

**SOUTH DAKOTA BOARD OF REGENTS**

**Full Board**

**AGENDA ITEM: 14**

**DATE: April 1-2, 2015**

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**SUBJECT: FY14 Audit Review**

The FY14 Statewide Comprehensive Annual Financial Report (CAFR) was released on February 25, 2015.

There is one written audit finding for the BOR system. The Financial Compliance Officer has prioritized the Posted Auditor Adjustments based upon the level of significance and materiality of the dollar amounts. The adjustments and corrective action have been discussed with financial representatives at each campus and steps are being taken to have the corrective action in place prior to the end of fiscal year 2015. An analysis of the audit adjustments is found in Attachment I.

A summary of the finding and our corrective action plan follows:

**Finding No. 2014-010:**

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements, including the identification and correction of reporting errors and omissions.

*Type of Finding:* Material Weakness

Analysis:

Various policies and procedures were implemented by the central office and universities during the South Dakota Board of Regents financial statement preparation. These policies and procedures attempted to provide specific guidance to the universities and address unique reporting considerations. In some instances, universities and the central office still did not have adequate written policies and procedures to identify how they were to apply the broad policies to their specific university. Additionally, procedures were not adequate in assessing the risk of potential reporting errors through performing trend analysis and reasonableness tests or other relevant

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**RECOMMENDED ACTION OF THE EXECUTIVE DIRECTOR**

Recognize the university accounting staff at USD, DSU, NSU and SDSU for their near perfect audits. Recognize the continued improvements in financial accounting and reporting under tighter timeframes and new leadership.

reviews over the amounts being reported. As a result, the audit identified that some of the year-end entries and footnote disclosures completed by Black Hills State University, South Dakota School of Mines and Technology, and the central office had material reporting errors and omissions. Adjusting entries were posted to the accounting records as recommended by us during the audit.

Action Plan:

Policies and procedures continue to be reviewed and updated with an emphasis on clear and precise guidance, particularly in the areas of combining component units, proper recognition of assets, and recording liabilities, revenues and expenses.

Board staff is confident it will maintain progress in these areas, but acknowledges the complexity of accounting issues in higher education and the very low threshold in auditing standards for reportable conditions which makes the complete elimination of this finding difficult.

The finding for the BOR system is similar to the finding on the Statewide Financial Reporting Process, which includes all agencies under the Governor's purview. Auditing standards require Legislative Audit to make such a written finding in any instance where audit adjustments have been made to the financial statements.

Review:

The campuses and central office staff continue to make improvements in the CAFR process. This year was the first year of the Governors new plan to release the CAFR for Fiscal Year 2016 by December 31, 2016. The campuses and central office compiled and submitted their financial statements four weeks sooner than they did last year. This was a major accomplishment.

The BOR system also had three campuses which did not receive a single audit adjustment. These campuses were USD, DSU and NSU. SDSU only received one audit adjustment and it was very immaterial in nature. These four campuses are to be congratulated for their outstanding work completing their FY14 financial statements.

For FY14 2014 the BOR system had a total of 11 audit adjustments totaling \$188,588,386.54. For the first time these adjustments resulted in a zero change in Net Position. This means that all of the entries are for the most part are reclass entries.

Two major items contributed to the number of adjustment entries and dollars associated with this year's process. The first major item was the South Dakota Building Authority. This component unit continues to make the combining process very complex. Of the 11 audit adjustments 3 belonged to that combining process totaling \$158,931,405. The other item was the

earlier submission date. By submitting our information 4 weeks sooner, the Agreed Upon Procedures review was not complete as it has been in years past. The Agreed Upon Procedures review is conducted by Legislative Audit (DLA). It looks at the Auxiliary System and ensures that we are reporting the correct coverage ratios. Three additional adjustments totaling \$16,602,425 came about because of changes resulting from the Agreed Upon Procedures. In prior years these changes would have been accounted for before submitting the CAFR information to DLA.

The central office and accounting staff at the campuses as in prior years will look very closely at this year's adjustments and refine procedures to help keep the number of audit adjustments in future years to a minimum.

A summary of the last five years is below.

<b>Fiscal Year</b>	<b># of Audit Adjustments</b>	<b>Dollar Value of Adjustments</b>	<b>Impact on Net Equity</b>
2010	54	\$502,901,222.92	1.63%
2011	15	\$23,673,024.75	0.87%
2012	8	\$11,899,084.64	0.68%
2013	5	\$3,021,544.72	0.23%
2014	11	\$188,588,386.54	0.00%

**HIGHER EDUCATION  
POSTED AUDIT ADJUSTMENTS  
FISCAL YEAR 2014**

<u>Adjustment</u>	<u>Priority</u>	<u>University</u>	<u>Account Description</u>	<u>Banner Account</u>	<u>CAFR Account</u>	<u>Function</u>	<u>Amount Dr. (Cr.)</u>
1	3	Central	Interest Expense on Capital Assets	783000	52080919		10,245,200.52
			Contractual Services	741	52040100	Prog 07	(10,245,200.52)

**Purpose:** To adjust entry #23, payments to SDBA for interest expense on leases was paid from account 744520 and is included in Contractual Services on Banner.

**Issue:** An elimination entry for SDBA was incorrectly coded to interest expense instead of contractual services.

**Corrective Action:** Noted for future financial statements

2	3	Central	Net Investment in Capital Assets	410001	3300100		148,079,178.38
			Unrestricted Net Position	410010	3320000		(148,079,178.38)

**Purpose:** Central Office. To properly report the Net Investment in Capital Assets for the blending of the Building Authority.

**Issue:** The SDBA financials statements are combined with the BOR financials. This is a reclass due to debt balances held at SDBA.

**Corrective Action:** Central Office staff will be working with DLA to develop a worksheet that can be used to more accurately determine the net position classifications.

3	3	BHSU	Restricted for Debt Service	410003	3310090		7,915,974.20
			Net Investment in Capital Assets	410001	3300100		(6,506,155.86)
			Unrestricted Net Position	410010	3320000		(1,409,818.34)

**Purpose:** To properly account for the unspent cash from the 2014 bond issuance and the deferred loss on refunding in the Net Investment in Capital Assets calculation.

**Issue:** BHSU recorded bond proceeds in the incorrect fund in FY14. This caused the misclassification of net position.

**Corrective Action:** Central Office staff will be working with DLA to develop a worksheet that can be used to more accurately determine the net position classifications.

4	3	Central	Unrestricted Net Position	410010	3320000		11,396,413.21
			Net Investment in Capital Assets	410001	3300100		(11,396,413.21)

**Purpose:** Central Office. To report the Net Investment in Capital Assets for the Central Office.

**Issue:** Central Office staff misclassified the Net Position for the central office.

**Corrective Action:** Central Office staff will be working with DLA to develop a worksheet that can be used to more accurately determine the net position classifications.

5	4	Central	Contractual Services	741	52040100	Prog 07	607,025.86
			Other Revenue & Additions	783007	4920008		(607,025.86)

**Purpose:** To eliminate the netting of BAB revenue that reduced Contractual Services expenses on Banner.

**Issue:** Central Office nets the Build America Bonds subsidy against interest expense. This should be coded as a revenue item

**Corrective Action:** Noted for future financial statements

6	4	Central	Unrestricted Net Position	410010	3320000		3,786,223.71
			Restricted Net Position – Debt Service	410003	3310090		(868,886.94)
			Restricted Net Position – Other Purposes	410005	3311114		(2,917,336.77)

**Purpose:** Central Office. To adjust restricted net position to agree to the Agreed-upon Procedures Report.

**Issue:** Changes were made to net position numbers during the review of the Agreed Upon Procedures. These changes were not made until after the information for the CAFR had already been submitted to DLA.

**Corrective Action:** Noted for future financial statements

7	4	SDSU	State Aid from Primary Government	540110	4920001		2,379.95
			School and Public Lands Revenue	560340	4491440		(2,379.95)

**Purpose:** To properly report School and Public Lands revenue erroneously reported as State Aid from Primary Government.

**Issue:** SDSU misposted revenue received.

**Corrective Action:** Noted for future financial statements

**Priority Code:**

1	Highest priority. Significant error, material dollar amounts associated.
2	High priority. Lack of policy/procedure or significant dollar amounts associated.
3	Moderate priority. Policy/procedure exists but may need review
4	Low priority. Mostly human errors that can be dealt with as they come up.
5	Lowest priority. These items either were determined by DLA to be insignificant issues, not an audit adjustment, or were reversed/adjusted later.

**HIGHER EDUCATION  
POSTED AUDIT ADJUSTMENTS  
FISCAL YEAR 2014**

<u>Adjustment</u>	<u>Priority</u>	<u>University</u>	<u>Account Description</u>	<u>Banner Account</u>	<u>CAFR Account</u>	<u>Function</u>	<u>Amount Dr. (Cr.)</u>
			Reclassification between revenues/expenses/liabilities with no effect on net assets				
8	4	SDSM&T	Accounts Payable	200000	2110000		453,620.00
			Construction in Progress	1G0045	1680000		(453,620.00)

**PURPOSE:** To correct Accounts Payable and Construction in Progress for Wellness Center billing for work performed in July.

**Issue:** SDSMT recorded accruals for expenditures that should not have been accrued.

**Corrective Action:** Noted for future financial statements

9	4	SDSM&T	Unrestricted Net Position	410010	3320000		4,900,226.67
			Net Investment in Capital Assets	410001	3300100		(4,900,226.67)

**Purpose:** To properly include the unspent cash from the 2014 bond issuance and unamortized premiums/discounts in the Net Investment in Capital Assets calculation.

**Issue:** This reclass is due to unspent bonds proceeds not being used in the calculation of the Net Investment in Capital Assets.

**Corrective Action:** Noted for future financial statements

10	4	BHSU	Cash and Cash Equivalents	10	1131000		586,086.04
			Restricted Cash	10Z002	1180000		(586,086.04)

**Purpose:** To correct the restricted cash reported to agree to the AUP report.

**Issue:** Changes were made to BHSU cash numbers during the review of the Agreed Upon Procedures. These changes were not made until after the information for the CAFR had already been submitted to DLA.

**Corrective Action:** Noted for future financial statements

11	4	BHSU	Due From Federal Sources	150000	1261000		308,029.00
			Accounts Payable	200015	2110000		308,029.00
			Unbilled Grants Receivable	120045	1241100		(308,029.00)
			Unearned Revenue	2G0015	2510000		(308,029.00)

**Purpose:** To properly report unearned revenue in the Bush Grant which was improperly reported as Accounts Payable and erroneously posted as a reduction in Due from Federal Government.

**Issue:** BHSU incorrectly reclassified entries as Due From Fed when in fact they should have remained in Accounts Receivable.

**Corrective Action:** Noted for future financial statements

N/A	5	Central	Personal Services (salaries & benefits)	611010	51010100	Instruction	4,359,576.18
			Personal Services (salaries & benefits)	611010	51010100	Research	1,158,105.67
			Personal Services (salaries & benefits)	611010	51010100	Public Service	730,441.22
			Personal Services (salaries & benefits)	611010	51010100	Academic Support	1,026,696.75
			Personal Services (salaries & benefits)	611010	51010100	Student Services	798,834.35
			Personal Services (salaries & benefits)	611010	51010100	Institutional Support	1,067,193.72
			Personal Services (salaries & benefits)	611010	51010100	Operation & Maintenance of Plant	439,768.26
			Personal Services (salaries & benefits)	611010	51010100	Scholarships and Fellowships	42,591.82
			Personal Services (salaries & benefits)	611010	51010100	Auxilliary Enterprises	287,499.87
			Special Items	None	4941000		(9,910,707.84)

**PURPOSE:** To correct reversal of prior years' accumulated OPEB. No longer subsidizing retiree life insurance.

**Issue:** This is an entry posted by BFM for our OPEB adjustment. This is not an audit adjustment

**Corrective Action:** None necessary - this is not an audit adjustment

N/A	5	Central	Other Non-operating Expenses	783008	52080916		3,569,888.23
			Special Items	5none	4941000		27,500,000.00
			State Support from Primary Govt.	540110	4920001		(31,069,888.23)

**Purpose:** To record the full amount of monies that were deposited with the Escrow agency for the 2008 bonds which included \$27,500,000 for future principal payments plus \$3,569,888.23 that together will make future principal and interest payments. To classify all as State Support from Primary Govt. to tie into Primary Govt's reporting.

**Issue:** This entry is in reponse to HB1206 from the 2014 legislature. This bill paid off the state supported portion of the Series 2008 bonds. The funds were never appropriated to BOR but for financial statement purposes these funds need to be reflected as general funds.

**Corrective Action:** None necessary - this is not an audit adjustment

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1	Highest priority. Significant error, material dollar amounts associated.
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Reclassification between revenues/expenses/liabilities with no effect on net assets							
N/A	5	Central	Bond Issuance Expense	783009	5228090		57,349.90
			State Aid from Primary Government	540110	4920001		(57,349.90)
<b>Purpose:</b> To properly report Bond Issuance Expense and correct State Aid from Primary Government for Bond Issuance Costs related to HB 1206.							
<b>Issue:</b> This entry is in reponse to HB1206 from the 2014 legislature. This bill paid off the state supported portion of the Series 2008 bonds. The funds were never appropriated to BOR but for financial statement purposes these funds need to be reflected as general funds.							
<b>Corrective Action:</b> None necessary - this is not an audit adjustment							
N/A	5	Central	Due From Primary Government	1600000	1251950		40,000.00
			Accounts Receivable	1200000	1241100		(40,000.00)
<b>Purpose:</b> To post BFM reconciling adjustment for surplus property sales. (Not considered an audit exception.)							
<b>Issue:</b> BFM made a change in their Due To - Component Unit number related to BOR. This change happened after our CAFR information had been submitted.							
<b>Corrective Action:</b> None necessary - this is not an audit adjustment							
N/A	5	NSU	Restricted-Non-Expendable - Foundation	41none	3311125		369,714.00
		Foundation	Unrestricted Net Assets	410010	3320000		(369,714.00)
<b>PURPOSE:</b> To correct Foundation Net Position to correct amounts as shown on Foundation audit report. (Not considered an audit exception.) Also see Below.							
<b>Issue:</b> NSU Foundation Auditors made a change to the Foundations net position after CAFR information had been submitted.							
<b>Corrective Action:</b> None necessary - this is not an audit adjustment							

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Reclassification between revenues/expenses/liabilities with no effect on net assets	