 13-4)***

#### **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;
- Proper proof of redetermination of student residency status is not obtained for all redeterminations;
- Changes to residency status are not approved by an individual independent of recording changes in residency status. The Director of Admissions and the Registrar approve residency changes and have access to change residency within electronic records;
- Verification of residency changes to supporting documents is not performed by an independent individual; and
- 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:**

The criteria for determination of residency for tuition purposes are governed by 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:**

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

#### **Effect or Potential Effect:**

Accurate student residency status determinations are critical because of differences between in-state and out-of-state student tuition rates. For the 2012-2013 academic year, Valley City State University tuition and fees for a 12-credit semester totaled \$5,402 for ND residents compared to tuition and fees up to \$11,634 for non-residents. Additionally, resident and non-

resident FTE reporting is done for state and federal purposes and current practices do not ensure reliable or accurate reporting.

#### **Operational Improvement:**

We recommend Valley City 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 proper proof of residency is received when re-determining a student's residency status;
- 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.

#### **Valley City State University's Response:**

*VCSU agrees with the recommendation.*

*VCSU will create a written record mapping SBHE Policy 504, NDUS Procedure 504, and the NDUS Residency Guidelines to campus specific areas of responsibility. We will also document the review of student residency status reports by an independent individual.*

*For initial residency determination, Enrollment Services will require proof of residency status when inconclusive information is provided on an application for admission, which includes students that obtain a general equivalency diploma.*

*VCSU will ensure review of initial residency determination in Enrollment Services with the Office Manager making the initial residency determination based on the application for admission and an Admission Counselor reviewing any changes. We will ensure approval of residency redetermination in the Registrar's Office with the Registrar approving or denying each application upon receipt of evidence and the Assistant Registrar reviewing each decision.*

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

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March 25, 2014

Mr. Doug Dawes, CPA  
Vice President for Business Affairs  
Valley City State University  
101 College Street SW  
Valley City, ND 58072

Dear Mr. Dawes:

We have performed an audit of Valley City 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 Valley City 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.

## **PROPER SUPPORT FOR TEAM TRAVEL**

### **Condition:**

During our test of team travel we noted the following:

- 1 out of 10 items tested, had a team roster attached for the meal, however, the roster had 10 members but 13 meals were purchased;
- 2 out of 10 items tested, did not have a team roster of students attached to the purchase card statement.

**Criteria:**

NDCC 44-08-04 (1), in part, states: . . . If a higher education athletic team or other organized institution organization group meal is attended at the request of and on behalf of the institution, actual expenses for the entire group, including coaches, trainers, and other employees, may be paid or submitted for payment on a team or group travel expense report.

Article X, Section 12, subpart 2 of the North Dakota Constitution states, "No bills, claims, accounts, or demands against the state or any county or other political subdivision shall be audited, allowed, or paid until a full itemized statement in writing shall be filed with the officer or officers whose duty it may be to audit the same, and then only upon warrant drawn upon the treasurer of such funds by the proper officer or officers."

**Cause:**

Valley City State University has inadequate controls over ensuring there is proper documentation for meals and team travel before payment is made.

**Effect or Potential Effect:**

The risk of misstatement, fraud, and noncompliance is increased with lack of proper controls to reduce risk of asset loss and ensure compliance with laws and regulations, and Valley City State University exposes itself to risk of loss, potential liabilities, and damage to the University's reputation, whether due to error, theft, or fraud. Total charged to team travel in fiscal years 2012 and 2013 was \$195,246. Based on the errors noted, we project approximately \$38,723 was lacking proper support.

**Informal Recommendation 13-1:**

We recommend Valley City State University ensure, before payment is made for team travel, that a team roster is attached to the receipt or purchase card statement and it is verified against the charges made to ensure it is correct.

**Valley City State University's Response:**

*Agree. VCSU will verify during the audit process that all purchasing cards and request for payments for team travel have proper team rosters attached prior to payment for Fiscal Year 2014 and going forward.*

## LACK OF CONTROLS SURROUNDING CASH AND REVENUES

**Condition:**

Valley City State University lacked controls in the following area surrounding cash and revenues:

- There is no review and approval of the nightly cash drawer reconciliation.

**Criteria:**

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework states that Control Activities include approvals, reconciliations, and segregation of duties.

**Cause:**

Valley City State University has experienced turnover during our audit period and has not taken the steps necessary to review and revise internal controls to mitigate the risk of error, theft, or fraud.

**Effect or Potential Effect:**

Valley City State University is susceptible to increased risk of theft or fraud occurring and not being detected in a timely manner.

**Informal Recommendation 13-2:**

We recommend Valley City State University implement controls to ensure there is a review and approval noted on the daily cash draw reconciliation.

**Valley City State University's Response:**

*Agree. VCSU will make note on the reconciliation who prepared the daily deposit going forward. The Accounts Receivable Specialist as the primary person responsible for this reconciliation.*

### **LACK OF CONTROLS SURROUNDING CREDIT ADJUSTMENTS TO STUDENT ACCOUNTS**

**Condition:**

Valley City 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 Accounts Receivable Specialist 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 management objectives are effectively achieved.

**Cause:**

Valley City State University has not adequately developed and implemented policies and procedures to ensure proper segregation of duties for non-cash credits to student accounts.

**Effect or Potential Effect:**

Valley City lacks 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 \$1.1 million.

**Informal Recommendation 13-3:**

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



**Valley City State University's Response:**

Agree. VCSU will strengthen controls surrounding credit adjustments to student accounts. Due to the small number of individuals in the Business Office there isn't an individual completely independent of access to handle cash. The accounts receivable specialist does not have access to cashiering roles and is a back up to accepting payments if there are no cashiers in the office. The SF Accounting line query will be ran each morning and the Controller will approve all credits entered the previous day to add strengthened controls.

I encourage you to call me at 701-239-7291 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,

A handwritten signature in cursive script that reads "Robyn Hoffmann".

Robyn Hoffmann, 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

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600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241