

Office of the State Auditor

Division of State Audit

North Dakota University System

Audit Committee Communication and
Report on Internal Control, Compliance and
Other Matters
For the year ending June 30, 2008
Client Code 220

Robert R. Peterson
State Auditor



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Transmittal Letter

December 11, 2008

Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
The State Board of Higher Education

We are pleased to submit the internal control and compliance report for the North Dakota University System. This report relates to the audit of the North Dakota University System's financial statements for the year ended June 30, 2008. This internal control and compliance report has been completed in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States.

Also enclosed you will find our audit committee communication and posted and passed audit adjustments. These communications are required by generally accepted auditing standards. Our informal recommendations are listed in this report as 2008 management letter informal comments. This letter is presented to meet the request of the Legislative Audit and Fiscal Review Committee to see informal recommendations.

The in-charge auditor for this audit was Paul Steussy. Mark Scott, CPA, David Feltman, Mary Feltman, CPA, Robyn Hoffmann, CPA, and Chris Brucks were the staff auditors. 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 the North Dakota University System for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Honorable John Hoeven, Governor
Members of the Legislative Assembly
The State Board of Higher Education

We have audited the financial statements of the business-type activities of the North Dakota University System and its aggregate discretely presented component units as of and for the year ended June 30, 2008, which collectively comprise the North Dakota University System's basic financial statements and have issued our report thereon dated December 11, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units, as described in our report on the North Dakota University System's financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota University System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota University System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota University System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Dakota University System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Dakota University System's financial statements that is more than inconsequential will not be prevented or detected by the North

Dakota University System's internal control. We consider the deficiencies described in the accompanying schedule of prior recommendations not implemented and University System responses as items 1 through 5 and in the schedule of findings, recommendations, and University System responses as findings 08-1 through 08-8 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the North Dakota University System's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 1, 3, 4, and 5 and findings 08-3, 08-5, and 08-6 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota University System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the North Dakota University System in a separate letter dated December 11, 2008, included in this report as 2008 Management Letter Informal Comments.

The North Dakota University System's response to the findings identified in our audit are described in the accompanying schedule of prior recommendations not implemented and University System responses, the schedule of findings, recommendations, and University System responses, the 2008 management letter informal comments and appendix A – classification. We did not audit the North Dakota University System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the State Board of Higher Education Budget and Finance committee, the Governor, and the Legislative Audit and Fiscal Review committee and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson
State Auditor

December 11, 2008

Audit Committee Communication

December 11, 2008

Legislative Audit and Fiscal Review Committee

State Board of Higher Education Budget and Finance Committee

We have audited the financial statements of the business-type activities of the North Dakota University System and its aggregate discretely presented component units for the year ended June 30, 2008, and have issued our report thereon dated December 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated May 20, 2008 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the North Dakota University System. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the North Dakota University System's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the North Dakota University System are described in Note 1 to the financial statements. No new accounting policies were adopted that had a material effect on the financial statements and the application of existing policies was not changed during fiscal year 2008. We noted no transactions entered into by the North Dakota University System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Useful lives of capital assets
- Allowance for uncollectible receivables:

Accounts	\$3,934,382
Loans and Notes	\$6,077,522
- Medical School Hospital Receivables \$2,385,706

Estimated useful lives, as described in Note 1 of the North Dakota University System's fiscal year 2008 financial report, are used to compute depreciation on capital assets.

Management's estimate of the allowances 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 they are reasonable in relation to the financial statements taken as a whole.

UND's Medical School has Residency programs with the teaching hospitals in the state and is reimbursed based on final Medicare cost report information. Because cost reports are not completed by the time the financial statements are presented, UND estimates and records a receivable based on the latest, written information available from Medicare and the hospitals as to what may be collected from the hospital for the program. Due to changing laws, past Medicare reports are being re-opened by the federal government and reimbursements to the Medical School are being changed retroactively, thereby affecting the total that UND may collect. The two Bismarck teaching hospitals are contesting the federal government in court over the retro-active application of these new rates. UND does not have a problem applying the new rates going forward, but they believe it is unfair and unjust to change standards that were in place, that they used to budget and plan its operations. The outcome of the court case cannot be determined at this time but UND feels it has a good chance of winning. This came to light when we confirmed an amount at one of the Bismarck hospitals and it came back with a number \$1,108,030 lower than UND had estimated to be receivable at year-end. UND's accounts receivable was reduced by increasing the allowance for doubtful accounts by this amount due to the uncertainty surrounding the court case. As a result of this adjustment, the Bismarck Family Medicine Center has a \$1,160,880 deficit as June 30, 2008.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An adjustment may or may not indicate matters that could have a significant effect on the North Dakota University System's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, all of the material adjustments that we proposed (see Posted Audit Adjustments) indicate matters that

could have had a significant effect on the North Dakota University System's financial reporting process. All of these adjustments were recorded by the North Dakota University System.

In addition, the schedule (see Passed Audit Adjustments) summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. Bismarck State College disagreed with our recommendation regarding the use of the state's purchase card vendor, for additional commentary, see item 7 in the 2008 Management Letter Informal Comments section, beginning on page 28. In addition, the University of North Dakota disagreed with our recommendation regarding the proper use of fund groups, for additional commentary, see Appendix A, beginning on page 38.

Consultation with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the North Dakota University System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

High Risk Information Technology Systems

ConnectND Finance System, including general ledger, commitment control, asset management, purchasing, payables, grants management, project costing, grant and contract administration, billing and receivables; Human Resource Management System (HRMS), including recruiting solutions, core HR/Base benefits, benefits administration, payroll and commitment accounting and Student Administration System, including recruitment and admission, campus community, financial aid, student finance and student records are high-risk information technology systems critical to the North Dakota University System operations.

This information is intended solely for the internal use of the Legislative Audit and Fiscal Review Committee and the State Board of Higher Education Budget and Finance Committee and is not intended to be and should not be used by anyone other than these specified parties.

The in-charge auditor for this audit was Paul Steussy and 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.

Sincerely,

John Grettum, CPA
Audit Manager, Division of State Audit

Special Comments Requested by the Legislative Audit and Fiscal Review Committee

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state institutions:

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

No. For additional commentary see the Findings, Recommendations, and University System Responses section of this report, starting on page 11.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

Yes. Based on the number of unimplemented prior recommendations, posted audit adjustments, passed audit adjustments, and new formal and informal recommendations, in our opinion, there is a lack of efficiency in financial operations and management of the agency.

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

No. For additional commentary see the Prior Recommendations Not Implemented and University System Responses section of this report, starting on page 9.

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

Yes. We made 16 informal recommendations to which management responded. For additional commentary and management responses, see the 2008 Management Letter Informal Comments section of this report, starting on page 28.

Prior Recommendations Not Implemented and University System Responses

Prior recommendations not implemented and client responses, item #5 of the Special Comments Requested by the Legislative Audit and Fiscal Review Committee.

- 1). During the 2002, 2005, 2006, and 2007 audits we recommended that the NDUS properly use the account codes, funds, fund groups, and functions that are available on PeopleSoft to comply with General Accepted Accounting Principles (GAAP). This includes the proper initial recording of all assets, liabilities, equities, revenues, and expenses. Our testing during the current audit indicated the same problems exist. For details, including University System Responses, see Appendix A, beginning on page 38.
- 2). During the 2004, 2005, 2006, and 2007 audits we recommended that all institutions prepare timely accrued payroll liability reconciliations and improve year-end procedures to provide accurate financial information. Our testing during the current audit indicated payroll withholding payables per the general ledger were \$158,475 lower than the detailed supporting documentation for accounts 223026, 223051, and 223076. Reconciliations for these accounts to a difference of less than one dollar were completed by BSC, DSU, NDSU, VCSU, and NDUSO, but not by LRSC, MaSU, MISU and MISU-BOTT, NDSCS, UND, and WSC. The institutions were able to reduce the difference to about \$22,837 by using certain deductions, taxes, and fringe benefits that are accrued each pay period, but are not remitted to the applicable third party each pay period, such as North Dakota state income tax and workers compensation. In addition, we noted that WSC did not reverse July 2008 health and life insurance premiums of \$27,431 out of fiscal year 2008 expenses.

University System Response:

Agree. LRSC, MASU, MISU, MISU-BC, NDSCS, and WSC will reconcile payroll withholdings as a part of their year-end procedures.

- 3). During the 2005, 2006, and 2007 audits we recommended that all institutions print a standard form for all online transactions with approval noted. Our current audit indicated that not all journal entries are being properly approved at NDSU or UND.

Our test of ONL's at NDSU indicated that proper approval procedures for journal entries did not begin until January 2008, and even then not all ONL's were being properly approved (NDSU's listing did not include journal entries to full accrual or consol ledgers and did not include journal entries that are backdated into periods where the listing had been run). In the preliminary testing 1 of 28 were not properly approved and in the final testing 11 of 20 were not properly approved.

Our test of ONL's at UND indicated that 5 of 24 were not properly approved.

University System Response:

Agree. At the end of the prior audit NDSU came to an agreement with the auditors on a method of approving ONL entries. The new method was implemented January 2008. Seven of the nine exceptions noted in the final testing occurred prior to January 2008. The other two exceptions were fiscal year-end entries made by the Controller to the full accrual ledger. The entries to this ledger were not picked up by the monthly batch report. Going forward, NDSU will include all ledgers in the monthly batch report that is approved by the Controller and Accountant. UND requires approval of all journal entries and will review these documents with the auditors.

- 4). During the 2007 audit we recommended that NDUS management establish appropriate internal controls and provide sufficient training to personnel so that the NDUS is able to prepare financial statements in conformity with GAAP. Our current audit indicated that the financial reporting system of the NDUS was not adequate to offer reasonable assurance that management was able to produce financial statements that comply with generally accepted accounting principles (GAAP). In fiscal year 2008, there were material auditor-identified audit adjustments of \$41,836,063, \$29,084,267, \$43,387,461, \$9,167,805, and \$2,835,970 to total assets, total liabilities, total equity, total revenue, and total expenses, respectively. For details, see Posted Audit Adjustments on page 21 of this report. By comparison, in fiscal year 2007, there were material auditor-identified audit adjustments of \$45,903,840, \$94,003,259, \$43,256,853, \$19,165,520, and \$6,110,840 to total assets, total liabilities, total equity, total revenue, and total expenses, respectively. Even though fiscal year 2008 showed an improvement over 2007, the adjustments were still too numerous and significant. In our opinion, all of the accounting issues that required audit adjustments should have been detected by appropriate internal controls or corrected by management responsible for the preparation of financial statements.

University System Response:

Agree. The NDUS will continue to strive for improvement, including identifying changes needed to facilitate better training and more timely preparation to allow for proper review and corrections.

- 5). During the 2007 audit we recommended that each campus assign one individual to monitor PeopleSoft access rights, so access privileges are restricted to necessary individuals and each campus perform a review of access privileges on at least an annual basis. During the current audit period this was not done. We noted instances where individuals had access to computer application rights for processes they did not need. It appeared that these individuals were given access to extra applications when PeopleSoft was first implemented, but access was not adequately monitored or updated, as needed. We also noted that terminated individuals or individuals that switched departments did not have their access rights removed or changed.

On August 11, 2008, a notice was sent to campus access control officers from ConnectND personnel to remind the campuses to review access rights. However, since this notice occurred in fiscal year 2009, the recommendation was not implemented timely nor was there documentation beside the email which showed that an actual review was performed.

University System Response:

Agree. NDUS has put procedures in place to remind campus control officers, on an annual basis, to review and document the review of access rights.

Findings, Recommendations, and University System Responses

CENTRAL STORES INVENTORY – NDSU (FINDING 08-1)

While performing year-end inventory procedures at NDSU's central stores we noted:

1. Inventory instructions have not been updated since 2003.
2. Inventory instructions were not passed out to those doing the counting (Kelly temps).
3. Issuances were being made during inventory and tracking of those issuances was not adequate.
4. Count tags were not affixed but were placed in or under the box/supply that was being counted and we noticed a good number of tags lying on the floor or on another shelf as the tags went flying when someone walked by.
5. Count tags were not being initialed by the counting party so we couldn't tell who counted the item when there were problems.
6. Obsolete inventory was being maintained.
7. Count teams did not appear to be doing a good job as we had a number of errors in recounts.
8. One of the count team members had split off and was counting alone contrary to normal procedures whereby counts were done in pairs.

Good internal controls dictate that proper controls be in place for accurate inventory valuation.

Recommendation:

We recommend that NDSU's Central Stores do the following prior to and during the next physical inventory:

1. Update the inventory instructions.
2. Pass out inventory instructions for count teams to read and follow prior to the actual inventory taking.
3. Do not make issuances to departments during inventory or have a better system to track issuances.
4. Affix count tags to the items or fixtures housing them with either tape or post-it notes created for that purpose.
5. Have the count team initial the count tag so it can be easily determined who did the counting.
6. Run a listing of issuances and remove old, obsolete inventory from the records and dispose of it through surplus property or by scrapping.
7. Consider using people other than Kelly temps if they can't perform better than they did.
8. Have count personnel work in pairs and not individually.

University System Response:

Agree. NDSU will review this recommendation with the Central Stores manager and make the necessary changes to strengthen the internal controls as recommended.

RISK ASSESSMENT SYSTEM – ROLE OF INTERNAL AUDITORS (FINDING 08-2)

Based on the responses of our audit questionnaires and our observations and testing, it appears that:

- No comprehensive risk assessment was performed on any campus or by the Board Office for the system.
- None of the campuses have a formal fraud training program for new and/or existing employees.
- The internal audit staff at UND and NDSU were not involved with an overall risk assessment for the campuses.
- Several campuses have experienced loss due to theft or fraud because proper internal controls have not been in place.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Control Risk Assessment including a Fraud Risk Assessment program be established and practiced to identify risks within the department's control environment including fraudulent type activities, when special circumstances arise, when changing operating environments, and for restructuring. Management must assume its responsibility for the internal control systems that monitor, detect and prevent fraud. This responsibility must be assumed by all NDUS employees and sufficient controls must be established and practiced to enforce the expected behavior of all participants.

Recommendation:

We recommend:

- The SBHE require a comprehensive fraud and control risk assessment by each institution and the establishment of appropriate internal controls to detect, deter, and avoid potential fraudulent activity and risks relevant to the preparation of financial statements.
- The SBHE require formal continuing training on proper internal control techniques and systems to ensure all personnel are aware of institutional and Board policies and procedures.
- Where available, internal audit staff should be directed to aide in the establishment of policies and procedures and to test the effectiveness of such policies and procedures once established.

University System Response:

SBHE Policy 611.10 requires that each institution and the system office implement controls designed to minimize opportunities for theft or fraud. This must include a process for reporting suspected theft or fraud, designation of an officer with responsibility for receiving and investigating such reports, a process for investigation and referral to law enforcement, and development of an incident report and related recommendations for change.

The NDUS will review in more detail the related costs/benefits of requiring a comprehensive risk assessment, before deciding whether to proceed or not. The NDUS will also explore cost-effective ways to strengthen training and monitoring of policies and procedures.

Auditor Rebuttal:

The comprehensive risk assessment and monitoring of internal controls by management is a necessary part of internal control. The absence of an effective risk management function is regarded by auditing standards as at least a significant deficiency and a strong indicator of a material weakness in internal control.

NDSU TOWNER NURSERY AND FOREST SERVICE SEGREGATION OF DUTIES (FINDING 08-3)

Segregation of duties at both the Towner Nursery and the Forest Service needs to be improved relating to the cash, revenue, and receipting processes. Each entity is addressed separately below:

Towner Nursery:

The Towner Nursery sales manager has access to most duties relative to the cash and receipting process including opening mail, restrictively endorsing the checks, writing receipts, preparing the deposit, taking the deposit to the bank and making the deposit, reconciling the receipts to the dollars deposited, and posting credits and adjustments to accounts receivable.

Additionally, the Towner Nursery does not have a set deposit policy. In July 2007 it only made 3 deposits for the month; 7-12 for \$100,922; 7-19 for \$60,766; and 7-31 for \$33,466.83. August was similar with just 4 deposits with the most significant being for \$10,605 on 8-9-07. Deposits should be made daily, or at least weekly, or when the amount reaches \$5,000.

Forest Service:

The Administration Team Leader has the ability to open the mail, restrictively endorse the checks, exclusively write the receipts, prepare the deposit, prepare customer billings, and mail those billings out.

Management is responsible for safeguarding assets and insuring the proper recording of transactions to ensure proper reporting in the financial statements. Segregation of duties is an internal control intended to prevent or decrease the occurrence of innocent errors or intentional fraud. This is done by ensuring that no single individual has control over all phases of a transaction. There are four general categories of duties: authorization, custody, record keeping, and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties - especially when dealing with cash, negotiable checks, and inventories.

Cash is a highly liquid asset, meaning that it can easily be misappropriated. For this reason, it is important to have strong controls over cash operations. Deposits should be made timely, before large amounts of cash accumulate.

Recommendation:

We recommend that:

Towner Nursery:

- The nursery sales manager no longer perform the duties of opening the mail and restrictively endorsing the checks if she is to continue the functions of both billing and receipting.
- The nursery manager, or someone other than the nursery sales manager, reconcile amounts coded as receipt totals to bank deposit totals on a daily basis (the next day would be fine).
- The nursery manager perform a reconciliation between sales invoices, deposits and receivables (the latter two should total the billings (sales invoices) and investigate timely any discrepancies between the two. This should include ensuring that all sales forms be accounted for (they should be pre-numbered). This could be done on a monthly basis. An

adequate audit trail needs to be maintained for both this and the prior item above so it can be reviewed by the auditors.

- Deposits are made no less than weekly or when the dollar total reaches \$5,000, whichever comes first.

Forest Service:

- The Administration Team Leader no longer opens the mail and restrictedly endorses the checks.
- Someone other than the Administrative Team Leader reconcile receipts to bank deposits on a daily basis to ensure that all monies collected make it to the bank.

University System Response:

Agree. The NDSU North Dakota Forest Service will implement the new procedures recommended to ensure adequate internal controls are performed at Towner State Nursery and the Forest Service headquarters in Bottineau. The State Forester has already taken steps to implement the necessary changes to segregate duties among the Nursery Manager and Forest Service administrative staff.

NDSCS - CASH RECEIPTS AT THE SKILLS AND TRAINING TECHNOLOGY CENTER (FINDING 08-4)

During our test of cash receipts we noted the following:

1. Our 5 test items were part of weekly (as opposed to daily) deposits that ranged in amount from approximately \$24,000 to \$34,000.
2. Checks were not being restrictively endorsed until the date of deposit, so they could remain in STTC's custody for up to a week with no endorsement.
3. There is no cash proof sheet, daily or periodic, being completed.

Management is responsible for implementing internal controls that safeguard public assets, and for correct financial reporting. Cash is a highly liquid asset, meaning that it can easily be misappropriated. For this reason, it is important to have strong controls over cash operations. Cash should be physically secured with limited access to registers, safes and cash boxes. Deposits should be made timely, before large amounts of cash accumulate.

Recommendation:

We recommend that:

1. Deposits be made daily, or on the day when the amount to be deposited reaches \$5,000.
2. Checks are restrictively endorsed immediately upon receipt.
3. Cash proof sheets be completed at the same time deposits are prepared, and that someone not involved in preparing the deposit agree and reconcile the cash proof sheet with recorded receipts.

University System Response:

Agree. NDSCS will implement the procedures as recommended.

CASH & INVESTMENTS AND RELATED DISCLOSURES (FINDING 08-5)

During our tests of investments and deposit disclosures we noted the following:

- \$7,479,885 of money market mutual funds was reclassified to cash, when the amount should have been reported as investments.
- Investments Market Value note disclosure was in error by \$7,985,183.
- Investments Interest Rate Risk note disclosure was in error by \$16,710,311.
- Investments Concentration of Credit Risk note disclosure was in error by \$11,818,075.
- Investments Credit Rating note disclosure was in error by \$ 7,647,566.
- Deposits carrying amount was \$7,585,529 too high, which caused the total bank deposits – carrying amount to be too high by the same amount and also caused the Total Cash and Cash Equivalents to be too high by that amount.
- Deposits bank balance was \$7,134,104 too high, which caused the total bank deposits – bank balance to be too high by the same amount.
- Custodial Credit Risk Disclosure – Uninsured and uncollateralized was \$2,426,570 too high.
- Custodial Credit Risk Disclosure – Uninsured and collateral held by pledging bank not in systems name was \$2,544,336 too low.

According to GASB 40 if a money market is a deposit account then it should be reported as cash, but if the money market is in a mutual fund then it should be reported as an investment. In addition, GASB 40 sets forth the investment and deposit disclosure requirements and it is management's responsibility to understand the requirements and to implement controls that provide reasonable assurance that the required disclosures are materially correct.

Recommendation:

We recommend that:

- DSU use the newest template to avoid making errors that have been corrected by an updated template.
- The schools properly report Money Market Deposit Accounts (MMDA's) as cash and Money Market Mutual Funds (MMMMF's) as investments in the future.
- Management review GASB 40 requirements and/or receive training on GASB 40 requirements in order to gain the level of expertise necessary to provide reasonable assurance that deposit disclosures materially meet the GASB 40 requirements.

University System Response:

Agree. The schools will properly report Money Market Deposit Accounts (MMDA's) as cash and Money Market Mutual Funds (MMMMF's) as investments in the future.

NDSU SCHOLARSHIP ALLOWANCE (FINDING 08-6)

NDSU submitted its scholarship allowance without including a \$25,000,420 amount in part E for total refunds to students. It also included ACG and Smart Grants in the total for both Part A (financial aid not recognized as revenue) and Part B, when it should have only been included in part B (financial aid already recognized as revenue). The total for these two grants was \$663,403. This was included twice in the prior year also.

Adjusting entries, particularly year-end financial statement entries, require special control to avoid errors and possible misstatement. Management oversight is critical. The supporting documentation should provide clear evidence that these transactions have been properly reviewed and authorized *before* they are entered into the accounting system.

Recommendation:

We recommend that NDSU carefully assemble and review all categories of the scholarship allowance and at a minimum perform comparisons with prior year(s) amounts. Further, amounts in Part A should be broken out by line item to avoid inclusion of a total in more than one Part of the Data sheet.

University System Response:

Agree. NDSU will take more time and care in completion of this template in the future.

MASU, VCSU, WSC, AND NDUSO BANK RECONCILIATIONS (FINDING 08-7)

During our test of bank reconciliations we noted the following:

- Cash was not reconciled, leaving a difference of \$2,281.24 (MASU).
- Outstanding checks were not properly supported, there was a difference of \$1,073.46 between the amount on the reconciliation and the total supported outstanding checks (WSC).
- Amounts that should have been recorded as receivables were recorded as cash (VCSU $\$238,530 + \$19,617 = \$258,147$ and NDUSO $\$302,258 + \$379,000 = \$681,258$).

Good internal controls require that cash be reconciled at least monthly and material reconciling items be properly supported. Additionally, amounts owed that have not been received and are not in transit at the end of the period should be reported as receivables, not as cash.

Recommendation:

We recommend that:

- MASU correctly reconcile cash in the future.
- WSC provide proper support for all material reconciling items on the bank reconciliation.
- VCSU and NDUSO record as cash only those amounts that have been received by the last day of the reporting period.

University System Response:

Agree. MASU is continuing to work on reconciling cash on a monthly basis, currently the unreconciled difference is less than \$2,000. WSC will provide proper support for outstanding items. VSCU and NDUSO will record as cash only those amounts that have been received or are in transit on the last day of the reporting period.

SEGREGATION OF DUTIES - INVENTORY (FINDING 08-8)

While reviewing the segregation of duties grids completed by the schools we noted conflicts of duties related to the following inventories:

<u>School</u>	<u>Inventory Location</u>	<u>2008 Amount</u>
BSC	Bookstore	\$ 528,955
	Food Service	20,504
DSU	Bookstore	507,244
LRSC	Food Service	16,727
	Bookstore	148,003
MASU	Bookstore	9,116
	Food Service	196,606
MISUB	Bookstore	157,972
NDSCS	Bookstore	428,163
	Food Service	19,520
NDSU	Facilities	571,655
	Pharmacy	105,170
	Bakery and Salads	8,176
	Residence Dining Center	21,726
	West Dining Center	1,862
UND	Facilities	598,960
	Aviation	1,043,811
	Golf Course	10,574
	Transport Supply	114,523
	Bakery	26,242
	University Printing	26,733
	Student Health Pharmacy	62,962
VCSU	Bookstore	158,153
WSC	Bookstore	173,999
	Total	<u><u>\$ 4,957,356</u></u>

The conflicts all related to the person or persons charged with custody of inventory also having responsibility for detailed record keeping/updating perpetual records, stock movements, and physical counts. The total for all inventories with conflicts of duties is \$4,957,356 out of a total inventory balance of \$ 7,413,371 for the entire NDUS for the year ended 6/30/2008.

Management is responsible for designing, implementing, and monitoring controls to provide reasonable assurance that public assets, such as inventories, are properly safeguarded against theft and loss. A proper segregation of duties is a necessary condition to make control procedures effective. Management should ensure adequate separation of the following responsibilities: authorization of transactions, recording of transactions, custody of assets, and periodic reconciliation of existing assets to recorded amounts.

Recommendation:

We recommend that the NDUS review the duties performed in its various inventory locations for improper/inadequate segregation of duties, and design and implement controls to mitigate the risks.

University System Response:

Agree. Those noted campuses will review the duties performed relative to the bookstore and food service inventories and implement additional controls to mitigate risks as necessary and viable. Due to limited staffing at some of the schools, proper segregation of duties cannot always be achieved.

Posted Audit Adjustments

DESCRIPTION:		DR	CR	EXPLANATION/DISPOSITION
1	SNA			
UND	Deferred revenues	1,424,255		To correct revenue, receivables and deferred revenue related to advance pay contracts.
	Grants & contracts receivable, net		384,203	
	Net assets - unrestricted		1,040,052	
	SRECNA			
	Increase in net assets	1,040,052		
	Nongovernmental grants and contracts		92,738	
	State and local grants and contracts		947,314	
2	SNA			
BSC	Net assets-restricted-expendable loans	27,763		To adjust the allowance for doubtful notes and receivable for institutions using an incorrect percentage provided to them by the student loan service center.
DSU	Net assets-restricted-expendable loans	56,121		
LRSC	Net assets-restricted-expendable loans	25,338		
MASU	Net assets-restricted-expendable loans	40,447		
MISU	Net assets-restricted-expendable loans	155,580		
MISUB	Net assets-restricted-expendable loans	17,118		
NDSCS	Net assets-restricted-expendable loans	129,749		
UND	Net assets-restricted-expendable loans	998,728		
VCSU	Net assets-restricted-expendable loans	39,820		
WSC	Net assets-restricted-expendable loans	16,307		
BSC	Notes receivable, net		27,763	
DSU	Notes receivable, net		56,121	
LRSC	Notes receivable, net		25,338	
MASU	Notes receivable, net		40,447	
MISU	Notes receivable, net		155,580	
MISUB	Notes receivable, net		17,118	
NDSCS	Notes receivable, net		129,749	
UND	Notes receivable, net		998,728	
VCSU	Notes receivable, net		39,820	
WSC	Notes receivable, net		16,307	
	SRECNA			
BSC	Operating expense	27,763		
DSU	Operating expense	56,121		
LRSC	Operating expense	25,338		
MASU	Operating expense	40,447		
MISU	Operating expense	155,580		
MISUB	Operating expense	17,118		
NDSCS	Operating expense	129,749		
UND	Operating expense	998,728		
VCSU	Operating expense	39,820		
WSC	Data processing	16,307		
BSC	Decrease in net assets		27,763	
DSU	Decrease in net assets		56,121	
LRSC	Decrease in net assets		25,338	
MASU	Decrease in net assets		40,447	
MISU	Decrease in net assets		155,580	
MISUB	Decrease in net assets		17,118	
NDSCS	Decrease in net assets		129,749	
UND	Decrease in net assets		998,728	
VCSU	Decrease in net assets		39,820	
WSC	Decrease in net assets		16,307	

(continued)

Posted Audit Adjustments - continued

3 SNA				
UND	Net assets-unrestricted	1,967,374		
	Accounts receivable, net		1,967,374	To correct UND's medical school FY08 revenue that was recorded in FY09.
	SRECNA			
	Student tuition and fees	1,988,212		
	Scholarships and fellow ships		20,838	
	Decrease in net assets		1,967,374	
4 SNA				
NDSU	Investments	41,582		
	Restricted investments	7,324,097		To reclassifiy mutual funds recorded as cash that should be recorded as investments.
	Endow ment investments	10,702		
	Other long term investments	103,504		
	Cash and cash equivalent		139,180	
	Restricted cash and cash equivalents		7,340,705	
5 SRECNA				
NDUS	State appropriations	200,000		
	General and special grant expenses		200,000	To correct double recording of revenue and expense of state appropriations by NDUSO and MISU-BC for Thatcher Hall.
6 SNA				
NDSCS	Net assets-unrestricted	82,936		
	Grants & contracts receivable, net	59,150		To reclass monies received from the oil trust fund recorded as general fund.
	Due from state general fund		142,086	
	SRECNA			
	State appropriations-capital assets	1,509,150		
	Capital grants and contracts		1,426,214	
	Decrease in net assets		82,936	
7 SRECNA				
VCSU	State appropriations-capital assets	949,102		
	Capital grants and contracts		949,102	To reclass monies received from the oil trust fund recorded as general fund.
8 SNA				
NDUSO	Due from state general fund	681,258		
	Cash and cash equivalents		681,258	To reclass cash received in July as a receivable.
9 SNA				
VCSU	Due from state general fund	251,218		
	Cash and cash equivalents		251,218	To reclass cash received in July as a receivable.
10 SNA				
UND	Other assets	3,670,011		
	Due to others-current		42,984	To reverse recording of lease for equipment that was not received in FY08.
	Due to others-noncurrent		3,627,027	
11 SNA				
NDSU	Due to component units-current	169,543		
	Due to component units-noncurrent	11,150,457		To remove Barry & Klai Hall from capital assets and liabilities because they are not completed.
	Capital assets, net		11,320,000	

(continued)

Posted Audit Adjustments - continued

12 SNA				
BSC	Due to others-current	180,816		To reclass capital leases to the BSC foundation as due to component unit.
	Due to others-noncurrent	6,154,184		
	Due to component unit-current		180,816	
	Due to component unit-noncurrent		6,154,184	
13 SNA				
UND	Net assets-unrestricted	1,108,030		To establish an allowance account for the UND medical school receivable.
	Accounts receivable, net		1,108,030	
	SRECNA			
	Operating expenses	1,108,030		
	Decrease in net assets		1,108,030	
14 SNA				
NDSU	Restricted cash and cash equivalents	760,721		To properly restrict cash and investments per bond indentures and unspent bond proceeds.
	Investments	1,112,984		
	Cash and cash equivalents		760,721	
	Restricted investments		1,112,984	
15 SNA				
NDSCS	Net assets-unrestricted	1,607,780		To properly classify net assets.
	Invested in capital assets, net of related debt		1,485,033	
	Net assets-nonexpendable-scholarships and fellow ships		500	
	Net assets-expendable-research		31,962	
	Net assets-expendable-institutional		90,285	
16 SNA				
NDSU	Receivable from component units	1,105,973		To record royalty fees collected by the Research foundation owed to NDSU.
	Net assets-unrestricted		1,105,973	
	SRECNA			
	Sales and services of educational departments	1,105,973		
	Increase in net assets		1,105,973	
17 SNA				
UND	Net assets-restricted-expendable-debt service	2,794,302		To properly reflect bond restrictions.
	Invested in capital assets, net of related debt		1,359,583	
	Net assets-unrestricted		1,434,719	
	COMPONENT UNIT:			
18 SNA				
BSC	Invested in capital assets, net of related debt	479,730		To correct net assets due to adjustments found in capital asset debt.
	Net assets-unrestricted	8,090,277		
	Net assets-expendable-other		8,570,007	
19 SNA				
DSU	Other noncurrent assets	5,757,822		To correct classifications of current and non-current receivables.
	Accounts receivable, net		5,757,822	
20 SNA				
MISU	Net assets-unrestricted	989,757		To properly classify net assets based on Independent Public Accountant's reports.
	Invested in capital assets, net of related debt		989,757	

(continued)

Posted Audit Adjustments - continued

21 SNA				
NDSU	Net assets-restricted-expendable-other	8,530,740		To properly classify net assets based on Independent Public Accountant's reports.
	Net assets-restricted-nonexpendable-other		8,530,740	
22 SNA				
UND	Restricted cash and cash equivalents	1,578,578		To properly classify cash based on Independent Public Accountant's reports.
	Cash and cash equivalents		1,578,578	
23 SNA				
WSC	Cash and cash equivalents	1,989,061		To post WSC Foundation assets, liabilities and net assets not recorded on the statements.
	Accounts receivable, net	171,805		
	Receivable from primary institution	10,000		
	Other assets	2,080		
	Restricted investments	4,969,023		
	Endowment investments	2,927,807		
	Other noncurrent assets	44,156		
	Capital assets, net	251,230		
	Accounts payable and accrued liabilities		39,090	
	Payable to primary institution		298,000	
	Other noncurrent liabilities		13,191	
	Invested in capital assets-net of related debt		251,230	
	Net asset-restricted-expendable-other		2,870,579	
	Net asset-restricted-nonexpendable-other		5,204,366	
	Net asset-unrestricted		1,688,706	
	SRECNA			
	Salaries and wages	364,364		
	Operating expense	3,404,486		
	Depreciation expense	22,797		
	Payments to or for the institution	460,810		
	Other nonoperating expenses	303,460		
	Increase in net assets	57,145		
	Gifts and contributions		102,293	
	Rental income		42,731	
	Other		4,037,199	
	Investment income, net		308,839	
	Additions to permanent endowments		122,000	
24 SNA				
NDSU	Net assets-restricted-expendable-other	1,105,973		To record royalty fees collected and held by the foundation but owed to NDSU.
	Payable to primary institution		1,105,973	
	SRECNA			
	Payments to or for the institution	1,105,973		
	Decrease in net assets		1,105,973	
25 SNA				
NDSU	Other long-term investments	11,320,000		To remove Barry & Klai Hall from investments and receivables because they are not completed.
	Noncurrent receivable from primary institution		11,320,000	
26 SNA				
BSC	Noncurrent receivable from primary institution	6,335,000		To show receivable from BSC for future lease payments.
	Capital assets, net		6,335,000	

(continued)

Posted Audit Adjustments - continued

27 BSC	Capital assets, net Other noncurrent assts	1,335,000	1,335,000	To correct above entry.
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SNA - Statement of net assets

SRECNA - Statement of revenues, expenses and changes in net assets

Passed Audit Adjustments

	DESCRIPTION:	DR	CR	EXPLANATION/DISPOSITION
1	SNA			
NDSUO	Accounts receivable, net	410,269		To establish a receivable for the amount billed in June but not received until July.
	Net assets - unrestricted		410,269	
	SRECNA			
	Net assets - unrestricted	410,269		
	Student tuition and fees		410,269	
2	SRECNA			
UND	Facilities and administration	248,160		To post difference between calculated and recorded indirect costs.
NDSU	Facilities and administration	157,546		
MISU	Facilities and administration	10,899		
UND	Recovery of indirect costs		248,160	
NDSU	Recovery of indirect costs		157,546	
MISU	Recovery of indirect costs		10,899	
3	SNA			
UND	Accounts receivable, net	582,429		To post receivable for cost reimbursable contract types at UND.
	Net assets - unrestricted		582,429	
	SRECNA			
	Expendable research	582,429		
	Federal grants and contracts		530,010	
	State grants and contracts		5,824	
	Private grants and contracts		46,595	
4	SNA			
NDUS	Accounts receivable, net	189,010		To correct connectND fee collection elimination entry.
	Deposits	215,375		
	Net assets		404,385	
	SRECNA			
	Net assets	404,385		
	Student tuition and fees		404,385	
5	SNA			
BSC	Restricted cash and cash equivalents	166,296		To properly restrict cash & cash equivalents per bond indentures and unspent bond proceeds.
BSC	Cash and cash equivalents		166,296	
BSC	Net assets - unrestricted	104,145		To properly classify net assets.
BSC	Invested in capital assets, net of related debt		104,145	
MASU	Restricted cash and cash equivalents	108,925		To properly restrict cash & cash equivalents per bond indentures and unspent bond proceeds.
MASU	Cash and cash equivalents		108,925	
VCSU	Investments	105,099		To properly restrict investments per bond indentures.
VCSU	Restricted investments		105,099	
VCSU	Expendable debt service	36,691		To properly classify net assets.
VCSU	Net assets - restricted	36,450		
VCSU	Net assets - unrestricted		73,141	
MISU-BC	Expendable capital projects	118,741		To properly classify net assets.
MISU-BC	Expendable debt service	333		
MISU-BC	Net assets - unrestricted		119,074	
WSC	Invested in capital assets, net of related debt	19,952		To properly classify net assets.
WSC	Expendable debt service	269,730		
WSC	Expendable institutional		7,887	
WSC	Net assets - unrestricted		281,795	

(continued)

Passed Audit Adjustments - continued

6	SNA			
MISU	Net assets-nonexpendable- scholarships and fellow ships	634,916		To properly classify net assets.
	Net assets-expendable- scholarships and fellow ships		634,916	
7	SNA Component Unit			
MASU	Invested in capital assets, net of related debt	87,852		To correct entry for net of related debt.
	Net assets - unrestricted		87,852	

Note : Does not include adjustments less than \$50,000.

SNA - Statement of net assets

SRECNA - Statement of revenues, expenses and changes in net assets

2008 Management Letter Informal Comments

December 11, 2008

Ms. Darci Trenda
Director of Financial Reporting
North Dakota University System
600 East Boulevard Avenue, 10th Floor
Bismarck, ND 58505-0230

Dear Ms. Trenda:

The Office of the State Auditor has completed its financial audit of the North Dakota University System for the year ended June 30, 2008. As part of our examination, we gained an understanding of the internal control over financial reporting and tested compliance with laws and regulations to the extent we considered necessary. We have issued our report on internal control over financial reporting and compliance and other matters dated December 11, 2008.

Our audit procedures are designed primarily to enable us to report on the internal control over financial reporting and compliance with laws and regulations as they relate to the financial statements and may not bring to light all deficiencies in internal control or noncompliance with laws and regulations that may exist. We aim, however, to use our knowledge gained during our work to make comments and suggestions, which we hope will be useful to you.

In connection with the audit, we noted certain conditions that we did not consider reportable within the context of your audit report. These matters, which do not have a material effect on the financial statements, involve control deficiencies and/or instances of noncompliance with laws and regulations. The recommendations presented below are intended to improve or correct control deficiencies and noncompliance with laws and regulations. During future audit engagements, we will review the status of these recommendations to ensure that procedures have been initiated to address these recommendations. If no action has been taken, we will consider the appropriate course of action. Action could consist of inclusion in future audit reports.

I would 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

1. Bookstore Inventory - NDSU

Our test of inventory counts showed an audit count of 3039 items while the client count was 3155 items, for a difference of 116 items. The client cost for the sampled items was \$58,725 and the audited cost was \$57,691 for a difference of \$1,034. The total NDSU bookstore inventory is \$1,437,640, therefore the error projects to \$25,318 for the entire bookstore inventory.

The annual inventory is used to establish the balance reported in the financial statements. An inaccurate inventory count leads to misstatements in the financial statements.

Recommendation:

We recommend that the NDSU Bookstore require RGIS to slow down their counts and improve their accuracy to ensure a more precise count.

University System Response:

Agree. NDSU has discussed this recommendation with RGIS; they have agreed to slow down their counts in order to improve accuracy.

2. Grant Deposits – NDSU and UND

We noted control deficiencies at both NDSU & UND relative to the process surrounding receiving payments on grants and the subsequent deposit with the applicable Customer/Student Account Services office:

NDSU:

1. 3 of the 5 days (60%) we tested had deposits miscoded into the system, usually they were coded as a cash/check deposit (D) when they were in fact wire deposits (E).
2. 4 of 5 days (80%) had instances where all checks received were not deposited that day. We considered these as late deposits.
3. No reconciliation was being performed by the Grants office to ensure that cash deposits on the system tie out to the actual deposit with the bank/Customer Account Services office. Additionally, no one appeared to be tying out the electronic (wire transfers) deposits to the Accounts Receivable system.
4. NDSU was using its clearing account to receive HHS payments instead of its wire transfer account with the Bank of North Dakota.

UND:

1. 4 of the 5 days (80%) we tested had deposits miscoded into the system, usually they were coded as a cash/check deposit (D) when they were in fact wire deposits (E).
2. 3 of 5 days (60%) included checks from prior days or were deposited late.
3. No reconciliation was being performed by the Grants office to ensure that cash deposits on the system tie out to the actual deposit with the bank/Student Account Services office. Additionally, no one appeared to be tying out the electronic (wire transfers) deposits to the Accounts Receivable system on a daily basis.

Good internal controls require that receipts of monies be properly coded, those monies be deposited daily and all amounts received be reconciled to the book of record on a daily basis. NDSU has a special account for receiving wire transfers. It should use that bank account for said purpose and the clearing account only for cash clearing and subsequent transfer to the BND.

Recommendation:

We recommend that NDSU's and UND's Grant office:

1. Correctly code deposits as to actual physical deposits (D=check & R=refund) or electronic deposits (E=wire transfer & C=credit card).
2. Deposit all physical receipts in tact on a daily basis (remitted to the applicable Customer/Student Account Services office).
3. Develop and perform a reconciliation between all systems utilized (i.e. deposits and accounts receivable) and all amounts received (both physical and electronic) to ensure the above 2 recommendations were carried out, and document this on a form with a clear audit trail.
4. NDSU use its wire transfer account at the Bank of North Dakota and discontinue using its clearing account for wire transfers (in this instance from HHS).

University System Response:

Item 1 – Agree. NDSU and UND will implement procedures for better recognition of the type of deposits.

Item 2 – Agree. NDSU's Grants & Contracts Accounting Office policy is to prepare grant checks for deposit at the end of each day. Deposits are to be delivered to the Customer Account Services department and held in their vault overnight. The grant deposit is to be picked up by armored car the next day and deposited in the bank. NDSU's Grants & Contracts office will take more care in following this process. UND has implemented procedures to deposit on a daily basis.

Item 3 – NDSU and UND are already performing reconciliations as recommended. NDSU's grant related check and electronic deposits are reconciled on a monthly basis as part of the cash/bank reconciliation process. UND's Student Account Services and Accounting services are reconciling grant deposits and ensuring the systems tie out.

Item 4 – Agree. NDSU will begin the process to transition from use of its clearing account for wire transfers to use of its wire transfer account at the Bank of North Dakota.

3. Voided Receipts – NDSU

NDSU's Customer Account Services does not require that voided receipts be approved by anyone else but the teller doing the void, if it is a same day void.

Strong internal controls should provide for independent review and approval of all voided receipts to ensure that cashier's do not misappropriate funds.

Recommendation:

We recommend that NDSU's Customer Account Services (and all other receipting locations for that matter) require someone other than the cashier to approve voided receipts and that documentation of the approval process be maintained for audit purposes. It can be as simple as a copy of the voided receipt included with the cashier's cash proof sheet showing approval by another designated employee in the office.

University System Response:

Agree. NDSU has put an additional control in place at Customer Account Services. At the end of each day, the individual responsible for reconciling the daily cash now prints a listing of voided receipts to review and approve. NDSU will review the procedures at other receipting locations and put additional controls in place if necessary.

4. Credit Card Policies and Procedures

Internal controls over credit card sales and refunds were weak and sufficient policies and/or procedures have not been established to ensure adequate internal controls for review and approval and segregation of duties.

- LRSC, MASU, MISU, MISU-B, and UND do not have a policy or procedure for credit card sales and refunds.
- NDSU Recreation and Outing Center, the same person can process credit card sales and refunds without supervision or participation by another employee.
- VCSU does not have a policy or procedure for credit card refunds.

For proper internal control over credit card refund transactions the institution should establish and follow policies and procedures to reduce their exposure to fraud and abuse.

Recommendation:

We recommend the institutions noted above issue appropriate policies on proper credit card sales and refund transactions and take appropriate action to advise personnel of adequate internal control over these transactions.

University System Response:

Agree. LRSC, MASU, MISU, MISU-B, and VSCU will review and document current procedures for credit card sales and refunds. NDSU will revise their procedures as recommended.

Agree. UND has had a draft credit card policy, including credit card refunds in place since September 2007. It has been used for administrative and training purposes. UND will finalize the policy following approval from State of North Dakota Records Retention, the State Auditors in Bismarck and the investigation of required background checks

5. Federal Wire Transfers – MISU-BC

At MISU-BC the same person who requests the federal wire transfer also enters the journal entry in the general ledger and reconciles the bank accounts.

Segregation of duties is an internal control intended to prevent or decrease the occurrence of innocent errors or intentional fraud. This is done by ensuring that no single individual has control over all phases of a transaction. There are four general categories of duties: authorization, custody, record keeping, and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties - especially when dealing with cash, negotiable checks and inventories. In this instance, proper internal control would have one person requesting the federal drawdown based on cash need criteria, another person requesting the funds from the fed and a third reconciling the bank account where the deposit was recorded.

Recommendation:

We recommend MISU-BC establish and follow proper internal control surrounding federal wire transfers by having one person develop the cash needs, another person request the cash and a third person reconcile the account the draw was deposited into.

University System Response:

Agree. MISU-B will establish and follow proper internal control surrounding federal wire transfers effective immediately.

6. Dining Services Inventory Count - NDSU

Out of 30 items chosen for the test of counts at NDSU Dining Services, three of the items were miscounted by the count team. Two miscounted test items were in the Residence Dining Center, while the other item was in the Union Dining Center.

An accurate inventory count is a critical control for ensuring that financial statements are materially correct.

Recommendation:

We recommend that management take steps to communicate the importance of the year-end inventory counts to the count team, and that management revise the Dining Services inventory instructions (for the year-end inventory only) to be more detailed and specific about how the count is to be taken in order to minimize the risk of miscounting.

University System Response:

Agree. NDSU will review this recommendation with Dining Services managers and make the necessary changes to strengthen the internal controls as recommended.

7. State Purchase Card

MISU, NDSCS, UND, and VCSU are using the state's contract for purchase cards. BSC, LRSC, MISU-BC, and NDSU have purchase cards through other companies. DSU, MASU, and WSC are not using purchase cards. The state purchase card offers a cash rebate to all participants based on volume. In fiscal year 2007, total participant's expenses using the state purchase cards were \$12.3 million and \$121,000 was received as cash rebates.

SBHE Policy 803.1 (2) states that NDUS institutions shall cooperate and make joint purchases with the Office of Management and Budget Purchasing Division when advantageous to do so as intended by N.D.C.C. section 54-44.4-02.

Recommendation:

We recommend that BSC, LRSC, MISU-BC, and NDSU begin using the state's purchase card vendor and discontinue use of their current purchase card vendor.

University System Response:

BSC – Disagree. In summer of 2008, BSC intended to utilize the state's purchasing card vendor and was at the point of signing the agreement when the vendor was bought-out by American Express. Because so many of our vendors do not accept AmEx, we determined it was not in our best interest to utilize this vendor. At that time, the state was determining whether or not to re-bid the purchasing cards. We did not wish to wait for a state decision and then wait another 6 months for a re-bid, so we decided to pursue a solution with our current vendor. We have now spent several months in the design and set-up phase and are rolling the program out to the campus in January. We are aware that the state has awarded the bid to a new vendor and at some point we will look at transitioning to that vendor. Because we have spent considerable staff resources in the set-up of our current system, we will stay with our current vendor for now. It should be noted that we pay no costs to the vendor for the card system.

Agree. LRSC will explore the use of the State Purchasing card during FY09 and switch vendors if applicable.

Agree. MISU-B's plans on making the transition to the State P-Card after OMB completes negotiations with their vendor to allow the card to be used for travel expenses.

Agree. NDSU plans to switch to the state's new purchase card vendor when one is selected sometime in the first quarter of 2009.

Auditor Rebuttal (BSC):

In our opinion, the use of a single credit card vendor is in the best interest of the NDUS and the state.

8. Overstatement of Salaries Payable – NDSCS

Salaries payable was overstated \$37,233 in fund 22505, at June 30, 2008. This was due to accruing an executive compensation expense for the previous President when incurred, but then not using these funds to compensate the President when due.

GAAP requires the recognition of an expense when incurred and subsequently the liquidation of the payable when paid.

Recommendation:

We recommend that NDSCS correct the overstated salaries payable balance in fund 22505.

University System Response:

Agree. Due to an account coding error, the payments were not charged to the correct payable account, however the proper amounts were paid. NDSCS will correct the overstated salaries payable balance and take steps to assure salaries payable is correctly stated in the future.

9. Compensated Absences – NDSCS and WSC

Year-end procedures surrounding the reporting of compensated absences needs to be improved. The compensated absences liability was understated at NDSCS by about \$59,605 due to not including FICA and overstated at WSC by about \$13,430 due to including all employees in the sick leave calculation, even those with less than 10 years of service.

Good internal controls require establishing adequate year-end procedures to provide for the accurate reporting of year end information. Adjusting entries, particularly year-end financial statement entries, require special control to avoid errors and possible misstatement. Management oversight is critical. The supporting documentation should provide clear evidence that these transactions have been properly reviewed and authorized *before* they are entered into the accounting system.

Recommendation:

We recommend that year-end procedures surrounding compensated absence accruals be improved to provide for accurate financial reporting.

University System Response:

Agree. NDSCS and WSC will follow the established year-end procedures regarding compensated absence accruals.

10. Severance Agreement Disclosure – UND

A severance agreement payment of \$138,907 in fiscal year 2008 and a payable of \$10,265 in fiscal year 2009 to the former athletic director were not adequately reported in the financial statements.

GASB Statement 47, Accounting for Termination Benefits, paragraph 19 states that in the period in which an employer becomes obligated for termination benefits, the cost of the termination benefits should be disclosed in the notes to the financial statements if that information is not otherwise identifiable from information displayed on the face of the financial statements.

Recommendation:

We recommend that UND report severance payments in accordance with GAAP.

University System Response:

Agree. UND will report severance payments in accordance with GAAP.

11. Employee Tuition Waivers - MASU

MASU did not allocate any of their scholarship waiver expense as compensation expense for waivers granted to employees. The reclassification was overlooked. The amount involved for fiscal year 2008 was \$22,767.

NACUBO Advisory Report 2000-5, number 16 states that tuition remission policies developed as employee benefits should be accounted for as compensation expense and not as a scholarship allowance to tuition because the tuition remission was given in exchange for services.

Recommendation:

We recommend that tuition waivers given in exchange for services be accounted for as compensation expense.

University System Response:

Agree. MASU will account for tuition waivers given in exchange for services as compensation expense.

12. Elimination of Interdepartmental Revenues – BSC, LRSC, MASU, MISU-BC

We noted four schools did not eliminate internally generated income. The schools and amounts involved were BSC (\$4,820), LRSC (\$12,352), MASU (\$229,307) and MISU-BC (\$2,836) for a total of \$249,315.

Per the AICPA Industry Audit Guide, Audits of Colleges and Universities, Chapter 6, section 6.04 “Interdepartmental transactions ordinarily should be accounted for as an increase in current fund expenditures of the department receiving the materials, services, or capital assets and a decrease in current fund expenditures of the transferring department. Thus, total institutional expenditures are not inflated by the transactions. Examples are sales and service departments and central stores and transfers of material and equipment from one department to another. Any differences between the revenue from sales and services and the operating costs of service departments or central stores, whether debit or credit, are treated as Institutional Support expenditures.”

Recommendation:

We recommend that:

- The NDUS add to its list of common year-end adjustments the elimination of internally generated income, and
- All schools of the NDUS eliminate internally generated income for financial statement presentation.

University System Response:

Agree. Elimination of internally generated income is currently included on the common year-end adjustments; campuses will be more diligent when making these entries.

13. Accounts Receivable Holding/Conversion Funds and Deficit Equity Balances – BSC, DSU, LRSC, MASU, MISU, NDSCS, and WSC

Seven schools still have deficit equity balances in their accounts receivable holding and/or conversion funds (funds 01000-01001). Deficits and the related schools are as follows: BSC (\$80,922); DSU (\$123,741); LRSC (\$8,111); MASU (\$8,352); MISU (\$25,138); NDSCS (\$127,765); WSC (\$45,030).

Additionally, NDSCS has deficit equity balances in appropriated funds and a sponsored fund at fiscal year-end. The fund, name and deficit balances are as follows: 30200-Tech Instruction-Approp. (General Academic Instr.) (\$314,753); 30300-Tech Instruction-Approp. (Voc/Tech Instr.) (\$262,368); 31800-Physical Plant-Approp. (\$225,442); 44000-Student Service Grants (\$470,823). These likely don't need note disclosure but they should be fixed.

Finally, NDSCS did not disclose a required fund (21216-WFT Five) with a true deficit balance to the BHE as required.

Deficit equity balances indicate a shortfall or deficit of assets to related debt. Without assigning responsibility to the deficit it is not clear how or by what fund(s) it will be covered. Additionally, budgeting becomes more burdensome when funds are in deficit positions and users of the information may not be aware of their total equity position. The Accounting/Controller's office, as part of management is responsible for working with departments to monitor and formulate plans for elimination of deficit fund balances. This plan should be drafted and approved by the appropriate level of management and carried out in a fastidious manner.

Additionally, the BHE requires disclosure of deficits greater than \$50,000 for the smaller schools and NDSCS did not identify fund 21216 which exceeded \$100,000 by more than \$27,000.

Recommendation:

We recommend:

- That schools with negative equity in accounts receivable holding/control/conversion funds (funds 01000-01001) eliminate these deficits by assigning the accounts to the funds they originally were charged to, and
- NDSCS take steps necessary to ensure there are no deficits at year-end in its appropriated and sponsored funds.
- NDSCS disclose all funds in a deficit equity position that meet the threshold established by the BHE to the BHE, and also to the NDUSO for financial statement disclosure.

University System Response:

Agree. This fund includes accounts that have been sent to collection and have been written off. Connect ND has been modified in PeopleSoft so these transactions can be allocated automatically to the appropriate funds. NDSCS will take steps necessary to ensure there are no deficits at year-end in its appropriated and sponsored funds and disclose deficits to the SBHE and NDUSO, as required.

14. Timely and Accurate Audit Request Data – NDUSO, LRSC, MASU, MISU-BC, NDSCS, and WSC

NDUSO, LRSC, MASU, MISU-BC, NDSCS and WSC did not provide requested documents to the State Auditor's Office on a timely basis.

Due to the nature and timing of state's CAFR due dates, the limited resources to audit the NDUS financial statements and the magnitude of problems encountered in the statements as evidenced by the numerous audit adjustments and recommendations, significant improvement in the submission of audit data is required.

Recommendation:

We recommend that NDUSO, LRSC, MASU, MISU-BC, NDSCS and WSC take the necessary steps and commit the resources necessary to remit accurate and timely audit data.

University System Response:

Recognition is made of this issue, as being a resource issue, on the smaller campuses. Focus will be made in addressing this recommendation by working through the Presidents with the campus finance office to arrive at a plan that addresses resources and a timeline leading to timely submission. Recognition will be made of close monitoring of plans developed and a timely sequence of audit process by the chancellor.

15. Student Loan Service Center

The Student Loan Service Center (SLSC) passed out incorrect allowance information to one or more schools. During the fiscal year 2007 audit, only UND was provided inaccurate information, but during the current year only NDSU was provided correct information. This resulted in an audit adjustment of \$1,507,103.

At a minimum good internal controls should include a comparison of current year's information against the prior year's to ensure reasonableness. Further, we informed the SLSC of the error in fiscal year 2007 so they should have been aware of this issue and fixed the problem.

Recommendation:

We recommend that the Student Loan Service Center take more care when preparing and providing the allowance for doubtful notes to the campuses of the NDUS. Information should be reviewed and compared against prior years and percentages should be evaluated on an annual basis to ensure they are still valid. This goes for both the allowance account, and the current and noncurrent percentages of notes receivable for financial statement reporting.

University System Response:

Agree. The SLSC will be doing a new evaluation for both the Allowance for Doubtful Accounts and the current and noncurrent percentages of notes receivable this fiscal year. More care will be taken to apply the correct percentages current to all schools in the future.

16. Segregation of Duties at NDSU Pharmacy

We noted a lack of segregation of duties at NDSU's Pharmacy related to the Director being able to write receipts, adjust accounts receivable, and also performed the billing. The opportunity to misappropriate funds is more likely with improper segregation of duties.

Good internal controls need to be established if at all possible taking into consideration cost and availability of staff. When staff is sufficient to segregate duties then they should be. The duties of billing should be separated from receipting and posting adjustments.

Recommendation:

We recommend that the NDSU Director of the Pharmacy discontinue the functions related to receipting monies and posting adjustments to accounts receivable. The Director should still be responsible for approving adjustments, just not posting them.

University System Response:

Agree. NDSU implemented this recommendation after discussion with the auditors in August 2008. The Director no longer posts the adjustments or payments. There may be a rare occurrence the Director would have to write a receipt for a patient due to limited staffing.

Appendix A - Classification

Presented below are details of the classification differences noted:

1. In testing expenditures, we selected one item that was recorded in fund 79718, which is considered *other restricted funds* according to the NDUS Accounting Manual. NDSU categorizes funds 79300 – 79999 as *other restricted gift funds*. To determine compliance, we reviewed the gift documents. In all the gift documents we reviewed, funds were given as an unrestricted gift to a specific research station.

NDCC 15-10-12 states that a special revenue fund for each institution of higher education under the control of the board or subject to its administration must be maintained within the state treasury. All rent, interest, or income from land, money, or property, donated, or granted by the United States and allocated to specific institutions of higher learning under the terms of the Enabling Act and the Constitution of North Dakota must be deposited in the special revenue fund of each institution and expended in accordance with section 1 of article IX of the Constitution of North Dakota. All other funds, unless restricted by the terms of a grant, donation or bequest, received by the institutions from federal, state, and local grants and contracts, indirect cost recoveries, tuition, special student fees, room and board fees and other auxiliary enterprise fees, student activity fees, continuing education program fees, internal service fund revenues, and all other revenues must be deposited in the institution special revenue funds.

University System Response:

Agree. NDSU will modify procedures relating to the recording of restricted and unrestricted gift revenue beginning January 2009.

2. The two largest (most material) schools need to adjust funds for revenue transactions at year-end to correct or fix the miscoding of non-auxiliary revenue codes in auxiliary funds, and auxiliary revenue (470xxx) recorded in non-auxiliary funds.

Good internal controls should be set-up at the startup of funds to limit them as to account codes based on the nature of said fund being an auxiliary or other type of fund.

University System Response:

Agree. While the NDUS does not believe there should be two sets of sales and service account codes (one for auxiliary and another for non-auxiliary sales), we will work with the State Auditor's Office to make reporting changes needed to comply with the recommendation.

3. NDSU missed eliminating \$1,212,778 of internally generated income in an internal service fund due to the revenue being miscoded as Lease-Rental of Rooms-Buildings (account 472015) instead of using an account in the internal service range of 479005-479020.

Per the AICPA Industry Audit Guide, Audits of Colleges and Universities, Chapter 6, section 6.04 "Interdepartmental transactions ordinarily should be accounted for as an increase in current fund expenditures of the department receiving the materials, services, or capital assets and a decrease in current fund expenditures of the transferring department. Thus, total institutional expenditures are not inflated by the transactions. Examples are sales and service departments and central stores and transfers of material and equipment from one department to another. Any differences between the revenue from sales and services and the operating costs of service departments or central stores, whether debit or credit, are treated as Institutional Support expenditures."

University System Response:

Agree. NDSU will correct this accounting practice in the current fiscal year.

4. UND has funds it claims are theirs but are in the Alumni fund range. According to UND these funds are used to charge the Aerospace Foundation for services the foundation has purchased from the University.

Proper fund group coding dictates that funds belonging to the institution not be recorded as agency or alumni funds. These types of funds are normally just accounted for by the university in a fiduciary capacity and do not belong to the university. As noted above, these funds do belong to the university.

University System Response:

Disagree. UND does not believe it would be appropriate to set up unrestricted funds for this activity. The expenditures reflected in the agency funds are not UND expenses; they are expenses of the UNDAF. Funds 87502 - 87514 are funds that were established for UND to accumulate charges to the UNDAF for services UND provides to the UNDAF. The UNDAF then reimburses UND for the services. The departments that are providing the service recognize the revenue in their respective UND fund(s).

Auditor Rebuttal:

We agree it would not be appropriate to set up unrestricted funds to account for the expenditures if they do not belong to UND. However, we do not agree it is proper to have a fund in the Alumni fund group range that has a Due from Component Units (which would be a UNDAF receivable due from itself), or that has negative cash that belongs to the University and is used in its cash reconciliations. If revenue from UNDAF is being recognized (as UND claims) in their respective unrestricted funds, then the receivables associated with that revenue should be recognized in those funds also. If it is UND's negative cash that creates those receivables then those negative cash balances should not be recognized in the alumni fund group range either. This appears to be a hybrid fund that accounts for both the primary government and the component unit and to the best of our knowledge this is not GAAP. The fund cannot belong to both the University and the UNDAF-one or the other, not both.

5. NDSCS is not using the correct accounts for recording of principal and interest payments for notes payable. They are using 581025, Equipment-Capital Lease-Interest and 581030, Equipment-Capital Lease-Principal.

Generally accepted accounting principles require uniform classifications and recordings of like items and transactions. Without it, comparing balances and activity from one institution to another would be useless. Account 701015, Notes Payable-Interest Payments and account 701020, Notes Payable-Principal Payments were set up to be used for notes payable and in this case should be used for the principal and interest payments.

University System Response:

Agree. NDSCS will comply with GAAP by consistently coding all transactions and by properly using available general ledger accounts.

6. The following problems in classifications of Restricted Cash and Restricted Investments on the Statement of Net Assets:
- BSC should have had \$166,296 classified as Restricted Cash instead of current cash.
 - MASU should have classified another \$108,925 as Restricted Cash instead of current cash.
 - MISU-BC had \$2,092 Restricted Investments which should have been reported as current investments.
 - NDSCS should have classified another \$204 as Restricted Cash instead of reporting it as current cash.

- NDSU should have classified \$760,721 as Restricted Cash instead of reporting it as current cash and an additional \$1,112,984 should have been reported as current investments instead of Restricted Investments.
- VCSU had an excess of Restricted Investments of \$105,099 that should have been classified as current investments.
- WSC should have classified \$7,716 as Restricted Cash instead of current cash.

GASB 34 paragraph 99 states that “restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the assets.” These assets cannot be used to pay other current liabilities.

University System Response:

Agree. Campuses will be reminded as a part of the year-end process.

7. We noted the following misclassification of net assets:

- BSC misclassified \$104,145 of unspent bond proceeds as Net Assets Unrestricted instead of Invested in Capital Assets, net of related debt.
- LRSC misclassified \$272 debt funds as expendable debt service instead of Net assets unrestricted based on maximums allowed by bond indentures.
- MASU misclassified \$13,787 debt funds as expendable debt service instead of net assets unrestricted based on maximums allowed by bond indentures, misclassified \$30,115 of special assessments as net assets unrestricted instead of Invested in capital assets, net of related debt, and misclassified \$13,524 of endowment/quasi-endowment funds as unrestricted net assets instead of non-expendable scholarships and fellowships.
- MISU misclassified \$32,795 of endowment fund income as non-expendable scholarships and fellowships instead of expendable scholarships and fellowships.
- MISU-BC misclassified \$333 debt funds as expendable debt service instead of net assets unrestricted based on maximums allowed by the bond indenture and misclassified \$118,741 in expendable capital projects instead of net assets unrestricted.
- NDSCS misclassified \$90,285 of net assets in fund 40500 as net assets unrestricted instead of expendable instructional department uses and misclassified \$1,485,033 as unrestricted net assets mainly in fund 0001 instead of invested in capital assets, net of related debt.
- NDSU misclassified \$11,016 debt funds as expendable debt service instead of net assets unrestricted based on maximums allowed by bond indentures.
- UND misclassified \$19,086 debt funds as expendable debt service instead of net assets unrestricted based on maximums allowed by bond indentures and misclassified \$59,672 as net assets unrestricted instead of invested in capital assets, net of related debt.
- UND also made a paper entry to their Statement of Net Assets reclassifying \$2,794,302 in expendable debt service net assets, \$1,359,583 of invested in capital assets, net of related debt and \$1,434,719 of net assets unrestricted. This entry was made to properly restricted debt service funds and unspent bond proceeds in accordance with the bond indentures. This entry was included in the 1st draft of the financial statements, but when the 2nd draft of the financial statements was submitted to the SAO, this entry was not included.
- VCSU misclassified \$36,450 as net assets restricted various instead of expendable debt service in fund 00102 and \$73,141 as expendable debt service instead of net assets unrestricted based on maximums allowed by the bond indentures.
- WSC misclassified \$269,730 debt funds as expendable debt service instead of net assets unrestricted based on maximums allowed by the bond indentures and \$19,952 as net assets unrestricted instead of invested in capital assets, net of related debt for accumulated depreciation reported in fund 40500.

GASB 34 paragraph 33 states, "If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should *not* be included in the calculation of *invested in capital assets, net of related debt*. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds-for example, *restricted for capital projects*."

GASB 34 also states that "restricted net assets is the portion of net assets subject to constraints placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation."

University System Response:

Agree. Campuses will be reminded to take greater care in properly classifying net assets as part of the year-end procedures.

8. The following accounts were not in the proper fund groups:
- NDSCS had \$17,000 of equipment in appropriated funds and \$8,829.87 of accumulated depreciation-equipment in local, appropriated, and restricted funds. All capital assets and accumulated depreciation should be recorded in fund 00001.
 - WSC had \$9,952.04 accumulated depreciation-equipment in fund 40500. This should be recorded in fund 00001.
 - MASU has all their capital asset activity being recorded in fund 00509. This fund is the range of Retirement of Indebtedness instead of Investment in Plant.

Section 1300 of the Codification of Governmental Accounting and Financial Reporting Standards defines a fund as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on a specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. PeopleSoft has provided numerous, specific account numbers where assets, liabilities, equities, revenues, and expenses can be recorded in the funds, fund groups, and functions in accordance with GAAP.

GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 1800.101 provides general principles regarding classification and terminology where the use of proper terminology and appropriate classification is essential throughout the budgeting, accounting, and reporting processes.

Funds set up by PeopleSoft/CND to be used for Investment in Plant are 00001-00100.

University System Response:

Agree. NDSCS and WSC will properly classify equipment and MASU will change the fund for capital assets to a fund in the range of investment in plant fund group.