

VALLEY CITY
STATE UNIVERSITY
VALLEY CITY, 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
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Transmittal Letter

January 20, 2016

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Tisa Mason, President, Valley City State University

We are pleased to submit this audit of Valley City 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 Mason and her 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

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?

No, internal control surrounding purchasing cards was not adequate (page 12).

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 Capital Improvements (page 15).

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

Yes, all prior recommendations were implemented.

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

No.

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, Valley City 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 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.*

There were no significant audit adjustments proposed for Valley City State University.

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

Audit Objectives

The objectives of this audit of Valley City 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 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, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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).

For the biennium ended June 30, 2015, operations of Valley City State University were primarily supported by appropriations from the state's general fund. This was supplemented by student tuition and fees and auxiliary enterprises.

Financial Summary

Assets increased by \$2.4 million in fiscal year 2015 primarily due to an increase in capital assets for the Vangstad Hall renovation.

Liabilities increased by \$1.2 million in fiscal year 2015 due to recording a pension liability. This was due to Valley City State University's implementation of GASB 68 relating to recognizing pension liabilities and expense and deferred outflows and inflows of resources.

Revenues for Valley City State University remained fairly constant except for state appropriations. State appropriations (which comprise 54% of total revenues) increased approximately \$4.3 million. This is due to a \$3.1 million deficiency appropriation received in fiscal year 2015 pursuant to 2015 SB 2023. This was an emergency measure.

Expenses increased \$3.3 million primarily due to a \$3 million operating expense to the city of Valley City for a permanent flood wall. All other expense remained fairly constant.

Analysis of Significant Changes in Operations

Valley City State University made the following operational changes:

- New Department - Department of Computer Systems and Software Engineering
- Program Termination - Major in Music with an Emphasis in Business
- Program Termination - Minor in English Elementary
- Program Termination - Minor in English Secondary
- Program Termination - Minor in Mathematics Elementary
- Program Termination - Minor in Mathematics Secondary
- New program - B.A. and B.S. in Environmental Science, effective fall 2015
- Organizational change to establish a new center: Don Mugan Career and Technical Education Leadership Center (DMCTELC), effective summer 2015.

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

Statement of Net Position

	June 30, 2015	June 30, 2014
ASSETS		
Cash and cash equivalents	\$ 3,819,931	\$ 3,443,863
Investments	3,016,178	2,845,896
Accounts receivable, net	379,222	655,278
Due from component units	30,051	28,846
Receivable from other NDUS institutions	32,327	42,153
Due from state general fund	362,997	297,994
Grants & contracts receivables, net	159,815	166,266
Inventories	179,124	168,951
Notes receivable, net	646,920	633,470
Other assets	72,776	83,232
Capital assets, net	23,475,098	21,413,638
Total assets	\$ 32,174,439	\$ 29,779,587
Deferred outflows of resources	\$ 247,228	
LIABILITIES		
Accounts payable and accrued liabilities	\$ 686,202	\$ 656,226
Accrued payroll	1,156,970	1,024,132
Unearned revenue	392,391	492,836
Deposits	145,361	84,676
Pension liability	1,217,243	
Due to others	6,528,009	6,679,840
Total liabilities	\$ 10,126,176	\$ 8,937,710
Deferred inflows of resources	\$ 237,611	
NET POSITION		
Invested in capital assets	\$ 17,451,575	\$ 15,238,639
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	474,927	486,969
Expendable:		
Scholarships and fellowships	230,713	354,141
Institutional	670,454	763,460
Loans	651,831	630,849
Debt service	361,015	234,070
Other	408,735	365,542
Unrestricted	1,808,630	2,768,207
Total net position	\$ 22,057,880	\$ 20,841,877

Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2015	June 30, 2014
REVENUE AND OTHER ADDITIONS		
State appropriations	\$ 13,292,638	\$ 10,303,497
Student tuition and fees	6,012,132	5,868,548
State appropriations-capital assets	3,241,028	1,891,310
Auxiliary enterprises	2,862,205	3,177,679
Federal grants and contracts	1,756,945	2,038,119
Sales and services of educational departments	820,232	450,175
Investment income	238,721	376,724
Gifts	210,248	136,515
Capital grants and gifts	159,565	
Other nonoperating revenues	136,305	42,905
State and local grants and contracts	119,813	110,084
Other	21,161	15,997
Nongovernmental grants and contracts	6,704	253,078
Gain on capital assets	3,149	4,338
Insurance Proceeds		27,500
Total revenues and other additions	\$ 28,880,846	\$ 24,696,469
EXPENSES AND OTHER DEDUCTIONS		
Salaries and wages	\$ 15,443,079	\$ 14,758,790
Operating expenses	8,692,404	5,658,957
Data processing	385,109	711,785
Depreciation	927,034	913,404
Scholarships and fellowships	215,608	225,037
Cost of sales and services	456,106	534,532
Interest on capital asset-related debt	320,823	269,687
Insurance expenses	12,586	
Total expenses and other deductions	\$ 26,452,749	\$ 23,072,192
Revenues over expenses	\$ 2,428,097	\$ 1,624,277
NET POSITION		
Net position-beginning of the year, as restated	\$ 19,629,783	\$ 19,217,600
Net position-end of the year	\$ 22,057,880	\$ 20,841,877

Statement of Cash Flows

	June 30, 2015	June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 5,932,128	\$ 5,825,480
Grants and contracts	537,998	1,236,501
Payments to suppliers	(9,646,185)	(6,344,720)
Payments to employees	(15,310,973)	(14,644,789)
Payments for scholarships and fellowships	(215,608)	(225,037)
Loans issued to students	(149,825)	(112,506)
Collection of loans to students	142,001	98,036
Auxiliary enterprise charges	2,868,987	3,194,323
Sales and service of educational departments	1,006,788	867,718
Cash received/(paid) on deposits	116,610	(115,453)
Other receipts (payments)	167,924	(98,302)
Net cash used by operating activities	\$ (14,550,155)	\$ (10,318,749)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 13,292,638	\$ 10,337,617
Grants and gifts received for other than capital purposes	1,562,162	1,364,347
Direct lending receipts	4,013,178	4,005,755
Direct lending disbursements	(4,013,178)	(4,005,755)
Agency fund cash (decrease) increase	46,123	(48,912)
Net cash flows provided by noncapital financing activities	\$ 14,900,923	\$ 11,653,052
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	\$ 3,176,025	\$ 1,739,571
Capital grants and gifts received	159,566	
Proceeds from sale of capital assets	5,798	7,218
Purchases of capital assets	(2,895,552)	(1,390,650)
Insurance proceeds	(12,586)	27,500
Principal paid on capital debt and lease	(155,566)	(2,866,835)
Interest paid on capital debt and lease	(320,823)	(269,687)
Net cash used by capital and related financing activities	\$ (43,138)	\$ (2,752,883)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 597,813	\$ 628,212
Interest on investments	238,721	376,724
Purchase of investments	(768,095)	(733,925)
Net cash provided by investing activities	\$ 68,439	\$ 271,011
Net increase (decrease) in cash	\$ 376,069	\$ (1,147,569)
CASH - BEGINNING OF YEAR	\$ 3,443,862	\$ 4,591,432
CASH - END OF YEAR	\$ 3,819,931	\$ 3,443,863

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	June 30, 2015	June 30, 2014
Operating loss	\$ (15,872,062)	\$ (12,116,657)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	927,034	913,404
Other nonoperating revenues (expenses)	136,305	(106,425)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	184,076	249,496
Grant and contract receivables	6,451	63,052
Inventories	(10,173)	(9,484)
Notes receivable	(13,449)	44,983
Other assets	10,458	141,455
Accounts payable and accrued liabilities adjusted for interest payable	(67,062)	349,051
Pension liability	203,296	
Net change in deferred outflows	(207,763)	
Accrued payroll	132,837	85,211
Compensated absences	3,735	28,789
Deferred revenue	(100,446)	153,830
Deposits	116,608	(115,453)
Net cash used by operating activities	\$ (14,550,155)	\$ (10,318,748)

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating expenses	\$20,691,135	\$ (95,000)	\$20,596,135	\$20,596,135	
Capital assets	9,400,309	(447,891)	8,952,418	6,415,659	\$ 2,536,759
Capital assets-carryover		1,274,681	1,274,681	1,274,681	
Capital improvement - Off System					
W.E.Osmon Fieldhouse		4,706,837	4,706,837		4,706,837
Hillside Slope Stablization		100,000	100,000		100,000
President's house		200,000	200,000	159,466	40,534
Capital project off system - Carryover					
Rhoades Science Center		200,000	200,000		200,000
Totals	\$30,091,444	\$ 5,938,627	\$36,030,071	\$28,445,941	\$ 7,584,130
Expenses by source					
General fund	\$25,284,607	\$ 2,538,627	\$27,823,234	25,286,475	\$ 2,536,759
Special fund	4,806,837	3,400,000	8,206,837	3,159,466	5,047,371
Totals	\$30,091,444	\$ 5,938,627	\$36,030,071	\$28,445,941	\$ 7,584,130

Appropriation Adjustments:

Operating Expenses

The \$95,000 reduction was a transfer to the capital assets line pursuant to 2013 SB 2003, section 35.

Capital Assets

The reduction of \$447,891 was comprised of the following adjustments:

- \$4,806,837 was transferred out to the capital improvements - off system line for the Hillside Slope Stabilization project (\$100,000) and W.E.Osmon Fieldhouse addition (\$4,706,837). This was done because funding for these projects will not be received from the state but from other sources and the expenses for these projects are reported separately to OMB. This special fund authority was appropriated in 2013 SB 2003.
- \$95,000 was transferred in from the operating line as discussed above.
- \$937,339 was transferred in from the NDUS for deferred maintenance allocations pursuant to 2013 SB 2003, section 21.
- \$174,607 was transferred in from the NDUS for the capital projects contingency pool pursuant to 2013 SB 2003, section 24.
- \$3,152,000 was a deficiency appropriation transferred in pursuant to 2013 SB 2023. This was an emergency measure.

Capital Assets - Carryover

The \$1,274,681 adjustment was unspent general funds from the prior biennium for the Rhoades Science Center (\$1,105,663) and extraordinary repairs (\$169,018) carried over pursuant to NDCC 54-44.1-11.

Capital Improvement – Off System

Adjustments of \$4,706,837 for the W.E.Osmon Fieldhouse and \$100,000 for the Hillside Slope Project were transfers from the capital asset line. The \$200,000 adjustment for the President's house was private funding and extraordinary repairs approve by the Budget Section March 12, 2014.

Capital Project – Off System - Carryover

The \$200,000 adjustment was unspent special fund authority from the prior biennium for the Rhoades Science Center that was carried over pursuant to NDCC 54-44.1-11.

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of 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.
- 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 that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 identified the following significant deficiency in internal control.

Lack of Controls Surrounding Purchasing Cards (Finding 15-1)

Condition:

We noted the following during the test of 32 purchasing cards:

- None of the items tested were properly reconciled to the individual statement by the cardholder;
- One out of 32 (3%) had a \$106 difference between the JP Morgan statement and the reconciliation statement; and
- None of the items tested were signed by the card administrator indicating it was reconciled to the individual card holder statements.

We also noted that Valley City State University's policy "Purchasing Card General Policy and Users Manual" was last revised 11/1/2010 and did not reflect current OMB policy, and the contact staff listed were no longer employed at Valley City State University.

Criteria:

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication *Internal Control - Integrated Framework* states that control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. They may be preventive or detective in nature

and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

Valley City State University's Purchasing Card General Policy and Users Manual, Statement Verification, in part states: The cardholder is responsible for reconciling the monthly account statement with the original itemized receipts/invoices.

OMB's Fiscal and Administrative Policy #300 Purchasing Card, in part states: Card Administrators should run an agency statement with the state's current card provider and reconcile it to the individual statements. They should sign the agency statement denoting reconciliation.

Cause:

Adequate reconciliations and supporting documentation for purchasing card transactions are not being maintained.

Effect:

The risk of misstatement, fraud, and noncompliance is increased with inadequate reviews, inadequate or missing documentation, and lack of proper controls.

Recommendation:

We recommend Valley City State University strengthen the controls surrounding purchasing cards by:

- Ensuring the cardholder reconciles the monthly individual account statement;
- Ensuring the card administrator reconciles the agency statement with the individual statements; and;
- Updating the Purchasing Card General Policy and User's Manual to properly reflect OMB policy.

Valley City State University's Response:

Agree. All purchasing cards are now totaled and matched to the statement and the card administrator signs the agency statement to show reconciliation. The Purchasing Card General Policy and User's Manual were updated as of November 2015.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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 ending June 30, 2015 (13 SB 2003, chapter 34, section 2).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Gifts, grants, and scholarship expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC section 1-08-02, 15-10-12).
- Fixed asset requirements were followed, including surplus property, record keeping, and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Purchasing, including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 06, 07, 09, 10, 13, 18, 21, 22, 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.

Operations

In our audit for the biennium ended June 30, 2015, we tested 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 approved?
- Are payments to the contractor properly approved and in accordance with the contract?
- Are construction in progress and capital assets properly reported and managed by qualified agency personnel?

Inadequate Controls over Capital Improvements (Finding 15-2)

Condition:

We noted the following while reviewing the Vangstad capital project for fiscal year 2015:

- The contract amount was increased with unapproved change orders totaling \$40,650, for asbestos removal; and
- Improper retainage was maintained for the asbestos removal contract.

Criteria:

NDCC 48-01.2-13, states in part, A partial payment estimate must include retentions or retainage as follows: ten percent of each estimate until the project is fifty percent completed with no further retainage on estimates during the continuance of the contract unless unsatisfactory progress or performance is documented.

NDUS Procedure 902.5, part 10.2; states in part, 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:

There are a lack of controls surrounding capital improvements.

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.

Operational Improvement:

We recommend Valley City State University:

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

Valley City State University's Response:

Agree. As of February 2016, the change order process has been updated whereby all appropriate signatures will be obtained prior to the final authorization signature of the Vice President for Business Affairs. The capital improvements procedure will be updated by March 2016 to ensure proper retainage for appropriate projects.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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