

BOARD OF REGENTS

PRIOR AUDIT FINDING

Financial Statement Audit Finding:

Finding No. 15000200801:

A material weakness in internal control was noted with respect to external financial reporting. This was the second consecutive audit to contain this finding.

Auditee's Corrective Action Plan:

See Current Audit Finding No. 15000200901.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Findings:

Finding No. 15000200901:

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.

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 were not intended to be university specific and did not identify unique reporting considerations. In almost all instances, universities and the central office 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 reviews over the amounts being reported. As a result, the audit identified that numerous year-end entries completed by the universities and central office had material reporting errors and omissions. Adjusting entries were posted to the accounting records as recommended by us during the audit. Based on the testing performed, we identified material and/or significant errors and omissions in financial information from the following: Board of Regents central office, Black Hills State University, Dakota State University, University of South Dakota, South Dakota State University, and South Dakota School of Mines and Technology.

Our audit identified significant deficiencies over financial reporting or material adjustments for the following areas:

- Cash and cash equivalents,
- Capital assets,
- Asset and liability classification,

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- Proper recognition of liabilities and expenses,
- Proper recognition of receivables, deferred revenue, and revenue,
- Equity and equity restrictions

Because of the lack of adequate controls over the financial reporting process, there existed an increased exposure to inaccurate financial reporting.

RECOMMENDATION:

1. We recommend internal control over external financial reporting be strengthened by: a) improving the written policies and procedures on the preparation of external financial statements and the identification and correction of reporting errors or omissions; and, b) increasing management oversight and involvement over the external financial reporting process.

Auditee's Corrective Action Plan:

The Board of Regents recognizes the importance of accurate and complete financial statements for external use. Policies and procedures are being reviewed and updated with an emphasis on clear and precise procedures, particularly in the areas of combining component units, proper recognition of receivables, cash equivalents, and liabilities. A Financial Compliance Officer was hired in October 2009 to assist in improving written policies and procedures and identifying and correcting errors.

The Financial Compliance Officer has identified a number of policies and procedures necessary to improve management oversight over the external financial reporting process. The list includes, but is not limited to:

- Modification of the current Bond Cost of Issuance policy
- Written policy regarding the review of grant sub-recipient audits
- Written procedures for recording of HEFF revenue, SDBA amounts, sub-recipient payments from grants, RIS payments, 2010 centers, etc.
- Update procedures for recording student fee/state support in footnotes for 1075OPRV
- Policy for remitting unclaimed property to the State Treasurer
- Written policy detailing accounting framework being followed by the Board (i.e. GASB, BTA, etc)
- Policy for component unit determination & adjustments necessary to convert component unit from FASB to GASB
- Procedures for accounting for Auxiliary services
- More detailed guidance on capitalization – how to record Construction in Progress, recording foundation transactions, what amounts to include in cost, etc.

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Finding No. 15000200902:

A significant internal control deficiency was noted with respect to the monthly reconciliation of cash between the state accounting system and the Banner accounting system utilized by the Board of Regents for financial reporting purposes.

Analysis:

The Codification of Governmental Accounting Standards Board Statements, Section 1200, states:

A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Our tests identified that the Board of Regents Central Office did not reconcile cash between the amounts reported on the state accounting system and the amount recorded on the Banner accounting system in the wages payable clearing fund.

As a result, the Board experienced an increased exposure to accounting errors or irregularities not being detected in a timely manner and significant adjusting entries were necessary to properly present the financial statements.

RECOMMENDATIONS:

2. We recommend monthly reconciliations be performed between the state accounting system and the Banner accounting system and that timely and appropriate corrective action is taken to resolve any identified variances.
3. We recommend management monitor the reconciliation process to assure timely and accurate performance of the reconciliations and ultimate resolution of variances identified.

Auditee's Corrective Action Plan:

The wages payable clearing fund referred to is tied to the payroll for the entire Higher Education system (the central office, all six state universities and the two special schools). The Accounting Director for the Central Office has analyzed accounting transactions within the payroll system that are causing variances.

Variances result from two issues related to employees considered full time by the Regents with contract periods less than 12 months. Typically this includes only faculty and teachers. Potential contract periods are 9 months, 10 months, and 11 months. The first issue is a result of these employees deferring their contract wages over 12 months instead of the life of the contract. The second issue deals with the proration of these employees' health benefits. The South Dakota Bureau of Personnel (BOP) requires health benefits of full time employees to be paid over 12 months, regardless of the contract period. Therefore the Regental System had to develop a process by which

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employees paid their benefits to the Regents over their contract period and the Regents paid BOP over 12 months.

In years past, these issues were dealt with at the individual campuses. The conversion to a centralized payroll system has exacerbated an already complicated accounting issue.

As a result of the most recent analysis, a reconciliation template is being created for use by the central payroll system. The template will be utilized to maintain accurate reconciliations between the Banner system and the state accounting system. The Central Office will take an active part in ensuring that the reconciliation is completed in a timely manner.