

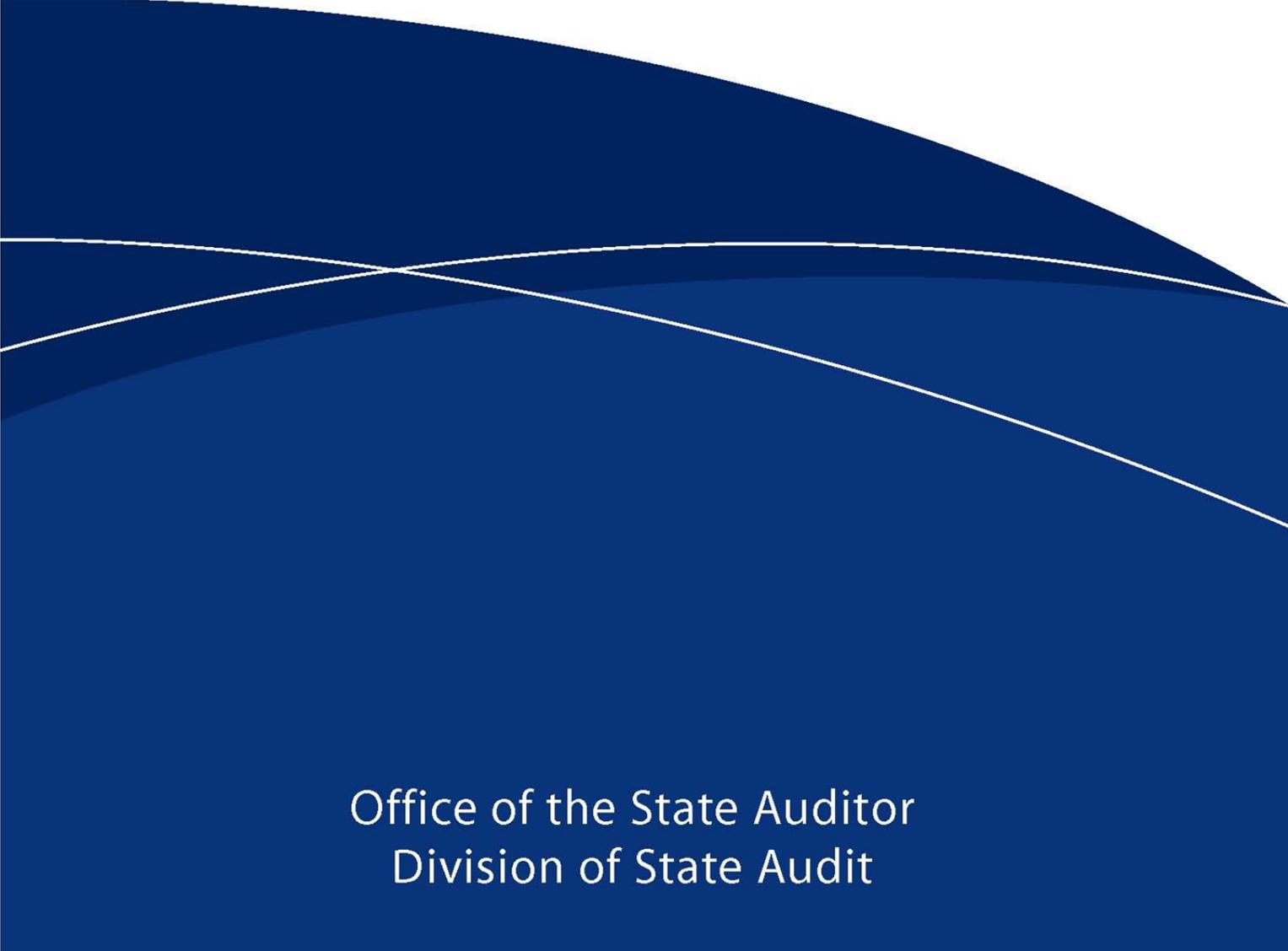
MINOT STATE UNIVERSITY

MINOT, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

January 18, 2012

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

We are pleased to submit this audit of Minot State University for the biennium ended June 30, 2011. 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 Fuller and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

Robert R. Peterson
State Auditor

Executive Summary

Introduction

Since 1913 Minot State University has been helping students achieve their personal and professional goals. The University has evolved from a normal school to a Carnegie Master's I institution. It is the third largest higher education institution in the state and the only non-doctoral university to grant master's degrees. Three colleges comprise the University's academic offerings: Arts and Sciences, Business, and Education and Health Sciences. Nine master's degrees and one education specialist degree are offered in such areas as communication disorders, management, and mathematics. There is a rich mix of liberal arts and professional programs offering more than 60 majors at the undergraduate level.

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 response 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 obtained from the Annual Financial Report of the North Dakota University System; however, the related note disclosures are not included in accordance with generally accepted accounting standards, so an opinion is not applicable. An unqualified 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. We did note areas where greater efficiency could be achieved in financial operations and management of Minot State University. See operational work addressing "Controls Surrounding Tuition Waivers" (page 17), and "Controls Surrounding Non-Cash Adjustments" (page 18).

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

N/A. 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, MISU did not prepare an adequate report of amounts and uses of funds carried over from the 2007-2009 biennium to the 2009-2011 biennium to the subsequent appropriations committees of the legislative assembly. See page 20 for the management letter comment and MiSU'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.*

There were no management conflicts of interest noted, no contingent liabilities were identified or significant unusual transactions, however there was a significant change in accounting policy. As of June 30, 2011, Minot State University began reporting the receipt and disbursement of student financial aid on the Statement of Cash Flows as Direct Lending Receipts and Direct Lending Disbursements. Prior to June 30, 2011 these amounts were not included on the Statement of Cash Flows.

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. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All significant audit adjustments we proposed for Minot State University were recorded during the fiscal year 2010 and 2011 audits of the North Dakota University System. The adjustments can be seen in the fiscal year 2010 and fiscal year 2011 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 Student Administration 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, 2011 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 adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the 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, 2011. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2011 and 2010 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 controls were operating effectively and 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.
- 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 to present Minot State University's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2011, operations of Minot State University were primarily supported by appropriations from the state's general fund (36%), student tuition and fees (25%), and federal grants and contracts (20%).

Financial Summary

Total net assets increased approximately \$1.1 million from \$74.7 million in fiscal year 2010 to \$75.8 million in fiscal year 2011. This increase is primarily attributable to the Wellness Center construction.

Total revenues were \$53,129,279 for the year ended June 30, 2011 as compared to \$60,022,434 for the year ended June 30, 2010. Revenues consisted primarily of state appropriations, student tuition and fees, federal funds, as well as auxiliary enterprises and capital grants and gifts. Other revenues during the audited period included state and local grants and contracts, sales and services, gifts and investment income. These all remained fairly constant for Minot State University except for a decrease in state appropriations – capital assets of \$3.9 million and a decrease in capital grants and gifts of \$4.5 million from fiscal year 2010 to fiscal year 2011. State appropriations – capital assets decrease was due to the timing of general fund drawdowns and the decrease in capital grants and gifts was due to receiving American Recovery and Reinvestment Act funding in fiscal year 2010 and not in fiscal year 2011 for the Swain Hall remodel project.

Total expenditures for Minot State University were \$51,965,664 for the year ended June 30, 2011 as compared to \$49,394,209 for the prior year. The increase in total expenditures for the audited period is primarily due to the increase in salaries and wages of \$2 million (which account for 64% of total expenditures), which is mainly due to a 5.2% salary increase in fiscal year 2011. All other expenditures remained constant.

Analysis of Significant Changes in Operations

In fiscal year 2010, Minot State University was approved to:

- Charge all non-residents, including Minnesota students, the resident rate,
- Offer a BS and a minor in Bioinformatics and Computational Biology,
- Offer a minor in deaf and hard of hearing, and
- Start a Center of Excellence in Entrepreneurship Networking (E-Net) and Geriatric Research Center of Excellence with Trinity Health.

In fiscal year 2011, Minot State University was approved to:

- Offer a BSW in Social Work at a distance,
- Offer program certificates at a distance for early childhood special education, deaf/hard of hearing education, and special education strategist,
- Offer BSE in early childhood education both traditionally and at a distance, and

- Offer learning disabilities graduate program certificate both traditionally and at a distance.

Analysis of Significant Variances - Budgeted and Actual Expenditures

Minot 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 Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS:		
Cash and cash equivalents	\$ 25,800,444	\$ 23,362,855
Investments	6,888,804	13,270,127
Accounts receivable, net	781,344	736,402
Receivable from component unit		468,691
Due from state general fund	105,269	
Grants and contracts receivables, net	2,040,716	1,690,318
Notes receivable, net	3,092,572	3,092,827
Unamortized bond discount and cost of issuance	297,657	311,213
Other Assets	115,739	170,847
Capital assets, net	59,180,339	55,564,744
Total Assets	<u>\$ 98,302,884</u>	<u>\$ 98,668,024</u>
LIABILITIES:		
Accounts payable	\$ 2,693,187	\$ 4,017,206
Accrued payroll	1,959,429	1,797,117
Deferred revenue	1,049,971	981,975
Deposits	568,867	571,402
Other noncurrent liabilities	709,296	697,665
Due to Others	15,482,140	15,926,279
Total Liabilities	<u>\$ 22,462,890</u>	<u>\$ 23,991,644</u>
NET ASSETS:		
Invested in capital assets, net of related debt	\$ 51,303,017	\$ 48,773,714
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	1,247,010	1,128,178
Expendable:		
Scholarships and fellowships	669,613	747,276
Research	4,204	4,204
Institutional/Instructional department uses	345,854	640,896
Loans	3,271,152	3,340,019
Debt service	774,520	900,264
Unrestricted	18,224,623	19,141,829
Total Net Assets	<u>\$ 75,839,993</u>	<u>\$ 74,676,380</u>

Statement of Revenues and Expenditures and Changes in Net Assets

	June 30, 2011	June 30, 2010
OPERATING REVENUES:		
Student tuition and fees	\$ 14,596,645	\$ 14,010,695
Federal grants and contracts	7,107,570	6,924,802
State and local grants and contracts	997,826	1,612,607
Nongovernmental grants and contracts	66,715	53,271
Sales and services of educational departments	999,895	998,886
Auxiliary enterprises	3,303,345	3,147,506
Other	7,490	61,967
Total operating revenues	\$ 27,079,486	\$ 26,809,734
OPERATING EXPENSES:		
Salaries and wages	\$ 33,445,329	\$ 31,469,145
Operating expenses	12,254,050	11,603,927
Data processing	472,352	324,286
Depreciation	2,626,872	2,365,152
Scholarships and fellowships	2,321,432	3,112,051
Total operating expenses	\$ 51,120,035	\$ 48,874,561
Operating Income	\$ (24,040,549)	\$ (22,064,827)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 17,847,507	\$ 17,087,612
Federal grants and contracts	4,636,611	4,198,273
Gifts	1,757,857	1,694,827
Investments income	372,941	360,105
Interest on capital asset-related debt	(842,791)	(502,266)
Loss on capital assets	(2,838)	(17,382)
Insurance proceeds	2,527	46,394
Other nonoperating revenues (expenses)	1,419	124
Net nonoperating revenues	\$ 23,773,233	\$ 22,867,687
Income (loss) before capital grants, gifts, and transfers	\$ (267,316)	\$ 802,860
State appropriations-capital assets	\$ 722,867	\$ 4,593,362
Capital grants and gifts	708,063	5,232,003
Increase in net assets	\$ 1,163,614	\$ 10,628,225
NET ASSETS		
Net Assets-beginning of the year	\$ 74,676,379	\$ 64,048,154
Net Assets-end of the year	\$ 75,839,993	\$ 74,676,379

Statement of Cash Flows

	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 14,633,928	\$ 14,236,909
Grants and contracts	7,821,713	8,307,751
Payments to suppliers	(12,055,302)	(12,479,875)
Payments to employees	(33,194,244)	(31,107,455)
Payments for scholarships and fellowships	(2,321,432)	(3,112,051)
Loans issued to students	(504,962)	(679,163)
Collection of loans to students	370,092	393,479
Auxiliary enterprise charges	3,330,051	3,164,797
Sales and service of educational departments	1,557,137	541,421
Cash received on deposits	2,651	3,700
Other receipts (payments)	121,238	(27,230)
Net cash used by operating activities	\$ (20,239,130)	\$ (20,757,717)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 17,847,507	\$ 17,087,612
Grants and gifts received for other than capital purposes	6,394,500	5,892,419
Direct Lending Receipts	11,328,871	
Direct Lending Disbursements	(11,372,287)	
Agency fund cash (decrease) increase	(24,007)	53,678
Other nonoperating receipts	10,055	
Net cash flows provided by noncapital financing activities	\$ 24,184,639	\$ 23,033,709
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt		\$ 10,000,000
Capital appropriations	\$ 617,598	4,744,382
Capital grants and gifts received	708,073	5,232,123
Purchases of capital assets	(8,271,499)	(9,215,980)
Insurance proceeds	2,527	46,394
Principal paid on capital debt and lease	(514,014)	(509,565)
Interest paid on capital debt and lease	(809,519)	(178,729)
Net cash provided (used) by capital and related financing activities	\$ (8,266,834)	\$ 10,118,625
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	\$ 7,052,451	\$ 2,908,012
Interest on investments	224,938	256,344
Purchase of investments	(518,470)	(1,882,626)
Net cash provided by investing activities	\$ 6,758,919	\$ 1,281,730
Net increase in cash	\$ 2,437,594	\$ 13,676,347
CASH - BEGINNING OF YEAR	23,362,855	9,686,508
CASH - END OF YEAR	\$ 25,800,449	\$ 23,362,855

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO
NET CASH USED BY OPERATING ACTIVITIES**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating loss	\$ (24,040,549)	\$ (22,064,827)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	2,626,872	2,365,152
Other nonoperating revenues (expenses)	1,412	(14,334)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	467,116	(578,869)
Grant & contract receivables	(350,398)	(282,929)
Notes receivable	255	(138,116)
Other assets	68,176	(378,288)
Accounts payable and accrued liabilities adjusted for interest payable	676,333	(361,611)
Accrued payroll	169,578	276,398
Compensated absences	81,507	85,292
Deferred revenue	67,996	330,715
Deposits	2,650	3,700
Net cash used by operating activities	<u>\$ (20,229,052)</u>	<u>\$ (20,757,717)</u>

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Net increases in value of investments	122,480	\$ 82,590
Total non-cash transactions	<u>\$ 122,480</u>	<u>\$ 82,590</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 34,623,707	\$ 311,412	\$34,935,119	\$34,935,119	
Capital Assets	26,596,870	(22,250,000)	4,346,870	962,744	\$ 3,384,126
Capital Assets Carryover		4,284,970	4,284,970	4,284,970	
Capital Improvements - Off system					
Swain Hall Renovation		638,497	638,497	638,497	
Student Wellness Center		17,770,000	17,770,000	2,860,712	14,909,288
Parking Lot Repair		1,000,000	1,000,000		1,000,000
Deferred Maintenance	595,111		595,111	68,515	526,596
Federal Stimulus Funds					
Swain Hall Renovation	5,000,000		5,000,000	5,000,000	
Boiler Project/Geothermal		2,000,000	2,000,000	498,421	1,501,579
Totals	\$ 66,815,688	\$ 3,754,879	\$70,570,567	\$49,248,978	\$21,321,589
Expenses by source					
General Funds	\$ 39,565,688	\$ 4,596,382	\$44,162,070	\$40,251,348	\$ 3,910,722
Federal Funds	5,000,000	2,000,000	7,000,000	5,498,421	1,501,579
Special Funds	22,250,000	(2,841,503)	\$19,408,497	3,499,209	15,909,288
Totals	\$ 66,815,688	\$ 3,754,879	\$70,570,567	\$49,248,978	\$21,321,589

Appropriation Adjustments:

Operating Expenses

The increase of \$311,412 is comprised of:

- \$61,412 general fund transfer from the NDUS for security and emergency preparedness needs pursuant to 2009 SB 2003, section 19.
- \$250,000 general fund transfer from the NDUS to enhance science, technology engineering and mathematics (STEM) in teacher education pursuant to 2009 SB 2003, section 28.

Capital Assets

\$22,250,000 was a special fund transfer to the Capital Improvement – Off system line because spending for the following projects is not abstracted through the state:

- \$ 6,250,000 Boiler project
- \$15,000,000 Student Wellness Center
- \$ 1,000,000 Parking lot renovation

Capital Assets Carryover

\$4,284,970 was carryover of the prior biennium's unspent general fund.

Capital Improvements – Off system

\$638,497 was the special fund carryover from the prior biennium for the Swain Hall renovation.

Of the \$22,250,000 special funds transferred from the Capital Asset line:

- The scope of the \$6,250,000 Boiler project was changed by the September 22, 2010 Budget Section to \$2.5 million from the general fund which is included in the capital asset line and \$2 million Department of Commerce grant that was transferred to the Federal Stimulus Funds line.
- The scope and authorization of the Student Wellness Center was increased by the Budget Section in March 2010 and June 2010 from \$15,000,000 to \$17,770,000.
- The Parking Lot Repair funding did not change from \$1 million.

Federal Stimulus Funds

\$2 million of federal funds were transferred from the Capital Improvement – Off system line for the Boiler/geothermal project to be funded by a Department of Commerce grant.

Internal Control

In our audit for the biennium ended June 30, 2011, we identified the following areas of Minot State University's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding non-cash credits.
- Controls surrounding tuition waivers.
- Controls surrounding student residency determination.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, 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:

- Sought emergency commission and budget section approval for authority to spend additional federal funds. (09 SB 2003, section 4)
- Reported to the appropriations committee of the sixty-second legislative assembly on the use of one-time funding. (09 SB2003, chapter 31, section 7)
- \$10 million bonds issued for the MISU wellness center and any unexpended proceed balance was placed in a sinking fund and used to retire the indebtedness. (09 SB 2003, chapter 31, section 26)
- \$250,000 was used to enhance the use of science, technology, engineering, and mathematics in existing teacher education program curriculums and was not used for infrastructure projects. [09 SB 2003, chapter 31, section 28]
- Proper use/approval of clearing account and petty cash/till funds. (NDCC 54-06-08.1, Article X, Section 12, part 1 of the North Dakota Constitution, Attorney General's letter dated September 11, 1987)
- BND used as credit card processing depository. (NDCC 54-06-08.2)
- Gifts are used in compliance with the wishes of the donor. (Article IX, Section 1 of the ND Constitution, NDCC section 1-08-02, and NDCC section 15-10-12)
- Fixed asset requirements were followed including record keeping, and lease analysis requirements (NDCC 44-04-07, 54-27-21, 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 (NDCC 54-44.4-01, 05, 06, 54-44.7-02).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08, 48-02-12).
- 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 instance of non-compliance that we have reported to management of Minot State University in a management letter dated January 18, 2012.

Operations

Our audit of Minot State University identified the following areas of potential improvements to operations.

Controls Surrounding Tuition Waivers (Finding 11-1)

Condition:

MISU grants various tuition waivers, such as waivers for members of the ND National Guard, veteran dependents, cultural diversity, international students, athletics, senior citizens and tuition remission for MISU employees. Controls over tuition waivers were not comprehensive.

Specifically, we noted the following conditions:

1. Awarding policies and procedures have not been developed and documented.
2. Eligibility and award criteria and selection methods have not been developed and documented.
3. Application forms have not been developed for the survivors of emergency personnel waiver type.
4. Proof of eligibility is not required and obtained identifying age prior to awarding senior citizen waivers and economic hardship for financial related waivers.
5. Review and approval procedures are not performed for cultural diversity, survivors of emergency personnel, and academic award waiver types by an individual independent of access to post to student accounts.
6. Monitoring policies and procedures have not been developed and documented.
7. Verification of waiver amounts posted to student accounts is not performed by an independent individual, on a test basis, to ensure amounts are properly supported and authorized.

Criteria:

State law and State Board of Higher Education policy section 820 authorize universities to set tuition and fees (NDCC 15-10-17 (3)) and to waive tuition for a variety of reasons, including:

- Dependent of resident veterans pursuant to NDCC 15-10-18.3;
- Survivors of firefighters, emergency personnel pursuant to NDCC 15-10-18.5; and,
- Qualified members of the National Guard pursuant to NDCC 37-07.1.

Cause:

Minot State University has not developed policies and procedures for awarding and monitoring of tuition waivers.

Effect or Potential Effect:

Possible improper waivers granted to students. Tuition waivers granted during the fall 2009 through summer 2011 school terms totaled approximately \$2.5 million.

Operational Improvement:

We recommend Minot State University strengthen tuition waiver controls to:

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

Minot State University Response:

Minot State University concurs. The waiver process needs to be revamped. The VP for Administration and Finance will work with the Business Office, Financial Aid, and Enrollment Management to develop new policies and procedures to further segregate duties. This process will be complete by September 30, 2012.

Controls Surrounding Non-Cash Adjustments (Finding 11-2)**Condition:**

Controls surrounding non-cash credit adjustments and student refunds recorded in the ConnectND Student Financial System are inadequate. Specifically, we noted the following conditions:

1. Processing policies and procedures have not been developed and documented.
2. Segregation of duties are not properly restricted allowing individuals with access to cash collections can also post to student accounts and change student addresses.
3. Segregation of duties are not properly restricted allowing non-cash adjustments to be initiated, approved, and posted to student accounts by the same individual.
4. Review and approval of all non-cash adjustments posted to student accounts is not performed by an individual independent of access to cash and data entry responsibilities.
5. Monitoring policies and procedures have not been developed and documented.
6. Verification of non-cash credit adjustments posted to student accounts is not performed by an independent individual, on a test basis, to ensure amounts are properly supported and authorized.

Criteria:

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

Cause:

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

Effect or Potential Effect:

Minot State University lacks assurance regarding the propriety of non-cash credit adjustments recorded to student accounts and erroneous adjustments could be recorded without detection. Furthermore, unauthorized and improper refund payments could be processed without detection. During fiscal year 2010 and 2011, non-cash credit adjustment recorded to student accounts totaled approximately \$2 million.

Operational Improvement:

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

- Develop documented processing policies and procedures;
- Segregate duties to ensure non-cash credit adjustments are recorded to student accounts by an individual independent of access to handle cash, change student addresses and initiate or approve adjustments;
- Ensure review and approval by an independent individual;
- Develop documented monitoring policies and procedures; and,
- Verify amounts posted to student accounts by an independent individual, on a test basis, for proper support and authorization.

Minot State University Response:

Minot State University concurs. The non-cash process needs to be revamped. The VP for Administration and Finance will work with the Business Office, Housing, Food Service, ITC to develop new policies and procedures to further segregate duties. This process will be complete by June 30, 2012.



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

Management Letter (Informal Recommendations)

January 18, 2012

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

Dear Mr. Foisy:

We have performed an audit of Minot State University for the biennium ended June 30, 2011, 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.

REPORT OF CARRYOVER FUNDS

Informal Recommendation 11-1:

MISU did not prepare an adequate report of amounts and uses of funds carried over from the 2007-2009 biennium to the 2009-2011 biennium to the subsequent appropriations committees of the legislative assembly. MISU carried over \$4,284,970 general funds and \$638,497 special funds to the 09-11 biennium.

We recommend that MISU prepare carryover reports in compliance with NDCC 54-44.1-11.

Minot State University Response:

Minot State University concurs. Since this recommendation, Minot State University has provided a carryover report to the House and Senate Appropriation Committees in compliance with NDCC 54-44.1-11.

I encourage you to call myself at 701-239-7291 or John Grettum, CPA, 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,



Robyn Hoffmann, CPA
Auditor in-charge

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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