

North Dakota University
System Office

BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2008

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

May 29, 2009

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
The State Board of Higher Education
Mr. William G. Goetz, Chancellor, North Dakota University System Office

We are pleased to submit this audit of the North Dakota University System Office for the two-year period ended June 30, 2008. 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 Dave Feltman. 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 Chancellor Goetz 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

Introduction

The North Dakota University System (NDUS) Office and the State Board of Higher Education (SBHE) are responsible for the control and administration of North Dakota's state higher education institutions. The State Board of Higher Education is the governing board for the University System. The Board was created by Article VIII, Section 6 of the State Constitution.

The SBHE consists of eight voting and one non-voting member(s). The Governor with the advice and consent of the Senate appoints seven members who are qualified electors and taxpayers of the state, and who have resided in the state for not less than five years immediately preceding their appointments. The eighth member is a full-time resident student appointed by the Governor. A ninth member is a faculty member (non-voting) selected by the statewide Council of College Faculties.

The Chancellor of the NDUS is appointed by the SBHE and is responsible to the Board and shall be removed by the Board for cause. The Presidents of the respective institutions are appointed by the Board and report to the Chancellor.

The Board has full authority over the institutions under its control with the right to prescribe, limit, or modify the courses offered at the institutions. The Board has the control of the expenditure of the funds belonging to, and allocated to the institutions, and also the funds appropriated by the Legislature.

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 the North Dakota University System Office 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?

Other than our finding addressing the "2008 accountability measures report" (page 16), the North Dakota University System Office was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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?*

No.

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 and is included on page 19 of this report, along with management'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 significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

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 estimate used by the North Dakota University System Office was the determination of useful lives of capital assets. Estimated useful lives are used to compute depreciation on capital assets. We evaluated the useful lives assigned to capital assets and determined they were reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

In our North Dakota University System audit reports for fiscal years 2008 and 2007, all of the material adjustments we proposed for the North Dakota University System Office were recorded. Other non-material audit adjustments were proposed and the North Dakota University System Office was given the option to record or not record. A listing of Posted Audit Adjustments and Passed Audit Adjustments was included in the 2008 and 2007 North Dakota University System 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 the North Dakota Student Financial Assistance Program are high-risk information technology systems critical to the North Dakota University System Office.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota University System Office for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota University System Office'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 North Dakota University System Office and are they in compliance with these laws?
3. Are there areas of the North Dakota University System Office operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota University System Office is for the two-year period ended June 30, 2008. 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.

The North Dakota University System Office has operations in the following locations. Each location was included in the audit scope:

- The central office in the Capitol Building.
- The state approving agency at the campus of Bismarck State College.
- Information technology services at the campuses of North Dakota State University and the University of North Dakota.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the data used in the fiscal year 2008 and fiscal year 2007 North Dakota University System Annual Financial Reports 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. Nonstatistical sampling was used. 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 North Dakota University System Office'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.

Confidential or sensitive information omitted:

- None.

Discussion and Analysis

The accompanying financial statements have been prepared in a condensed form to present the North Dakota University System Office's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. All fund types are condensed and reported in one column. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

Financial Summary

For the two-year period ended June 30, 2008, operations of the North Dakota University System Office were primarily supported by appropriations from the state's general fund (84%) and other revenue consisted primarily of student tuition and fees (9%). Total revenues were \$23,060,349 for the year ended June 30, 2008 as compared to \$19,428,479 for the year ended June 30, 2007. The increase in revenue for the year ended June 30, 2008, was primarily due to the timing of drawdowns of state appropriations.

Total expenses for the North Dakota University System Office were \$22,940,440 for the year ended June 30, 2008 as compared to \$19,230,016 for the prior year. This includes transfers to the building authority of \$7,132,909 and \$5,984,792 for June 30, 2008 and 2007, respectively. The increase in total expenses for the audited period was primarily for scholarships and fellowships and transfers to the building authority (for payment of principal and interest).

Noncurrent assets and liabilities are the most significant items on the Statement of Net Assets, representing the capitalization of the ConnectND project (PeopleSoft) and the related bond activity associated with the project.

Analysis of Significant Changes in Operations

No significant changes noted.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

The North Dakota University System Office exceeded its system governance line item by \$33,760 for the biennium ended June 30, 2007. This occurred because of a difference between the North Dakota University System Office and the State Auditor's Office on how to record \$206,331 for additional premiums from the TIAA/CREF deposit account. The Statement of Appropriations presents the item as an appropriated expense rather than a nonappropriated expense or a reduction in revenue.

Financial Statements

Statement of Net Assets

ASSETS	June 30, 2008	June 30, 2007
Current assets		
Cash and cash equivalents	\$ 153,377	\$ 538,724
Accounts receivable, net	151,677	179,649
Due from state general fund	969,806	450,000
Grants and contracts receivable		245,247
Total current assets	<u>\$ 1,274,860</u>	<u>\$ 1,413,620</u>
Noncurrent assets		
Unamortized bond discount and cost of issuance	\$ 81,397	\$ 97,677
Capital assets, net	12,830,950	13,900,196
Total noncurrent assets	<u>\$ 12,912,347</u>	<u>\$ 13,997,873</u>
Total assets	<u>\$ 14,187,207</u>	<u>\$ 15,411,493</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 739,591	\$ 674,219
Accrued payroll	98,193	109,193
Deposits		1
Due to Others	1,513,614	1,452,656
Total current liabilities	<u>\$ 2,351,398</u>	<u>\$ 2,236,069</u>
Noncurrent liabilities		
Other noncurrent liabilities	\$ 197,178	\$ 236,614
Due to Others	8,754,710	10,174,798
Total noncurrent liabilities	<u>\$ 8,951,888</u>	<u>\$ 10,411,412</u>
Total liabilities	<u>\$ 11,303,286</u>	<u>\$ 12,647,481</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 2,809,301	\$ 2,433,696
Restricted	31,505	46,608
Unrestricted	43,115	283,708
Total net assets	<u>\$ 2,883,921</u>	<u>\$ 2,764,012</u>

Statement of Revenues and Expenses

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
OPERATING REVENUES		
Student tuition and fees	\$ 1,887,178	\$ 1,887,935
Federal grants and contracts	266,295	
State and local grants and contracts		126,224
Other	223,460	770,868
Total operating revenues	<u>\$ 2,376,933</u>	<u>\$ 2,785,027</u>
OPERATING EXPENSES		
Salaries and wages	\$ 2,747,409	\$ 2,267,662
Operating expenses	1,143,615	1,416,724
Data processing	15,056	21,653
Depreciation expense	1,069,246	1,069,246
Scholarships and fellowships	6,343,835	3,971,112
Total operating expenses	<u>\$ 11,319,161</u>	<u>\$ 8,746,397</u>
Operating loss	<u>\$ (8,942,228)</u>	<u>\$ (5,961,370)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 19,534,036	\$ 16,284,479
Federal grants and contracts	169,181	
Investment income	3	1,538
Interest on capital assets-related debt	(426,048)	(480,055)
General and special grant expenditures	(4,062,322)	(4,018,772)
Other nonoperating revenues	630,196	357,435
Net nonoperating revenues	<u>\$ 15,845,046</u>	<u>\$ 12,144,625</u>
Income before transfers	<u>\$ 6,902,818</u>	<u>\$ 6,183,255</u>
Transfers to Building Authority	\$ (7,132,909)	\$ (5,984,792)
Capital grants and gifts	350,000	
Total other revenue	<u>\$ (6,782,909)</u>	<u>\$ (5,984,792)</u>
Increase in net assets	<u>\$ 119,909</u>	<u>\$ 198,463</u>
NET ASSETS		
Net assets - beginning of year	<u>\$ 2,764,012</u>	<u>\$ 2,565,549</u>
Net assets - end of year	<u>\$ 2,883,921</u>	<u>\$ 2,764,012</u>

Statement of Appropriations

For The Biennium Ended June 30, 2007

OBJECT	2005-2007		FY07 Expenses	FY06 Expenses	BALANCE 6-30-07
	Original Appropriation	Appropriation Adjustments			
Equity and Sp Needs Pool	\$ 2,000,000	\$ (2,000,000)			
System Governance	5,568,422	227,581	\$ 3,235,501	\$ 2,594,262	\$ (33,760)
Operations Pool	388,559	(271,581)			116,978
Capital Assets	14,278,141		5,984,791	6,589,849	1,703,501
Student Fin. Assistance Grants	3,504,402	319,100	1,885,339	1,528,946	409,217
Higher Ed Contingency Fund	436,923	(179,000)	113,980	17,625	126,318
Scholars Program	862,077	53,379	352,564	377,873	185,019
Title II Grant	695,600		289,879	292,337	113,384
Native American Scholarships	251,988	1,638	127,270	125,690	666
Technology	20,563,093	(20,563,093)			
Education Incentive Program	1,227,902	349,412	641,583	662,701	273,030
Student Exchange	2,127,280	109,891	964,357	991,750	281,064
Professional Liability Insurance	1,350,000		675,000	675,000	
Competitive Research Program	5,190,000		2,595,000	2,595,000	
Biennium Carryover		494,004	158,433	275,668	59,903
Board Initiatives	1,885,000	(1,858,826)			26,174
TOTALS	\$ 60,329,387	\$ (23,317,495)	\$ 17,023,697	\$ 16,726,701	\$ 3,261,494
General Fund Authority	\$ 57,729,611	\$ (23,429,801)	\$ 16,359,998	\$ 16,127,454	\$ 1,812,358
Federal Fund Authority	1,057,526		454,823	440,554	162,149
Special Fund Authority	1,542,250	112,306	208,876	158,693	1,286,987
TOTALS	\$ 60,329,387	\$ (23,317,495)	\$ 17,023,697	\$ 16,726,701	\$ 3,261,494

2006-2007 Appropriation Adjustments:

Line Item	Amount	Reason
Equity and Special Needs Pool	\$ (400,000)	Transfer to BSC for the equity allocation formula
	(400,000)	Transfer to LRSC for the equity allocation formula
	(900,000)	Transfer to NDSU for the equity allocation formula
	(300,000)	Transfer to UND for the equity allocation formula
Operating Expenses	227,581	Transfer from operations pool for various expenses
Operations Pool	(44,000)	Transfer to UND for system priorities
	(227,581)	Transfer to operating expenses for various expenses
Student Financial Assist. Grant	319,100	2003-05 carryover
Higher Ed Contingency Fund	59,559	2003-05 carryover
	(23,809)	Transfer to MISU for disabled student funding
	(32,577)	Transfer to VCSU for disabled student funding
	(4,702)	Transfer to MISU-BC for disabled student funding
	(16,077)	Transfer to LRSC for disabled student funding
	(38,777)	Transfer to NDSCS for disabled student services
	(47,692)	Transfer to MASU for presidential search expenses
	(19,782)	Transfer to NDSU for disabled student services
	(41,653)	Transfer to MASU for facility/energy assessment
	(3,182)	Transfer to UND for disabled student funding
	(2,577)	Transfer to MASU for disabled student funding
	(2,577)	Transfer to BSC for disabled student funding
	(2,577)	Transfer to DSU for disabled student funding
	(2,577)	Transfer to WSC for disabled student funding
Scholars Program	53,379	2003-05 carryover
Native American Scholarships	1,638	2003-05 carryover
Technology	(11,880,335)	Transfer to UND for technology funding
	(8,356,378)	Transfer to NDSU for technology funding
	(326,380)	Transfer to MISU for technology funding
Education Incentive Program	349,412	2003-05 carryover
Studency Exchange	109,891	2003-05 carryover
Biennium Carryover	494,004	2003-05 carryover
Board Initiatives	(200,000)	Transfer to UND for ND Space Grant Consortium
	(160,000)	Transfer to UND for Alcohol Consortium
	1,174	2003-05 carryover
	(1,500,000)	Transfer to UND for ConnectND
Total Appropriation Adjustments	<u>\$ (23,317,495)</u>	

For The Year Ended June 30, 2008

<u>OBJECT</u>	2007-2009			Balance 6-30-08
	Original Appropriation	Appropriation Adjustments	FY08 Expenses	
Operations Pool		\$ 116,978		\$ 116,978
Capital Assets	\$ 16,504,112	200,000	\$ 7,332,909	9,371,203
Student Fin. Assistance Grants	5,987,497	364,300	3,102,398	3,249,399
Scholars Program	1,478,566	185,019	588,439	1,075,146
Title II Grant	695,600		169,555	526,045
Native American Scholarships	380,626	666	186,000	195,292
Technology	31,477,093	(16,962,974)	128,727	14,385,392
Education Incentive Program	1,740,314	273,030	1,173,654	839,690
Tribal Community College Grnts	700,000		350,000	350,000
Student Exchange	2,722,946	53,564	1,221,845	1,554,665
Professional Liability Insurance	1,100,000		550,000	550,000
Competitive Research Program	5,650,000		2,825,000	2,825,000
Biennium Carryover		450,354	92,676	357,678
Board Initiatives	398,500	(372,326)		26,174
System Governance	5,883,394		3,058,700	2,824,694
TOTALS	\$ 74,718,648	\$ (15,691,389)	\$ 20,779,902	\$ 38,247,357
General Fund Authority	\$ 68,601,118	\$ (14,125,385)	\$ 19,719,409	\$ 34,756,324
Federal Fund Authority	1,090,600		342,369	748,231
Special Fund Authority	5,026,930	(1,566,004)	718,123	2,742,803
TOTALS	\$ 74,718,648	\$ (15,691,389)	\$ 20,779,902	\$ 38,247,357

2008 Appropriation Adjustments:

Line Item	Amount	Reason
Equity and Special Needs Pool	\$ 116,978	2005-07 carryover
Capital Assets	200,000	2005-07 carryover
Student Financial Assistance Grt	364,300	2005-07 carryover
Contingency Fund	126,318	2005-07 carryover
	(22,000)	Transfer to NDSCS for disabled student services
	(55,000)	Transfer to WSC for operations
	(49,318)	Transfer to VCSU for operations
Scholars Program	185,019	2005-07 carryover
Native American Scholarships	666	2005-07 carryover
Technology	(15,189,174)	Transfer to NDSU & UND for technology funding
	(1,773,800)	Transfer to NDSU for technology funding
Education Incentive Program	273,030	2005-07 carryover
Student Exchange	53,564	2005-07 carryover
Biennium Carryover	242,559	2005-07 carryover
	192,290	2005-07 carryover
	15,505	2005-07 carryover
Board Initiatives	(98,500)	Transfer to MISU-BC for recruiting initiative
	(300,000)	Transfer to UND for the Space Grant Consortium
	26,174	2005-07 carryover
Total Appropriation Adjustments	<u>\$ (15,691,389)</u>	

Internal Control

In our audit for the two-year period ended June 30, 2008, we identified the following areas of the North Dakota University System Office'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 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 the North Dakota University System Office in a management letter dated May 29, 2009, included on page 19 of this report.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2008, we identified and tested North Dakota University System Office's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- \$15,754,112, or so much of the sum as may be necessary, included in the capital assets line item (subdivision 1 of section 3) was used by the State Board of Higher Education to satisfy outstanding bond obligations (2007 HB 1003, chapter 3, section 6).
- \$31,477,093, or so much of the sum as may be necessary, included in the common information services line item (subdivision 1 of section 3), was used for the benefit of the institutions and entities under the control of the State Board of Higher Education, as determined by the board. Funding allocations are based on the North Dakota University System information technology plan and technology priorities. Funds allocated pursuant to this section were used to support the higher education computer network, the interactive video network, the on-line Dakota information network, ConnectND, northern tier network, and other related technology initiatives as determined by the board (2007 HB 1003, chapter 3, section 7).
- The University System reported full-time equivalent position adjustments to the Office of Management and Budget before the submission of the 2009-2011 biennium budget request (2007 HB 1003, chapter 3, section 13).
- The State Board of Higher Education's performance and accountability report includes an executive summary and required information (NDCC 15-10-14.2).
- The State Board of Higher Education limited annual tuition increases for students attending institutions under its control for the 2007-2008 and 2008-2009 academic years to not more than 5% for each year unless the board receives prior budget section approval (2007 HB 1003, chapter 3, section 18).
- The North Dakota University System reported to the appropriations committees of the sixty-first legislative assembly on the use of one time funding for the biennium beginning July 1, 2007 ending June 30, 2009 (2007 HB 1003, chapter 3, section 19).
- Only the higher education institutions utilizing the northern tier network are funding the related ongoing maintenance costs for the network (2007 HB 1003, chapter 3, section 21).
- The State Board of Higher Education entered into an agreement or agreements with the North Dakota State University Foundation or other private entity and did everything necessary and proper to authorize construction by the foundation or other private entity of a college of business building off the North Dakota State University campus, using donations, gifts, or other private funds (2007 HB 1003, chapter 3, section 22).
- \$700,000, or so much of the sum as may be necessary, appropriated from the permanent oil tax trust fund, was used for providing grant assistance payments to tribally controlled community colleges, for the biennium ending June 30, 2009. No more than \$350,000 may be expended for this purpose during the first year of the biennium (2007 HB 1395, chapter 160, section 6).

- The State Board of Higher Education managed and regulated information technology planning and services for institutions under its control including development of an annual report concerning higher education information technology planning and services (2007 HB 1461, chapter 154, section 1, part 1e).
- Board member compensation, except for the student member, is limited to \$100 per day, plus expenses, for each calendar day actually spent devoted to the duties of the office (NDCC 15-10-08).
- Eligibility requirements of NDCC 15-62.2-00.1 (1), 15-62.2-02 (2) and 15-62.2-03.2 for the student financial assistance and scholars program have been met.
- Indian Scholarships do not exceed \$667/quarter or \$1000 per semester to individual recipients (NDCC 15-63-05).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 and 2007 North Dakota Session Laws chapters 31 and 3, respectively).
- Travel-related expenditures are made in accordance with state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the North Dakota University System Office in a management letter dated May 29, 2009, included on page 19 of this report.

Accountability Measures Report (Finding 08-1)

Measure ED4 of the 2008 Accountability Measures Report was not in compliance with NDCC 15-10-14.2. The 2008 report was changed to report only research expenditures instead of research expenditures as a percent of total NDUS expenditures, with some economic impact data. Also changed was the source of the amounts, the 2008 amounts were those reported by NDSU and UND to the National Science Foundation (NSF), rather than amounts from the NDUS annual audited financial statements. This was done because the amounts reported to the NSF were larger and made North Dakota look better in comparison to the other states. For

example, the fiscal year 2008 research expenditures per the NSF and per the NDUS audited financial statements were \$180.5 million and \$123.6 million, respectively, for a difference of \$56.9 million.

NDCC 15-10-14.2, note 5d states to include information regarding research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.

Recommendation:

We recommend that the North Dakota University System Office comply with NDCC 15-10-14.2 and use the audited financial statements as their source for research expenses.

North Dakota University System Office Response:

Partially Agree. Since first reported in 2002, the NDUS has consistently reported research expenditures as a percent of total NDUS expenditures. As the measure narrative points out we have not reported research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity, as required by NDCC 15-10-14.2 since that would always result in a 1:1 ratio.

In issuing the 2008 annual report, the NDUS made a conscious decision to change data sources for measure reporting purposes. First, during 2008 a consultant hired by the Interim Legislative Higher Education Committee recommended changes to several accountability measures, including the one above related to research activity. The new measure, as ultimately recommended by the Interim Committee and approved by the 2009 Legislative Assembly, would be "annual dollar amount of research expenditures by ND institutions of funds received from federal, foundation, and business sponsors benchmarked against historical trends." The consultant suggested using NSF data which contains all competitive external grants, and would permit, if necessary peer comparisons. The NDUS anticipated this and other measures would be changed (and were in fact adopted) during the 2009 session. The change in data sources also better aligned reporting of research activity between amounts reported in the annual NDUS accountability report and in other system and campus publications, to help reduce confusion between reported figures. Furthermore, it should be noted that the NSF data includes research expenditures from all sources, and will allow the NDUS to better comply with the new legislative reporting requirement.

Although the NSF figures are larger than the annual financial statement figures, both are correct, they are just different reporting measures.

Auditor Rebuttal:

If the source of amounts reported in the accountability measures report are amounts reported to other organizations, then, at a minimum, the reported amounts should be reconciled to the audited financial statement amounts.

Operations

This audit did not identify areas of North Dakota University System Office's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.



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)

May 29, 2009

Ms. Robin Putnam
Director of Financial Reporting
North Dakota University System
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Putnam:

We have performed an audit of the North Dakota University System Office for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota University System Office'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 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.

1. **ONL's Approval and Support**

The NDUS office did not appear to have a procedure in place where a hard copy of all correcting entries made was printed and submitted to an appropriate person for approval. It also appeared that the NDUS office was not always maintaining adequate documentation in their files to support the entries that were made.

The Committee of Sponsoring Organizations of the Treadway Commission highlights the need for strong internal controls. Strong internal controls include appropriate review, approval, and support.

Recommendation:

We recommend the North Dakota University System Office implement procedures to ensure that all correcting entries are reviewed and approved by an appropriate individual and that adequate documentation is maintained to support all correcting entries.

North Dakota University System Office response:

Agree. The NDUS Office has implemented procedures for review and approval of all correcting entries. Additionally, adequate supporting documentation will be retained with all correcting journal entries.

2. **Annual Report Concerning Information Technology**

An annual report regarding higher education information technology planning and services was not developed.

NDCC 15-10-44 1e states that the State Board of Higher Education shall manage and regulate information technology planning and services for institutions under its control, including development of an annual report concerning higher education information technology planning and services.

Recommendation:

We recommend that the North Dakota University System Office comply with NDCC 15-10-44 1e by developing an annual report concerning higher education information technology planning and services in a timely manner.

North Dakota University System Office response:

Agree. The NDUS recognizes the report was not submitted in a timely manner following the 2007-2008 fiscal year. There were extenuating circumstances in that our CIO had unexpected health related issues which delayed the completion of the report for several months. The report has been completed and this should not be an issue in the future.

3. **Board Member Compensation**

During our testing of board member compensation, we noted one board member was paid twice for the same time period – June and August 2007. A total of 5 days were worked during these months, therefore, the board member was overpaid \$500.

NDCC 15-10-08 limits board member compensation to \$100 for each day spent devoted to the duties of the office.

Recommendation:

We recommend the North Dakota University System Office comply with NDCC 15-10-08 by ensuring each day is paid only once and by recovering the overpayment.

North Dakota University System Office response:

Agree. Vouchers were submitted several months apart and a duplicate payment was inadvertently made. The duplicate payment will be offset against a future payment to the specific SBHE member. Procedures have been put in place to review for duplicate submissions more carefully in the future.

4. Travel Vouchers

During our testing of expenses, we noted two instances where it appeared the wrong amount was reimbursed to NDUS employees or board members. One board member was compensated for all meals on a trip when it appeared some meals were included with the conference registration. An employee was paid the wrong amount for out-of-state meals as the wrong city was used for the per diem calculation.

NDCC 44-08-04 (1) states in part “if a meal is included in a registration fee, the applicable quarter allowance cannot be claimed for that meal”. NDCC chapter 44-08 set fourth requirements for meal reimbursement rates and procedures. Per NDUS procedure 706.3, NDCC 44-08 applies to their travel reimbursements.

Recommendation:

We recommend the North Dakota University System Office review travel vouchers to ensure compensation is properly calculated based on NDCC 44-08 and by recovering any amounts overpaid.

North Dakota University System Office response:

Disagree. In the first instance, payment was made based on information submitted and it was unclear from the conference materials submitted whether meals were provided or not as part of the conference, so payment was made based on the reimbursement form submitted by the Board member. The NDUS will continue to rely on the request for reimbursement submitted by each individual, with substantiation, to the extent possible, from other information sources of the appropriateness of claims.

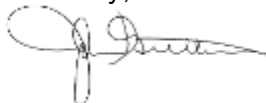
Agree. In the second instance, the per diem rate for another city was inadvertently paid resulting in an overpayment of \$15. Rates will be reviewed more carefully before payments are made in the future.

Auditor rebuttal:

The annual meeting policy on the conference’s website included a sentence that said “The registration fee covers attendance at all program sessions and meal functions.” Therefore, at least some meals were included in the registration fee and should not have been reimbursed.

I encourage you to contact our Fargo office if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



John Grettum, CPA
Audit Manager, Division of State Audit

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

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