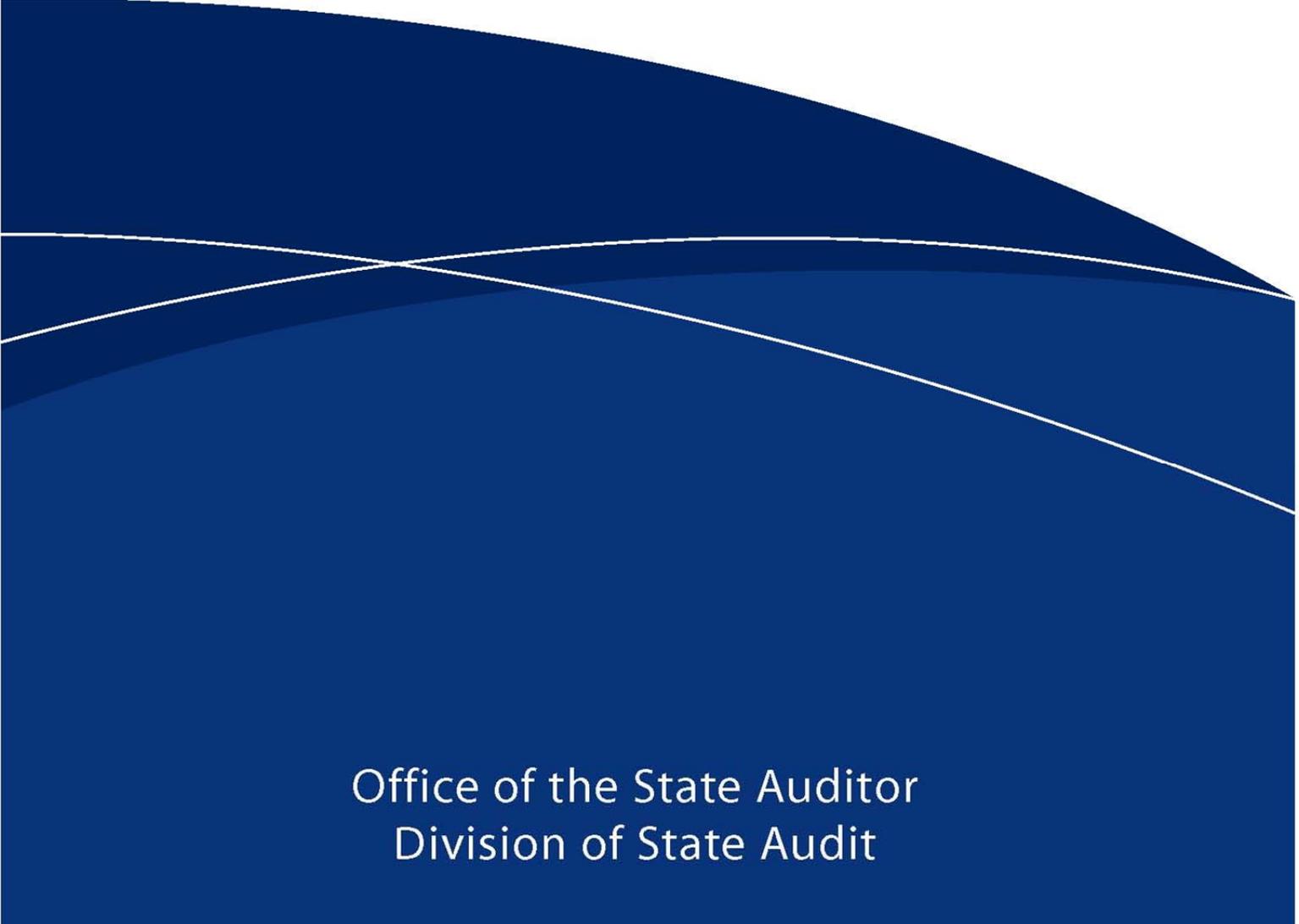


NORTH DAKOTA UNIVERSITY SYSTEM

Governance Communication Including the Report on Internal Control, Compliance, and Other Matters

For the Year Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

December 10, 2013

Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
The State Board of Higher Education

I am pleased to submit our report on internal control and compliance 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, 2013. This report on internal control and compliance 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 findings, governance communication, posted and passed audit adjustments, and management letter. These communications are required by generally accepted auditing standards.

The audit manager for this audit was John Grettum, CPA. Inquiries or comments relating to this audit may be directed to Mr. Grettum by calling (701) 239-7289. I wish to express our appreciation to the North Dakota University System for the courtesy, cooperation, and assistance they provided to us during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

RESPONSES TO THE LAFRC AUDIT QUESTIONS

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?

Unmodified.

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

No.

For additional commentary see the schedule of *Prior Recommendations Not Implemented and University System Responses #2* on page 10, and the schedule of *Findings, Recommendations, and University System Responses Findings 13-1 and 13-3* on pages 14 and 16, respectively.

3. Was internal control adequate and functioning effectively?

No. We noted the following internal control matters which need to be addressed and corrected:

1. Internal controls and training (Prior Recommendations Not Implemented #1)
2. Classification, coding, and reconciling at WSC (Prior Recommendations Not Implemented #3)
3. Improper classification of net position (Prior Recommendations Not Implemented #4)
4. CTS online entry issues (Finding 13-2)
5. Inadequate bank/investment reconciliation procedures (Finding 13-4)
6. Elimination of intra-system transactions (Finding 13-5)

For additional commentary see the Prior Recommendations Not Implemented starting on page 8 and Findings, Recommendations, and University System Responses section starting on page 14 of this report.

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 (4), posted audit adjustments (13), passed audit adjustments (13), and new formal (5) and informal (17) recommendations, in our opinion, there is a lack of efficiency in financial operations and management of the NDUS.

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

No. Four of the 11 (1 – fiscal year 2012 and 3 pre-fiscal year 2012) prior recommendations were not implemented as follows:

1. NDUS management has not:
 - conducted a comprehensive fraud and control risk assessment by each institution, or
 - established appropriate internal controls to detect, deter, and avoid potential fraudulent activity and risks relevant to the preparation of financial statements. [2008, 2009, 2010, 2011, and 2012 audits]
2. The internal audit departments at NDSU and the NDUSO did not receive the required continuing education to meet IIA CPE requirements and none of the NDUS audit departments have obtained peer reviews in compliance with industry standards. [2011 and 2012 audits]
3. Several accounting issues at WSC surrounding the classification, coding, and reconciling of financial records have not been addressed. [2011 and 2012 audits]
4. NDSCS misclassified net position on the Statement of Net Position. [2012 audit]

For additional commentary see the Prior Recommendations Not Implemented and University System Responses section of this report, starting on page 8.

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

Yes. We made the following 17 informal recommendations to which management responded and agreed to implement except for one (#15). For additional commentary and management responses, see the Management Letter starting on page 27.

1. Noncompliance with Background Check Requirements - VCSU
2. Tracking Course, Special and Program Fees - NDUS
3. Fraud Hotline Reports Follow-Up - NDUS
4. Fraud Reporting and Training for Employees – NDUS
5. Lack of Internal Auditor Audit Documentation – NDSU and NDUS
6. Clarify NDUS Procedure 1901.3 - NDUS
7. Asset Management System Utilization – All Institutions Except UND
8. Inadequate Monitoring of PeopleSoft Access Rights – MASU, NDSCS, VCSU, and WSC
9. Improper Recording of Equipment Greater than \$5,000 - LRSC
10. Scholarship Allowance Template, Computation and Security Issues - NDUS
11. Improper Reporting of Construction in Progress and Related Footnote – NDSU, UND, and VCSU
12. FAMIS Expenditures Not Recorded in Proper Fiscal Year – NDSCS
13. Improper and Inconsistent Functional Classification of Athletic Expenditures – BSC, MASU, MISU, UND, and VCSU.
14. Lack of Consistency in Pledged Revenue Note – BSC, LRSC, MASU, MISU, NDSCS, NDSU, UND, VCSU, and WSC.
15. Proper AP Descriptions, New IDB Source Code and Proper GL Descriptions – NDUS and UND
16. Inadequate Internal Auditor Staffing – NDUS
17. Lack of Oversight on Rhoades Science Center Remodel - VCSU

LAFRC AUDIT COMMUNICATIONS

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

There were no significant changes in accounting policies; no management conflicts of interest or significant unusual transactions noted. The NDUS's commitments and contingent liabilities are reported on pages 51 and 65 of the fiscal year 2013 NDUS Annual Financial Report.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

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:

- Fair value of investments
- Useful lives of capital assets
- Scholarship allowance \$66,412,776
- Allowance for uncollectible receivables:
 - Accounts \$5,813,274 (18.9%)
 - Loans and notes \$7,774,818 (17.4%)

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

The Posted Audit Adjustments schedule lists material misstatements detected as a result of audit procedures that were corrected by management.

The Passed Audit Adjustments schedule 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.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.

We are pleased to report that no significant disagreements arose during the course of our audit. However, we had three instances of disagreement with current year's findings and recommendations and informal auditor recommendations. The disagreements are included in the University System Response/Planned Corrective Actions on pages 14, 17, and 41.

5. Identify any serious difficulties encountered in performing the audit.

None.

6. Identify any major issues discussed with management prior to retention.

This is not applicable for audits conducted by the Office of the State Auditor.

7. Identify any management consultations with other accountants about auditing and accounting matters.

None.

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance, Human Resource Management System (HRMS), and Campus Solutions are the most high-risk information technology systems critical to the North Dakota University System. None of the exceptions noted were directly related to the operation of an information technology system.



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***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***

Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

The State Board of Higher Education

We have audited in accordance with the 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, the financial statements of the business-type activities and the aggregate discretely presented component units of the North Dakota University System as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the North Dakota University System's basic financial statements, and have issued our report thereon dated December 10, 2013. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the North Dakota University System's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota University System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota University's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota University System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of *Prior Recommendations Not Implemented and University System Responses* and schedule of *Findings, Recommendations, and University System Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies numbered 1, 3, and 4 in the accompanying schedule of *Prior Findings Not Implemented and University System Responses* and finding 13-2 in the schedule of *Findings, Recommendations, and University System Responses* to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of *Findings, Recommendations, and University System Responses* as items 13-4 and 13-5 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota University System's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of *Prior Findings Not Implemented and University System Responses* as item 2 and in the schedule of *Findings, Recommendations, and University System Responses* as items 13-1 and 13-3.

North Dakota University System's Response to Findings

The North Dakota University System responses to the findings identified in our audit are described in the accompanying schedule of *Prior Findings Not Implemented and University System Responses* and schedule of *Findings, Recommendations, and University System Responses*. The North Dakota University System responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson
State Auditor

Fargo, North Dakota

December 10, 2013

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. INTERNAL CONTROL AND TRAINING

Condition:

During the 2008 and subsequent audits we recommended the SBHE require a comprehensive fraud and control risk assessment by each institution and they establish appropriate internal controls to detect, deter, and avoid potential fraudulent activity and risks relevant to the preparation of financial statements; require formal continuing training on proper internal control techniques and systems to ensure all personnel are aware of institutional and Board policies and procedures and where available, internal audit staff be directed to ensure the establishment of policies and procedures and to test the effectiveness of such policies and procedures once established.

Current Status:

In prior audits we noted material audit adjustments that were required to be made in order to produce GAAP compliant financial statements. While our current audit indicated there were still auditor identified adjustments, there was significant improvement in the number and amount of posted audit adjustments required to produce GAAP compliant financial statements.

During fiscal year 2013, a comprehensive fraud and control risk assessment was not completed. A fraud and internal control survey was conducted, but the Director of Internal Audits resigned before a complete evaluation of the results of the survey was conducted. An internal control video was prepared to assist NDUS personnel understand and implement proper internal controls in their work areas, but the distribution of the video was late in fiscal year 2013 (May) and not all campuses participated in distributing the video in fiscal year 2013.

Effect:

Operational risk, as well as audit risk, escalates in an environment without proper controls. The lack of adequate internal control training at any level can create significant areas of risk to material misstatements on the general ledger and in the financial statements.

Cause:

The Board Office has not pressed this issue with the campuses enough or has not provided specific direction on how to accomplish a comprehensive fraud and control risk assessment. The Larson-Allen report issued over two years ago was a good starting point, but no further action has been taken to review or expand on that report. Also we believe there was not high enough priority given to completing the internal control training video when it was available.

Criteria:

SBHE Policy 802.8, Part 1, 2 and 5 (See Appendix A for Policy)

Recommendation:

We recommend the North Dakota University System:

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

University System Response/Planned Corrective Actions:

Agree. The Chancellor is establishing an interdisciplinary risk assessment team, comprised of senior NDUS office staff and representatives of institutions to manage a year-round risk assessment program. The NDUS office will recruit an experienced risk management professional to provide staff support to the program. The NDUS Chief Auditor will be an advisor to the risk assessment team and will be responsible for reporting on the effectiveness of the program to the SBHE. The Chief Compliance Officer will also support the team. The team will report to the Chancellor through the NDUS Chief of Staff.

Our implementation goal will be to assemble the team and hire an experienced risk management professional and develop a multi-year implementation plan related to risk assessment and internal control before the end of FY14. The plan will call for initial steps in all areas during FY15.

2. INTERNAL AUDITOR (TRAINING AND PEER REVIEWS)

Condition:

During the 2011 and subsequent audits we recommended:

- all NDUS internal audit staff obtain adequate CPE to enhance their audit skills and professional development and comply with the Institute of Internal Auditors (IIA) continuing education standards;
- all NDUS internal audit department undergo an external assessment of their quality assurance programs, at least once every five years by a qualified, independent reviewer.

Current Status:

UND's internal audit staff did receive the required IIA continuing education; however NDSU and the Director of Internal Audit at the Board Office did not. Additionally, there were no peer reviews performed on any of the three NDUS internal audit departments (NDSU, UND, and NDUSO).

Effect:

The lack of continuing education for internal auditors may cause errors in auditing techniques, audit approaches, and may ultimately end up causing audit failure and without peer reviews, the NDUS cannot be assured these offices comply with industry standards (IIA) for audits.

Cause:

The Board has not made this prior recommendation a priority.

Criteria:

SBHE board policy 802.8, Part 1 (See Appendix A for Policy)

IIA standards require;

- 80 hour of continuing education every two years to maintain certification within their organization.
- A peer review of internal audit departments conducted at least once every five years to ensure that audits conducted by the department are in compliance with the applicable auditing standards.

Recommendation:

We recommend:

- Each internal auditor obtains continuing professional education sufficient to meet IIA standards to comply with Board Policy.
- Each internal audit department obtains an IIA compliant peer review.

University System Response/Planned Corrective Actions:

Agree. Auditor annual training will be a priority for all staff within the recently unified audit function of NDUS under the Chief Auditor hired on December 16, 2013. The IIA Standards have recently been updated to require 40 hours of CPE each calendar year for Certified Internal Auditor's. This will be the standard target for all staff members. We plan to make completion of this yearly training part of the annual performance review process for all staff members.

Agree. The recently unified audit function will be formally established with the SBHE approval of a new Audit Charter. According to IIA Standards, that approval will signal the beginning of the 5 year window for a peer review of the Internal Audit function. We expect the Charter to be adopted during the first quarter of 2014.

3. CLASSIFICATION/CODING/RECONCILING – WSC

Condition:

During the fiscal year 2011 and 2012 audits we noted numerous classification, coding, and reconciliation problems with Williston State College's accounting procedures.

Current Status:

- Bond Issue Costs (\$66,700 - account 144002) were recorded in fund 28001 and should have been recorded in fund 00001.
- \$1,742,858 was recorded in state capital grants and contracts and should have been recorded in state capital appropriations.
- \$136,291 of liabilities should have been recorded as expenses and a payable at year-end 2013, but was charged instead to fiscal year 2014.
- \$1,401,491 of grants and contracts receivable was not recognized as a receivable at year-end.
- \$111,745 of state appropriation revenue was not recognized as receivable at year-end.
- \$837,575 of federal income (for Pell and FSEOG) was not reclassified to non-operating revenue.
- There have been improvements with the issues in appropriated funds and projects where the cash is not associated with the proper fund or project. Fund 35100 still has a deficit cash balance of \$1,445,327. This cash should be associated with and accounted for in the related projects.
- There is a difference of \$19,054.52 between the bank reconciliation and general ledger. The total difference is made up of \$3,784.44 of adjustments that were identified by WSC personnel after the ledgers were closed, an outstanding check in the amount of \$7,659.03 that was listed as outstanding but had cleared the bank in August of 2011, and a difference in restricted cash of \$7,611.05 between the general ledger and the BND confirmed balance.
- From the amounts obtained from WSC's general ledger, the general fund was overspent for the Campus Branding project by \$550,610; Workforce Training Building by \$153,900, and Science Lab by \$375,458. WSC has not reconciled these project expenditures from the general ledger to the appropriation amounts drawn down per OMB.

Effect:

The financial statements could be misstated which could result in a modified opinion on the NDUS financial statements.

Cause:

In our opinion, the problems are largely due to excessive turnover and a general lack of training.

Criteria:

Financial and accounting records should be maintained accurately and timely by personnel with appropriate backgrounds and training to perform said tasks.

COSO identifies a commitment to competence as one of the control environment controls which helps establish the foundation for an internal control system by providing fundamental discipline and structure.

Recommendation:

We recommend WSC:

- Report bond issue costs in fund 00001;
- Properly classify revenues;
- Ensure all year-end accrual entries are made before the ledgers are closed;

- Reconcile cash and investments bank and general ledger balance to a zero difference on a monthly basis and isolate and investigate all differences fully so that the appropriate adjustments can be made in a timely manner.
- Provide or require outside training to accounting personnel on accounting issues in addition to utilization of the PeopleSoft system;
- Make certain the general ledger captures all transactions and financial statements are presented in conformity with generally accepted accounting principles.
- Familiarize themselves with the spending authority for each of their projects and monitor them to ensure no overspending.
- Reconcile their general ledger expenses to the amounts drawn down from OMB on a timely and routine basis.

University System Response/Planned Corrective Actions:

- Agree. An entry has been made in FY14 to move the bond issue costs from fund 28001 to fund 00001.
- Agree. WSC will monitor account codes to ensure proper classification of revenues. Agree. WSC will do a review of fund balances at year end for any entries that need to be made to record accrued revenue and receivables. Also payments made after year end will be reviewed to determine the proper year in which to record them.
- Agree. Cash reconciliation has been started. FY10, FY11 and FY12 are complete with all adjusting journal entries posted in either FY13 or FY14. FY13 has been reconciled; however adjusting entries have not yet been posted. Work is being done on FY14 and when we are up to date a monthly reconciliation will be completed.
- Agree. WSC will continue to look for training opportunities that personnel can attend.
- Agree to familiarize ourselves with the spending authority for each project and monitor them to ensure no overspending going forward. After analyzing these projects, it was determined that the adjusting journal entries that need to be made, reclassifying amounts from Fund 35100 (appropriated) to Fund 28001 (local) will eliminate the overages. These journal entries have not yet been made. WSC will continue to analyze the capital projects expenditures and make the necessary entries when we have ascertained the correct total amounts.
- Agree to reconcile general ledger expenses to the amounts drawn down from OMB on a timely and routine basis. The current capital projects are on schedule to be reviewed by the end of January. The review of all of the projects is a priority and we have already begun the analysis of these projects. We are planning reviews quarterly at this time, with hopes of monitoring the capital projects and reconciling the General Ledger with OMB on a monthly basis.

WSC Finance Department is facing challenges in cleaning up items from prior years due to previous turnover. The CFO, Controller and Director of Finance were all new hires in 2013 and there has been staff turnover in FY14 in the Student Finance area. We are currently looking for a new Student Finance Associate and hope to have one hired before the end of January. Due to this vacancy, time that was being spent reconciling, reviewing fund balances and correcting prior periods is now being spent on tasks that require immediate attention such as tuition calculation, posting student and corporate charges, coordinating 3rd party and collaborative tuition and cashing. Once the Finance Department is fully staffed and adequately trained, we are committed to having processes in place that will provide timely reconciliation, monitoring and reporting of financial information. The review of fund balances, account codes and revenue classifications is ongoing. As we review the fund balances, we look at the coding and classifications. Our goal is to have all prior period corrections entered in FY14 and to have all FY14 adjustments entered in FY14. The goal for bringing cash reconciliations current is June 30, 2014.

4. IMPROPER CLASSIFICATION OF NET POSITION – NDSCS

Condition:

In the prior audit, we recommended LRSC, NDSCS, VCSU, and WSC properly classify net assets (net position) on the Statement of Net Position.

Current Status:

LRSC, VCSU, and WSC did make the proper classifications, however, on the Statement of Net Position; NDSCS misclassified \$5,080,681 of unrestricted net position that should have been recorded as \$2,023,832 in invested in capital assets and \$3,056,849 in expendable institutional net position.

Effect:

Net position on the Statement of Net Position is misstated and if not corrected could have resulted in a modified opinion on the financial statements of the NDUS.

Cause:

NDSCS had invested in capital asset balances in non-plant funds that didn't have corresponding capital assets associated with them. Also, there were a few mapping issues on PeopleSoft with capital assets and debt that the related net position accounts was not proper. An adjustment was not made for the difference in the unspent bond proceeds from fiscal year 2012 to 2013.

Criteria:

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. 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."

Recommendation:

We recommend that NDSCS present Net Position in compliance with GASB Standards.

University System Response/Planned Corrective Actions:

Agree. NDSCS has changed the mapping with CND, so this should not reoccur in the future. A correcting entry will be made for the FY14 year-end close.



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Findings, Recommendations, and University System Responses

GOVERNANCE AND INTERNAL CONTROLS OF FOUNDATION AUDITS – DCB, DSU, AND UND (FINDING 13-1)

Condition:

The DSU Foundation, the DCB Foundation, and the UND Center for Innovation foundation (CIF) all received qualified audit reports.

- The DSU Foundation's audit report was qualified because a value and classification of temporarily restricted and unrestricted net assets.
- The DCB Foundation's audit report was qualified for fair value of mineral rights.
- The UND CIF's audit report was qualified due to not valuing in-kind services provided by UND and not evaluating impairment to non-cost basis investments.

Effect:

For modified opinions, if foundations which are component units of the NDUS cannot produce GAAP compliant financial statements, they are not in compliance with Board Policy 340.2 and if material enough, this could cause the auditor's report on the NDUS financial statements to be modified which in term would impact the state's CAFR report.

Cause:

There is a failure of the Foundations to follow board policy and failure of the NDUS to enforce its policy.

Criteria:

For qualified opinions SBHE Policy 340.2, section 3e, (See Appendix A for Policy).

Recommendation 13-1:

We recommend the Board Office, as part of its governance responsibility; direct the impacted foundations to improve operations and reporting in order to obtain GAAP compliant financial statements as required by SBHE Policy 340.2.

University System Response/Planned Corrective Actions:

NDUS disagrees with the recommendation that the NDUS should "direct the impacted foundations to improve operations" as the foundations are separate nonprofit corporations governed by a board of directors. However, the NDUS plans to update the operating agreements with all related foundations by December 31, 2014 and will ensure the financial statements and other appropriate issues are addressed in the updated operating agreements and properly communicated to the foundations. The institutions and the related foundations must have a collaborative working relationship in order to accomplish their mutual objectives, so all parties have a shared objective that all financial statements meet audit requirements.

Auditor Concluding Remarks:

SBHE Policy 340.2 does "direct" how foundations should operate to benefit both parties. This policy is crucial in describing what the relationship between the NDUS institutions and their related foundations should be. When a foundation unilaterally departs from this policy, it is the responsibility of the Board to ensure compliance.

ONLINE ENTRY ISSUES - CTS (FINDING 13-2)

Condition:

We noted several accounting issues at the newly created CTS (formally SITS) office related to ONL's (journal entries). ONLs are not being:

- Properly approved by someone other than the preparer.
- Prepared on a timely basis. Receipts totaling \$9,283,292 for a 6-month period (January thru June) were not posted until 8/27/13.

Effect:

There is an increased risk of innocent errors or intentional fraud. Activity that occurred at a previous date could easily be missed on the GL when it is held for months before posting it.

Cause:

They did not think there was any risk with online entries and approvals were not necessary.

There is only one person doing the accounting for CTS (the Connect ND Executive Director).

Criteria:

According to the Committee of Sponsoring Organizations of the Treadway Commission on proper internal controls, it is management's responsibility to put proper controls in place to provide reasonable assurance of safeguarding assets, complying with management directives and accurate financial reporting. Proper review and approvals are a necessary control.

Good internal controls to ensure accurate financial reporting dictate timely accounting of all transactions.

Recommendation 13-2:

We recommend:

- CTS obtain proper approval by someone other than the preparer for all online entries.
- All accounting entries are entered on a timely basis at or near the date of the transaction.

University System Response/Planned Corrective Actions:

Agree. Journal entries had proper approval, however as noted, were entered by the approver. By June 30, 2014, we will determine an appropriate segregation of entry and approval process while trying to keep the process efficient.

We will enter transactions into the general ledger on a more timely basis. We are currently working with UND to have them assist with day-to-day accounting transactions and activities.

LEGISLATIVE APPROVAL FOR LOCAL FUND PROJECTS– MISU AND UND (FINDING 13-3)

Condition:

MISU did not obtain legislative or budget section approval for the following projects:

- Stadium seating - Budget \$2,000,000; Expenditures to date \$1,579,287
- University Heights Apartments - Budget \$1,000,000; Expenditures to date \$750,949

UND did not obtain legislative or budget section approval for the following projects:

- Scale-up classroom – Budget \$923,170; Expenditures to date \$915,313.

All of the projects were funded with transfers from other funds. Funds are commingled at NDUS entities and under current accounting practices it is next to impossible to determine that the funds spent did not include donations, gifts, grants, or bequests which if used in whole or part to construct buildings, or to finance building improvements or building maintenance in excess of \$385,000 must be approved by the legislative assembly or budget section per NDCC section 15-10-12.1.

We were able to trace back the sources of the scale-up classroom at UND and found that gift funds were used in part to fund the project.

While all of the capital projects were approved by the SBHE, it is not clear in statutes that so called “local fund” projects are exempt from Legislative approval or is the term “local fund” defined in board policy or state statute.

Effect:

Potential noncompliance with state law or legislative intent.

Significant capital projects which will require future operating and maintenance costs funded in whole or part by public funds are not being subjected to legislative approval.

Cause:

NDUS does not believe legislative approval is required for building construction, improvements, or maintenance funded with local funds.

Criteria:

NDCC 15-10-12.1, NDCC 15-10-12.3, NDCC 15-55-10, NDCC 54-27-12, Section 54-44.1-10 and the Constitution of North Dakota Article X, Section 12. (See Appendix A for Code)

Recommendation 13-3:

We recommend the State Board of Higher Education and/or institutions improve capital projects, improvements, and renovations funded by local funds by:

- a) Complying with NDCC Section 15-10-12.1 and obtain appropriate legislative approval for projects exceeding \$385,000 which utilize donation, gift, grant, or bequest moneys.
- b) Developing or modifying current accounting systems and procedures to ensure that all capital projects which exceed \$385,000 and use donations, gifts, grants or bequests in whole or in part to finance the project are properly identified for appropriate legislative approval;
- c) Taking appropriate action to modify state law to make it clear when legislative approval is or is not required for capital projects and improvements which utilize local fund moneys; and
- d) Establishing a definition of local funds within State Board of Higher Education policy.

University System Response/Planned Corrective Actions:

- a) Agree. The NDUS has complied with 15-10-12.1 for those projects that were funded one hundred percent with local funds; however, before June 30, 2014 we will examine the categorization and use of some unrestricted gift funds as local funds as it relates to the \$385,000 rule, and make changes as necessary.
- b) Agree. See response in part a) above.
- c) Disagree. Based on legal opinion dated 1/13/14 from the Office of General Counsel, NDUS, as attached, the laws pertaining to legislative approval of capital projects are clear, and

projects funded one hundred percent with local funds do not currently require legislative approval.

- d) *Agree. The NDUS will review, and make changes, as deemed necessary before June 30, 2014.*

Auditor Concluding Remarks:

We conclude that the NDUS has not complied with 15-10-12 thus stating agreement and compliance with the law is misleading. The statute clearly indicates “gifts” and makes no exception or distinction between unrestricted or restricted in seeking legislative approval.

It is our opinion that the laws pertaining to the legislative approval of capital projects are not clear and the legal opinion from the NDUS Office of General Counsel does not provide a clear or impartial answer. We stand behind our recommendation that the SBHE take appropriate action to modify state law to make it clear when legislative approval is required for capital projects and improvements which utilize local fund moneys.

INADEQUATE BANK/INVESTMENT RECONCILIATION PROCEDURES – CTS/VCSU (FINDING 13-4)

Condition:

During our testing of bank reconciliations and investments it was noted:

- CTS had not been performing monthly bank reconciliations in fiscal year 2013. They had only performed one at year-end. This resulted in an irreconcilable difference at year-end of \$560.87; and
- VCSU overstated investments by \$221,248 when comparing general ledger recorded balances to external confirmations.

Effect:

If cash and investments is not reconciled fully every month, errors or misappropriations may occur and not be detected in a timely manner. Further, the general ledger and ultimately the financial statements are misstated and depending on the severity of the misstatements, the result could be a modified opinion on the financial statements.

Cause:

CTS began operating as a separate business unit and opened a bank account during the current audit period. They apparently did not realize the importance or complexity of reconciling the cash bank balance to the general ledger to zero on a monthly basis.

VCSU was not agreeing investment balances that were reported by the bank/trustee to the general ledger.

Criteria:

Proper internal control reduces the risk of asset loss and helps ensure the reliability of the financial statements. To adequately safeguard cash and investments and ensure the reliability of the financial statements, reconciliations of bank balances to the general ledger are imperative.

Recommendation 13-4:

We recommend that CTS and VCSU reconcile cash and investments bank and general ledger balance to a zero difference on a monthly basis and isolate and investigate all differences fully so that the appropriate adjustments can be made in a timely manner.

University System Response/Planned Corrective Actions:

CTS: Agree. CTS management understands the need to reconcile bank accounts on a monthly basis and is working with UND to have them assist with some day-to-day accounting transactions and activities, including reconciliations.

VCSU: Agree. VCSU will establish and follow a month end close procedure that will include reconciling cash and investments with the general ledger in a timely manner by June 30, 2014.

ELIMINATION OF INTRA-SYSTEM TRANSACTIONS – NDUSO (FINDING 13-5)

Condition:

We noted transactions between CTS and two institutions (Intra-System transactions) that were missed in the elimination process for financial statement presentation. \$2,500,000 of activity between UND and CTS was missed at year-end when the NDUSO was compiling intra-system transfers. Similarly, another \$461,300 of NDSU and CTS activity was also missed and not eliminated.

Effect:

Revenue and expense were misstated.

Cause:

The misstatement was due to human error. The amounts were in the query, but were missed.

Criteria:

For financial statements to be accurate all material eliminations must be addressed.

Recommendation 13-5:

We recommend the NDUS Board Office implement procedures to ensure that all intra-system transactions are eliminated.

University System Response/Planned Corrective Actions:

Agree. During the review of the 925 line items totaling \$32.7 million, these two items were overlooked. The error was an oversight and more care will be taken to ensure it does not occur in the future.



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

Governance Communication

December 10, 2013

The North Dakota State Board of Higher Education

The Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the North Dakota University System for the year ended June 30, 2013, and have issued our report thereon dated December 10, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 10, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota University System are described in Note 1 to the financial statements. As described in Note 1, the North Dakota University System adopted new classifications on the statements of net position and as a result changed net assets to net position. These changes are the result of GASB Statement No. 63. We noted no transactions entered into by the NDUS during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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:

- Fair values of investments
- Useful lives of capital assets
- Scholarship allowance \$66,412,776

- Allowance for uncollectible receivables:
 - Accounts \$5,813,274 (18.9%)
 - Loans and notes 7,774,818 (17.4%)

We evaluated the key factors and assumptions used to develop these estimate in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The Passed Audit Adjustments schedule on page 25 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.

The Posted Audit Adjustments on page 23 lists material misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit. However, we had three instances of disagreements with auditor recommendations that are shown on pages 14, 17, and 41.

Management Representations

We have requested certain representations from management that are included in the management representation letters dated November 7, 2013 and December 10, 2013.

Management Consultations with Other Independent Accountants

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.

Other Audit Findings or Issues

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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

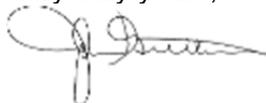
Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information, except the Financial Information for Revenue Producing Buildings, to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Under GASB No. 68, the North Dakota University System, as a cost-sharing employer, will be required to recognize its proportionate share of the collective unfunded net pension liability, pension expense, and deferred pension outflows (inflows) of the North Dakota Public Employees' Retirement System (PERS) plan within its financial statements. This will be a significant change for the North Dakota University System. The North Dakota University System will see a significant liability reflected on their balance sheets along with significant increases to pension expenses and a corresponding reduction to unrestricted net assets. We estimate, based on numbers supplied by PERS and the North Dakota University System, the North Dakota University System's proportionate share of the unfunded net pension liability to be approximately \$81 million for the fiscal year ended June 30, 2013. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

This information is intended solely for the use of North Dakota State Board of Higher Education, the Legislative and Fiscal Review Committee, and management of North Dakota University System and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John Grettum, CPA
Audit Manager, Division of State Audit

December 10, 2013

Audit Adjustments

POSTED AUDIT ADJUSTMENTS

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
1	SRECNP			
NDSU	Waivers	1,006,123		To reclassify a portion of employee tuition w aivers to w aivers
	Employee tuition w aivers		1,006,123	
2	SNP			
WSC	State appropriation receivable	111,745		To reclassify State appropriation revenue that w as recorded as state grants and contracts (oil trust tax revenue).
	Unrestricted net position		111,745	
	SRECNP			
	Net increase/decrease	111,745		
	State capital appropriations		111,745	
3	SRECNP			
WSC	State capital grants and contracts	1,742,858		Record FY 13 state appropriation receivable.
	State capital appropriations		1,742,858	
4	SNP			
WSC	Grants and contracts receivable	1,401,491		To post a computed error due to WSC not recording any grants and contracts receivable. Estimated 54% federal and 46% state grants.
	Expendable instructional dept uses		1,401,491	
	SRECNP			
	Net increase/decrease	1,401,491		
	Federal grants and contracts		756,805	
	State grants and contracts		644,686	
6	SNP			
VCSU	Cash non BND restricted	2,535,930		To record cash w ith fiscal agent for 2013 series refunding bonds for crossover advance refunding.
	Expendable debt service		2,535,930	
	SRECNP			
	Other nonoperating revenue	249,070		
	Net increase/decrease		249,070	
7	SNP			
VCSU	Invested in capital assets	2,785,000		To record bonds payable for the 2003 bonds that will be called on 7/1/13 with the cash w ith fiscal agent from the 2013 series refunding bonds..
	Bonds payable current		2,785,000	
8	SRECNP			
UND CTS	Contract services	2,500,000		To eliminate transaction betw een UND and CTS.
	Contract services		2,500,000	
9	SNP			
NDSCS	Expendable Instructional Dept Uses	3,056,849		To properly classify net position balances.
	Invested in capital assets	2,023,833		
	Unrestricted net position		5,080,682	
10	SNP			
DCB	Unrestricted net position	5,997		To reclassify negative expendable debt service to unrestricted net position.
	Expendable Debt Service		5,997	

(continued)

Posted Audit Adjustments – continued

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
11	SNP			
LRSC	Unrestricted net position	245,873		To reclassify negative expendable instructional dept uses and expendable debt service to unrestricted net position.
	Expendable Instructional Dept Uses		7,169	
	Expendable Debt Service		238,704	
12	SNP			
UND	Unrestricted net position	7,392,812		To reclassify unrestricted net position balance of fund 70210 based on external restriction of donor.
	Expendable instructional dept uses		7,392,812	
13	SNP			
WSC	Unrestricted net position	88,014		To reclassify negative expendable scholarships to unrestricted net position.
	Expendable scholarships and fellow ships		88,014	

SNP – Statement of net position

SRECNP – Statement of revenues, expenses and changes in net position

PASSED AUDIT ADJUSTMENTS

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
1	SRECNP			
WSC	Machinery/equipment	245,178		To reclassify machinery/equipment and intangibles.
	Intangibles	5,400		
	Machinery/equipment additions		245,178	
	Intangible asset additions		5,400	
2	SNP			
MISU	Unearned revenue	420,000		To eliminate asset and liability for advertising that was booked in total but is due in installments and reclassify revenue recorded as a receivable.
	Net increase/decrease	35,000		
	Accounts receivable		420,000	
	Accounts receivable - non student		35,000	
	SRECNP			
	Advertising Revenue--Auxiliary	35,000		
	Net increase/decrease		35,000	
3	SRECNP			
VCSU	Federal grants and contracts	71,384		Reclassify FSEOG from operating to non-operating
	Federal grants and contracts nonoperating		71,384	
4	SRECNP			
WSC	Federal grants and contracts	837,575		Reclassify Pell and FSEOG from operating to nonoperating.
	Federal grants and contracts nonoperating		837,575	
5	SNP			
VCSU	Investments pooled non BND	2,787		To adjust investment balances to agree with external confirmations received.
	Expendable scholarships and fellow ships	15,580		
	Expendable debt service	205,668		
	Investments CD's non BND		18,367	
	Investments other non BND		205,668	
	SRECNP			
	Unrealized loss on investments	221,248		
	Net increase/decrease		221,248	
6	SNP			
DSU	Building improvements	510,794		To post projected error of payments that were incorrectly classified as noncapitalized expenses.
	Invested in capital assets		510,794	
	SRECNP			
	Other capital payment capitalized	510,794		
	Landscaping and ground supplies		510,794	
7	SNP			
LRSC	Machinery and equipment	235,485		To post projected error of payments that were incorrectly classified as noncapitalized expenses.
	Invested in capital assets		235,485	
	SRECNP			
	Maintenance equipment > \$5,000	235,485		
	Maintenance supplies		235,485	

(continued)

Passed Audit Adjustments – continued

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
8	SNP			
VCSU	Building improvements Invested in capital assets	309,787	309,787	To post projected error of payments that were incorrectly classified as noncapitalized expenses.
	SRECNP			
	General contractor capitalized Repair services noncapitalized	309,787	309,787	
9	SNP			
NDSCS	Cash in BND restricted Cash in BND	623,500	623,500	To classify restricted cash for unspent bond proceeds for Forkner remodel.
10	SNP			
WSC	Inventory Unrestricted net position	18,552	18,552	To correct inventory balance.
	SRECNP			
	Cost of goods sold Net increase/decrease	18,552	18,552	
11	SNP			
NDSCS	Unrestricted net position Accounts payable	1,417,067	1,417,067	To record a projection of FY14 FAMS expenditures that should have been posted to FY13.
	SRECNP			
	Expenditures Net increase/decrease	1,417,067	1,417,067	
12	SNP			
WSC	Net increase/decrease Accounts payable	434,956	434,956	To record a projection of FY14 expenditures that should have been posted to FY13.
	SRECNP			
	Expenditures Net increase/decrease	434,956	434,956	
13	SNP			
WSC	Unrestricted net position Expendable instructional dept uses	828,766	828,766	To reclassify negative expendable instructional dept uses to unrestricted net position. This entry was passed because of posted entry #4.

SNP – Statement of net position

SRECNP – Statement of revenues, expenses and changes in net position

Management Letter

December 10, 2013

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

Dear Ms. Putnam:

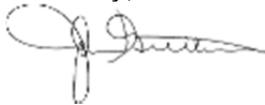
The Office of the State Auditor has completed its financial audit of the North Dakota University System for the year ended June 30, 2013. As part of our examination, we gained an understanding of the internal control over financial reporting and tested compliance with laws and regulations to the extent we considered necessary. We have issued our report on internal control over financial reporting and compliance and other matters dated December 10, 2013.

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. Noncompliance with Background Check Requirements – VCSU

Condition:

Based on our test of background checks, we noted VCSU did not perform the background check until after the athletic coach began work.

Effect:

The hiring of persons who have civil or criminal histories for sensitive jobs including day-care for children or access to locker rooms and showers could have significant exposure to the health and welfare of the participants and could lead to staggering litigation.

Cause:

Per the VCSU Controller, this was an oversight. The Human Resource Director thought the background check had been completed prior to hiring, but when discovered the check was performed two days after the hire date.

Criteria:

NDUS Procedure, 602.3, part 3 f (See Appendix A for Procedure).

Recommendation:

We recommend the VCSU Human Resource Department recognize the potential problems of hiring persons for sensitive jobs and ensure that a background check is performed prior to employee start date as required by SBHE Procedure 602.3.

University System Response/Planned Corrective Actions:

Agree. VCSU recognizes the importance of completing background checks and completes them before an employee start date, as required by SBHE Procedure 602.3. This one instance was an oversight and going forward, the Human Resource Director will have a completed background check before authorizing a start date.

2. Tracking Course, Special and Program Fees - NDUS

Condition:

During the prior audit we noted none of the NDUS institutions have policies and procedures in place to properly track fees to ensure they are expended in accordance with the purpose of the fee. This includes program fees, special course fees, etc. but not mandatory fees. Per a cursory review of fees we estimated there are better than \$25,000,000 in non-mandatory fees during the prior year, and don't believe that number has changed much for the current year.

Effect:

Student and concerned stakeholders have no way to track and ensure that program, special course, and other fees are being spent for the purpose for which they were assessed and therefore directly benefit those approving and paying the fee.

Cause:

In our opinion, the NDUS lacks policies to regulate the fee expenses to ensure the fee is expended for intended purposes.

Criteria:

One of COSO's five essential components of an effective internal control system is control activities. COSO defines control activities as policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out. Policies and procedures should be formulated to ensure fees charged benefit the intended individuals who paid the fee.

Recommendation:

We recommend the NDUS develop clear and consistent policies and procedures related to tracking program, special course and other fees, to ensure they are expended for the intended purpose (i.e. the program, special course, etc.) to ensure transparency with accountability for all fees charged.

University System Response/Planned Corrective Actions:

Agree. In 2012, the NDUS completed a review of accumulated fee balances and began implementation of a plan to utilize accumulated balances and limit balances in the future in alignment with business needs. Completion of this plan will coincide with changes to the tuition and fee model under the Pathways Plan. As part of the Pathways Plan, the NDUS is currently in the process of developing a new tuition model for implementation in Fall 2015. One component of the model is to merge most non-mandatory fees with tuition. All tuition and fee policies and procedures will be updated as part of this effort.

3. Fraud Hotline Reports Follow-Up – NDUS

Condition:

Based on our review of fraud hotline reports, we noted several instances of weakness in SBHE policy 611.10 and the reporting responsibilities of those charged with the follow-up on these reports.

- Board policy 611.10 does not establish a time table for follow-up to the fraud hotline reports. The policy refers to a timely disposition, however, does not define the term timely.
- Although laws, regulations, Board and institutional policies are reviewed as part of the fraud or abuse determination, we noted an instance where the UND Research Foundation Board of Directors changed, which did in fact change the nature of the reporting of this component unit for the NDUS and this change was not communicated to those responsible for financial policies, procedures, and reporting.
- NDSU had three hotline fraud reports filed in September and November of 2012. It is unknown when resolution of these reports occurred because no dates were assigned fact-finding steps, review or investigation, or to the conclusion reports issued by the Audit & Advisory Services Office. One of the documents (item #70) shows the concern of NDSU management about the late notification by the internal auditor.

Effect:

Without an established time table for investigating and resolving fraud hotline reports, the institutions have no guidance as to when to resolve the issues reported. This could lead to an unnecessarily lengthy continuance of the fraud resulting in larger losses, innocent parties being falsely accused, or the appearance that nothing is being done about the hotline calls and therefore apathy in reporting.

All individuals involved with hotline report investigations should be aware of potential institutional and NDUS reporting requirements so when a situation like the UND Research Foundation's change in Board of Directors occurs, they notify the appropriate Board personnel.

Due to the lack of documentation on follow-ups to the hotline reports at NDSU, it is not known when the follow-up was performed, if or when the parties involved were contacted, or what their response to conclusions were.

Cause:

Policy does not:

- Include a time-table for follow-up on hotline reports.
- Include a Board officer to track and follow-up on institutional resolutions to hotline reports.
- Require the Reporting Officer to be included in the line of communication when one fraud report revealed that a foundation had changed its board of directors.

Criteria:

SBHE Policy 611.10 (See Appendix A for Policy).

Recommendation:

We recommend the SBHE amend Board Policy 611.10 to include:

- A time table for fraud hotline reports followed-up.
- The name or title of the person at the Board Office charged with monitoring the report follow-up time table.
- Notification of the applicable Board Office employees of reports that may have an impact on accounting policies, procedures or reporting, and
- That NDSU be instructed to comply with this policy by documenting, dating and signing each step of the fraud hot-line review.

University System Response/Planned Corrective Actions:

Agree. In accordance with a prior performance audit report, the NDUS has established a Chief Compliance Officer position, which is now occupied by a special assistant attorney general, who will be primarily responsible for the management of the fraud hotline program. The Chief Compliance Officer is drafting amendments to SBHE Policy 611.10, which will establish a timetable to follow-up hotline reports, clarify the responsibilities for handling reports, and complying with each stop in the process from intake to resolution. We plan to submit the proposed amendments to the SBHE for a first reading in February and final approval in March 2014.

4. Fraud Reporting and Training for Employees – NDUS

Condition:

The fraud survey conducted by the University System Office indicated a lack of understanding as to what constitutes fraud and/or how to report fraud and/or the consequences for the employee if they do not report fraud.

The OSA fraud survey showed some weaknesses in training, implementation of fraud internal controls, knowledge in knowing how to report fraud.

Effect:

Known fraud could be occurring in the departments of a school and it would go undetected or unreported because all personnel are not trained to know what fraud is, how to report it or the consequences of knowing about the fraud and not reporting it.

Cause:

There is a lack of proper training or ineffective training for employees.

Criteria:

SBHE Policy 611.10 (See Appendix A for policy)

Recommendation:

We recommend all schools effectively train employees:

- To recognize what constitutes fraud;
- How to identify and prevent fraud;
- How to report fraud, if it should occur; and
- The consequences if they fail to report it.

University System Response/Planned Corrective Actions:

Agree. This will be the responsibility of the Chief Compliance Officer as part of the overall responsibilities related to management of the fraud hotline program. We plan to have a fully operational training program by the end of Calendar Year 2014.

5. Lack of Internal Auditor Audit Documentation – NDSU and NDUS

Condition:

Based on our review of audit work performed by the internal audit staff at NDSU and the Board Office, audit workpapers did not include audit programs, internal control testing, written audit reports, or written responses to recommendations. In general, audit documentation was poor.

Effect:

Lack of internal audit supporting documentation for work performed increases the risk of engagement inefficiency and questionable, if not useless results and conclusions.

Cause:

The lack of system unity, proper training and a comprehensive audit plan ensures disparity in audit practice by the internal audit staff.

Criteria:

To provide the University System with quality and reliable internal audit services, the internal audit staff must follow internal auditing standards by preparing, testing and documenting audit activities to support any conclusions drawn.

Recommendation:

We recommend that all internal audit staff comply with established internal audit documentation standards and thus improve their audits through the use of engagement working papers including by not limited to, audit programs, documented findings and departmental responses to the findings and formal written audit reports.

University System Response/Planned Corrective Actions:

Agree. The IIA Standards require the internal audit function to establish an internal quality improvement process to make sure compliance with the IIA Standards is achieved. This will include, among other items, procedures to make sure adequate risk assessments are performed to develop an annual audit plan, adequate documentation exists for audit work performed, documented audit programs are in place, documented testing has been performed to support findings and recommendations, formal reporting processes are in place, documented client responses are solicited, procedures exist for appropriate follow-up on findings and action plans, etc. We anticipate it will take until June 30, 2015 to have this internal quality improvement process fully designed and operational.

6. Clarify NDUS Procedure 1901.3 – NDUS

Condition:

During our testing of capital projects, we noted schools were interpreting NDUS procedure 1901.3 to mean that SBHE approval is not necessary for IT related projects that exceed \$250,000. The procedure states, "All NDUS institutions must adhere to the standards, guidelines, procedures, and processes, as defined by the NDUS CIO for administrative IT projects with a total cost of \$250,000 or greater so that the project may be properly reported to the Legislative IT Committee." This is being interpreted as NDUS CIO approval is the only approval that is necessary to begin an IT-related project, which does not seem to be in line with the intent of other board policies. Specifically SBHE policy 902.3 stating Board approval is required to proceed with a capital project or improvement for which the total estimated cost exceeds \$250,000.

Further, point 8 of NDUS procedure 1901.3 states, "Upon written request of an institution president, the NDUS CIO may delegate to an institution authority for information technology acquisitions

consistent with institution size and mission not exceeding a cost of \$100,000." According to this statement it appears that all IT acquisitions need the approval of the NDUS CIO, even the purchase of a computer, unless authority has been delegated after written request of the president. This again does not seem to be consistent with other SBHE policies.

Effect:

Results in inconsistency between institutions as the procedure can be interpreted various ways.

Cause:

A procedure was implemented to establish a process to adequately monitor IT related projects and to implement SBHE policy 1901.3. In our opinion, the procedure is not clear on the details of the approval process and clarification is needed.

Criteria:

Policies and procedures provide the means to ensure consistency and compliance with management intent. To ensure consistent application of policies and procedures the language must be clear and concise. Lack of clarity in NDUS procedure 1901.3 and SBHE policy 1901.3 could lead to inconsistent application by NDUS institutions.

Recommendation:

We recommend the NDUS:

- Clarify procedure 1901.3 stating whether SBHE approval is necessary for information technology related projects that exceed \$250,000;
- Clarify procedure 1901.3 point 8 stating whether all IT related acquisitions need approval of the NDUS CIO and if CIO approval is not necessary on all IT acquisitions establish a threshold to determine when approval is necessary;
- Confirm with the SBHE that the updates made to the procedure are in line with the intent of Board policy 1901.3.

University System Response/Planned Corrective Actions:

Agree. CTS will work with the NDUSO to clarify procedure 1901.3 point 8. Further, we will seek clarification from SBHE on the intent of both policy and procedure 1901.3 by the end of December 2014.

7. Asset Management System Utilization – All schools except UND

Condition:

During our testing of capital assets, we noted UND was using the PeopleSoft Asset Management (AM) module for keeping track of land, improvements, infrastructure, and buildings. All other institutions are maintaining separate spreadsheets for the cost and depreciation of these non-equipment assets.

Further, WSC was using AM for tracking all assets prior to the current audit period. In fiscal year 2013 they did not add any assets to AM, including equipment, and tracked all additions on a spreadsheet.

Effect:

This results in a lack of consistency, efficiency, and serves to diminish internal controls by increasing the likelihood of human error impacting the financial statements.

Cause:

There have been no established policies and procedures for tracking capital assets to ensure effective and efficient capital asset records. Land, buildings, improvements and infrastructure have always

been tracked using off-system records so institutional personnel have continued to track them as they have in the past.

Further, WSC has had high staff turnover. New personnel were never shown how to use the AM module and did not have the knowledge or time to familiarize themselves with the system.

Criteria:

Policies and procedures help ensure effective and efficient operations and provide for consistency and reliability of financial reporting. PeopleSoft Asset Management has the ability to track buildings, land, and improvements but the system is not being used to its full potential.

Recommendation:

We recommend the NDUS establish policies and procedures which require the entire NDUS to use the Asset Management module for land, buildings, improvements and infrastructure.

University System Response/Planned Corrective Actions:

Agree. By June 30, 2014, the NDUS, through the Controllers Group, will review the feasibility of establishing policies and procedures that require NDUS institutions to use the Asset Management module for land, buildings, improvements and infrastructure.

8. Inadequate Monitoring of PeopleSoft Access Rights – MASU, NDSCS, VCSU, and WSC

Condition:

We obtained and reviewed the access roles and monitoring activities for both the Financial and HRMS Environments of PeopleSoft for all NDUS institutions. This review revealed that 4 NDUS institutions did not conduct and document at least yearly evaluation of all access roles.

Effect:

Noncompliance with NDUS procedure 1912.1.

Lack of monitoring an individual's access roles to PeopleSoft increases the risk of unauthorized access which increases the risk of financial statement misstatement and fraud. It also increases the risk that too much control rests in one individual's hands knowingly or unknowingly leading to internal control issues surrounding segregation of duties. If adequate monitoring of access rights does not exist, the following could occur:

- Misappropriation of assets;
- Misstated financial statements;
- Incomplete and inaccurate financial documentation (i.e. errors or irregularities);
- Improper use of funds or modification of data could go undetected.

Cause:

We believe it may be due to not understanding the different levels of access in PeopleSoft, and the complexity of segregation of duties and conflicting access roles. Further, not continuously monitoring the levels of access employees have with what access levels are available in the different PeopleSoft environments.

Criteria:

Proper internal controls should provide reasonable assurance that operations are effective and efficient and financial reporting is reliable. An integral part of operational effectiveness and efficiency as well as ensuring the reliability of financial information is requiring that proper restrictions on the different levels of access are continuously monitored to ensure the integrity of the data. Additionally, proper internal controls also provide reasonable assurance of compliance with applicable laws and regulations. NDUS Procedure 1912.1 identifies risks and requires coordinators to review procedures, keep current on potential threats, and conduct regular risk assessment and an annual evaluation to

ensure ongoing compliance. System access and security is an identified risk in NDUS Procedure 1912.1.

Recommendation:

We recommend:

- MASU, VCSU, and WSC implement continuous monitoring of roles in both the Financial and HRMS environments of PeopleSoft, and NDSCS implement continuous monitoring of roles in the Financial environment to ensure that the proper level of access is granted and/or removed in a timely manner
- One of these continuous monitoring of roles is documented at least yearly.

University System Response/Planned Corrective Actions:

Agree. In FY13, existing HRMS roles were reviewed by the NDUS Financial and HRM Systems Director. Recommendations for changes were made where potential conflict existed and distributed to campus Controllers and the NDUS Director of Financial Reporting. The campus Controllers then either:

1. agreed with the recommendations and the access changes were then made or;
2. implemented compensating controls if the existing roles were needed due to small staff sizes. The Director of Financial Reporting had to approve all compensating controls.

In June 2013, training was held for HRMS Campus Access Control Officers (CACO).

Due to time and resources constraints, Finance roles review was deferred to FY14. The same steps described above will be performed for these roles. The process will be completed by June 30, 2014.

MaSU and VCSU will review and document access rights on a biannual basis going forward. WSC will begin reviews starting in FY2015.

NDSCS continuously monitors financial roles access, but will document the process in the future.

9. Improper Recording of Equipment Greater than \$5,000 – LRSC

Condition:

During our testing of repairs and maintenance expenditures we noted LRSC coded \$46,866 of equipment with a cost over \$5,000 to account 552030 - Other Equipment under \$5,000. This equipment was also added to the Asset Management module and was being depreciated, without a journal entry being made to reclassify the costs to a capitalized account code. Therefore, these assets were being expensed twice, once for the entire amount in fiscal year 2013 and again over the useful lives of the equipment through depreciation.

Effect:

Expenses are overstated by expensing the equipment in fiscal year 2013 and also taking depreciation over the useful life of the assets.

Cause:

A mistake was made by the client. The individual coding the transactions realized that the equipment should be capitalized, but did not record the tools to the proper capitalized account code and the reviewer of the payment did not catch the error.

Criteria:

Generally accepted accounting principles state that an asset with a useful life of one year or more cannot be expensed in the year of purchase. Instead, the company records depreciation over the life of the asset. Also, according to the NDUS Accounting Manual, equipment should be capitalized if its cost is \$5,000 or more and has a useful life of one year or more.

Recommendation:

We recommend LRSC ensure all assets with a cost of \$5,000 or more and a useful life of one year or more are coded to a capitalized account code prior to adding assets to Asset Management.

University System Response/Planned Corrective Actions:

Agree. The Assets Management personnel caught the incorrect coding and recorded it as a capital asset. However, it was not communicated to the accounting office so a journal entry could be made. Going forward, we will communicate the importance of any changes to the accounting office so the appropriate journal entry can be made.

10. Scholarship Allowance Template, Computation & Security Issues – NDUS

Condition:

We noted the following during our review of each school's scholarship allowance calculation:

- The instructions in Part A of the data sheet are incorrect. Instructions ask for item numbers 94xxxxxxxxxx and 95xxxxxxxxxx (begins with 94 or 95) which lists all scholarships, not just external. Normally the external scholarships are under the 95xxxxxxxxxx item type. Only those scholarships not recognizing gift revenue should be included in this category. Incorrect amounts were entered for external scholarships by DCB, LRSC, VCSU, and WSC.
- The cell in Part B of the data sheet, to add back athletic scholarships after they were subtracted above to arrive at non-athletic scholarships does not appear to be a formula in some instances. LRSC entered a different number and MaSU entered no number at all. The formula in cell F42 should be -E30 (minus cell E30 high adds back a negative).
- A number of schools are recognizing revenue on external scholarships (DCB, NDSU, MISU, MASU, and VCSU). External scholarships should be accounted for similar to 3rd party payees; gift revenue should not be recognized as it was not a gift to the school, it was to pay for a specific student's charges. Only tuition income should be recognized by the school, not gift income nor scholarship expense.
- Seven schools (BSC, DCB, LRSC, MISU, NDSCS, VCSU & WSC) incorrectly included collaborative payments from other schools in Part C, Third Party Payments. We believe this is another problem caused by the template containing a cell and description for Collaborative Payments.
- VCSU did not include Direct Loans in Part A. As recommended in our prior audit a comparison between years should have identified something was missing.
- When we ran fund rosters we noted they still listed social security numbers for the students in addition to their Empl. ID's. These should not be attainable in a public query.

Effect:

Misstated financial statements and student's social security numbers exposed to identity theft.

Cause:

- In our opinion, the instructions on the template are too general. It should identify what external scholarships are compared to internal (where gift income is recognized). We are unsure why Collaborative Payments were added to the template.
- We don't know why some schools recognize gift revenue on external scholarships but believe it probably is the way they've been doing it for years.
- In our opinion, VCSU did not perform a comparison with the prior year's scholarship allowance. Had it been performed it should have been discovered something was missing.
- We are unsure why social security numbers are available when we run the fund roster.

Criteria:

To ensure proper recognition of tuition and scholarship expense the directions for completing the data template must be complete and accurate; otherwise the financials could be misstated.

NACUBO Advisory Report 1997-1 outlines in the examples section (Student M, Student J & Student N) evidence that when the institution has no input into the selection of the scholarship recipient that gift income should not be recognized and the transactions should basically be treated like a third party transaction. Recognizing gift revenue on external scholarships results in classifying revenue as gifts (which is non-operating income) instead of properly reflecting Tuition (which is operating income).

Student's identities need to be safeguarded by the institution and including them on common reports/queries exposes students to unnecessary risks of identity theft.

Recommendation:

We recommend:

- The NDUSO fix the issues related to the scholarship allowance template by changing what should be included as external scholarships in Part A; password protecting the cell that includes the formula to add back athletic scholarships so it can't be changed, and remove collaborative payments from third party payments in Part C.
- Schools that recognize gift income on external scholarships change their approach and treat external scholarships (those that the school has no involvement in choosing the recipient) similar to third party payments and not record gift income and scholarship expense. However, keep the total for external scholarships in Part A; do not move to Part C of the template.
- VCSU (and all schools) perform a comparison between fiscal year templates to identify areas of material change.
- The NDUS work with ConnectND to remove social security number from common reports such as the fund roster report.

University System Response/Planned Corrective Actions:

Agree. NDUS will review the template, define a consistent methodology and make the necessary changes to the template for the FY14 year-end close process. NDUS will work with ConnectND, campus Controllers and Financial Aid Directors to determine the feasibility of removing social security numbers from common reports, when such information is not a required element for federal reporting or other financial aid purposes. If the reports we currently use for the scholarship allowance calculation are used for other purposes that require social security numbers, we will work with ConnectND to determine whether other reports exist or can be created that do not contain this information.

**11. Improper Reporting of Construction in Progress and Related Footnote –
NDSU, UND, and VCSU.**

Condition:

During testing of construction in progress (CIP) we noted the following issues regarding the listings and the related footnote;

- UND had three projects included in CIP that were completed prior to 6/30/13 and should have been transferred from CIP to the proper asset category. The amount that should have been transferred was \$4,851,995.
- UND included ten projects that had begun prior to fiscal year 2013 and were now being reported as part of CIP. The expenditures for these projects were not included as CIP in prior years but were recorded as building improvements and were being depreciated. These expenditures were never moved out of building improvements and included as part of the CIP

balance for fiscal year 2013. Therefore, \$2,675,240 of expenditures that occurred prior to fiscal year 2013 continued to be capitalized, when they should have been included as part of CIP.

- NDSU, UND, and VCSU reported incorrect amounts authorized for the CIP footnote. The total amount authorized was understated by \$22,413,099 (NDSU \$6,922,533; UND \$15,290,566; and VCSU \$200,000).

Effect:

The financial statements and related footnotes are misstated.

Cause:

There was a lack of communication at UND as the individual that prepared the CIP listing was not aware that three of the projects were complete.

In prior years UND had only reported large projects as part of CIP. In fiscal year 2013 they decided they would begin to report all projects still in progress. UND personnel stated the Asset Management module wouldn't allow them to go back and reclassify the amounts for projects that previously had been capitalized but now should be included as CIP.

The individuals that prepared the CIP listings for NDSU, UND, and VCSU had pulled the wrong information for the amounts authorized.

Criteria:

According to the NDUS Accounting Manual, construction in progress includes all capitalizable costs incurred in the construction or fabrication of an asset, which is not completed at the end of the fiscal year. These costs are not depreciated until the asset is substantially complete. In addition, financial statement footnotes are an integral part of the financial statements. Accuracy of the amounts reported in the footnotes is essential to provide clarity and accurate information to the readers of the financial statements.

Recommendation:

We recommend:

- UND inquire with personnel in Facilities Management at year end to ensure that completed projects are not included in CIP;
- UND ensure that all capitalizable costs for projects that are not completed at the end of the fiscal year are included in CIP;
- NDSU, UND and VCSU exercise more care and develop procedures to ensure the amounts authorized for the CIP disclosure are accurate.

University System Response/Planned Corrective Actions:

NDSU: Agree. There was some confusion in the past about what amount to report in the "Authorized Amount" column on the NDUS templates: whether to report only SBHE or campus approved amounts. We will work to gain agreement on the proper figure in the future and take more care to report the proper "Authorized Amount" on the template.

UND: Agree.

- 1. To ensure completed Construction in Progress projects are properly classified at year-end, personnel are further defining needed and required communication, as well as to whom to disseminate this information.*
- 2. During fiscal year 2013, a change in the process to record capitalized construction in progress projects was implemented; this was a one-time correction due to the change in the process that will not occur again.*
- 3. The Controller, Asset Management Accountant, Assistant Controller, and Business Manager of the Business Service Center have changed how this information is reported internally so all personnel are using the same file to obtain the information.*

VCSU: Agree. VCSU did not include authorized non-appropriated funds in a project and will ensure both appropriated and non-appropriated authorized funds will be included in the future.

12. FAMIS Expenditures Not Recorded in Proper Fiscal Year – NDSCS

Condition:

We selected two items at NDSCS in our year-end testing to determine if expenditures were recorded in the proper fiscal year and neither was posted to the correct year. Two expenditures totaling \$449,374 that were processed through FAMIS in fiscal year 2014 should have been posted to fiscal year 2013.

Effect:

Expenses and payables are understated thus the financial statements are misstated.

Cause:

When transactions are recorded in FAMIS they are posted to the entry date and they are not reviewed to determine if they are posted to the proper year.

Criteria:

General Accepted Accounting Principles requires the recognition of an expense and liability when incurred.

Recommendation:

We recommend the NDSCS implement procedures to ensure that all expenses, especially those recorded in FAMIS are recorded in the proper fiscal year.

University System Response/Planned Corrective Actions:

Agree. NDSCS will implement procedures and provide proper training to ensure that expenses are recorded in the proper fiscal periods by June 30, 2014.

13. Improper and Inconsistent Functional Classification of Athletic Expenditures – BSC, MASU, MISU, UND, and VCSU

Condition:

NDUS institutions are not consistently coding athletic expenses paid with appropriated funds. We noted \$6,613,226 of BSC, MASU, MISU, UND, and VCSC athletic expenditures paid with appropriated funds was functionally classified as instruction, while NDSU functionally classified \$2,014,467 of appropriated athletic expenditures as auxiliary. Due to the fact that the expenditures were for athletics, it is our opinion that auxiliary is the proper functional classification. The institutions that classified these expenditures as instruction were BSC (\$461,616); MASU (\$1,112,342); MISU (\$1,107,850); UND (\$3,621,197); and VCSU (\$310,221).

Effect:

There is a lack of consistency and comparability of functional classifications among the institutions, as well as misclassified expenditures on the functional operating expense note to the financial statements.

Cause:

At BSC and UND coaches also taught classes in previous years which resulted in the funds being functionally classified as instruction. These Institutions are now seeing more expenses that are not covered by sales and services of athletics, but have continued to functionally classify appropriated funds used for athletics as instruction, even though the expenditures are not for instructional

purposes. In the case of MASU, MISU, and VCSU coaches continue to teach classes, but they did not separately identify expenditures that were for the teaching of classes and expenditures for athletic purposes resulting in all athletic expenditures paid with appropriated funds to be functionally classified as instruction.

Criteria:

According to the NDUS Accounting Manual, auxiliary services consist of essentially self-supporting operations and may include residence halls, food services, intercollegiate athletics, college unions, college stores, and other self-supporting services. In addition, consistency and comparability are two of the key qualities which accounting information must possess. Accounting information is comparable when accounting standards and policies are applied consistently from one period to another and from one institution to another. The characteristics of consistency and comparability of financial statements are important because it allows users to compare a set of financial statements with those of prior periods and those of other institutions.

Recommendation:

We recommend:

- BSC, MASU, MISU, UND, and VCSU functionally classify appropriated funds used for athletics as some function other than instruction; and
- NDUS develop a written policy in the accounting manual stating how to functionally classify appropriated funds used for athletics to promote comparability and consistency among all institutions.

University System Response/Planned Corrective Actions:

Agree. The NDUS, through the Controllers' Group, will review and develop a consistent methodology for functionally classifying appropriated funds used for athletics by June 30, 2014. It is important to note that coaches and athletic staff at MiSU and VCSU also teach courses.

**14. Lack of Consistency in Pledged Revenues Note –
BSC, LRSC, MASU, MISU, NDSCS, NDSU, UND, VCSU, and WSC**

Condition:

We noted a number of inconsistencies in amounts used for the Pledged Revenues note:

- BSC used net income for auxiliary but gross tuition for student college fees.
- LRSC used a net total for bookstore, housing, and food service, and gross amounts of tuition, parking fees, facilities usage, etc.) for the remaining revenue noted as pledged.
- MASU used gross auxiliary revenues and omitted a fund in the 'funds where revenue was recorded' line (fund 10100 was entered twice and fund 10000 was left off).
- MISU used actual principal and interest paid for the year plus 15% as its auxiliary pledge. Used gross tuition amounts for Wellness center fees.
- NDSCS used net income (less transfers) for all sources including auxiliary revenue, parking fees, and student service fees.
- NDSU used gross tuition or other revenue for all sources including auxiliary sales.
- UND used net income of applicable sources, per UND they used what they submit for their continuing disclosure.
- VCSU used gross auxiliary revenue. We noted this included transfers in and out.
- WSC used or intended to use actual principal and interest paid during the year.

Effect:

There is no comparability between schools and the note is misstated.

Cause:

There are no guidelines or procedures thus institutions have different ideas of what should be entered for Current Year Pledged Revenue.

Criteria:

The concept of consistency means that accounting methods once adopted must be applied consistently in future. Also same methods and techniques must be used for similar situations. The consistency concept is important because of the need for comparability, that is, it enables investors and other users of financial statements to easily and correctly compare the financial statements of an entity. The characteristic of comparability of financial statements is important because it allows us to compare a set of financial statements with those of prior periods and those of other institutions. Without consistency and comparability the notes to the financial statements will have little meaning.

Recommendation:

We recommend the NDUS:

- Use standard and consistent accounting procedures at each school for the Pledged Revenues Note.
- Define whether pledged revenues for the current year are net amounts, gross amounts, or some combination of, and apply those procedures consistently.

University System Response/Planned Corrective Actions:

Agree. A consistent methodology will be developed and the necessary changes will be made to the template for the FY2014 year-end close process. In FY2013 the pledged revenue disclosure was significantly expanded from previous years and reported as a footnote, rather than parenthetically in the Statement of Revenue, Expense and Changes in Net Position, as required by GASB. Additional work will be performed in FY2014 to ensure a consistent methodology is adopted for the expanded disclosure.

15. Proper AP Descriptions, New IDB Source Codes and Proper GL Descriptions – NDUS and UND

Condition:

We noted the following issues with AP and GL transactions on PeopleSoft:

- NDUS was not using proper descriptors when completing AP transactions to identify the nature and increase the transparency of the transactions. In the last four months of fiscal year 2013, we noted 76% of the AP transactions did not have a description entered in the Description field. We also looked at AP transactions from 7/1/13 through 10/22/13 and noted the uncompleted AP descriptions increased to 83%.
- Additionally, IDB's do not have a specific coding or source code making it difficult if not impossible to identify IDB's and ensuring they are being used solely for interdepartmental transactions.
- UND is using short descriptions for journal entries (JE) on the general ledger and the user of the ledger or a potential reviewer has no way to know what the JE is for unless the JE is opened and reviewed or examined offline. There is a 30 character description field that could be filled out.

Effect:

Without adequate descriptions and identification of AP and GL transactions an audit trail is missing and accountability and transparency is diminished for those transactions.

Cause:

We are unsure, but based on our review it appears the NDUS and UND does not feel it is appropriate or necessary.

Criteria:

Internal controls need to include an adequate audit trail as a necessary part of ensuring the accuracy, completeness, and timeliness of accounting transactions as well as providing documentary support for all data generated and recorded in the accounting systems and used in financial reports.

The AICPA Center for Audit Quality has stated JE's are a relatively common means of perpetrating fraudulent financial statement reporting. False JE's figured prominently in the frauds at WorldCom, Cendant, and Xerox.

SAS 99, "Consideration of Fraud in a Financial Statement Audit" states in part ..."Characteristics of fraudulent entries include adjusting entries recorded at the end of the period or as post-closing entries that have little or no explanation or description."

Recommendation:

We recommend:

1. The purpose of the AP transactions is entered into the AP Description field for all NDUS entities.
2. The NDUS develop and use a new source code for IDB's for all NDUS entities.
3. UND include better descriptions for JE's and the text of the description include:
 - a. What is being transferred/corrected;
 - b. Where it is being transferred;
 - c. Why the original transaction was incorrect;
 - d. A reference to applicable supporting documentation.

University System Response/Planned Corrective Actions:

NDUS: NDUS, in collaboration with the campus Controllers and CTS, will research the use of descriptions for AP transactions and the feasibility of adopting a new source code for IDB's for all NDUS entities and make a determination by June 30, 2014.

UND: UND disagrees that the what, where, and why can be explained in a 30 character description field. A UND department prepares and approves a journal entry; UND audits the journal entries centrally to verify the what, where and why is either included on the face of the journal entry and/or the attached backup. In addition, the entire journal entry and all backup are available online in Image Now. The time involved in trying to summarize this information in 30 characters or less outweighs the benefit. UND can process approximately 8,000 journal entries annually.

Auditor Concluding Remarks:

As a part of the NDUS system, UND stands apart as the only institution objecting to documenting these transactions to ensure accountability and transparency.

16. Inadequate Internal Auditor Staffing – NDUS

Condition:

There are four internal auditor positions for the entire University System. Two are at UND and one each at NDSU and the Board Office. In 2013 the University System recorded over \$1 billion in assets and expenses among the eleven colleges and universities and the Board Office.

Effect:

Understaffing internal audit increases the risk of financial statement misstatement, noncompliance with board, state and federal laws, rules and regulations and increases the risk of asset loss by fraud and misappropriation and subsequently the reputational damage such events cause.

Cause:

In prior communications the Board has stated a shortage of funding for not being able to support additional internal auditor positions and did not consider it a priority.

Criteria:

In memo # M-12-8, the Director of Internal Audit at the Board Office recognized the need for additional internal audit staff. The memo shows the approximate shortage of internal auditors as five (5). As an example, the University of Minnesota has 16 internal auditors.

Recommendation:

We recommend the SBHE establish a plan and make adding additional internal audit positions a priority.

University System Response/Planned Corrective Actions:

Agree. The Chief Auditor is in the preliminary assessment phase of determining the number of audit professionals required to appropriately staff the NDUS internal audit function. The IIA Standards require that the internal audit function be adequately staffed to effectively achieve its goals. It is too early in the assessment process to have a definitive staffing number.

17. Lack of Oversight on Rhoades Science Center Remodel - VCSU

Condition:

We noted the following examples of inadequate controls over monitoring and accounting for the Rhoades Science Center, unfamiliarity and noncompliance with several SBHE and NDUS policies and procedures, and noncompliance with NDCC:

- The contract amount on the Application and Certification for Payment were increased with unapproved change orders for mechanical by \$1,926 and for general construction by \$55,538; totaling \$57,464.
- Two large purchases were made without proper informal bids/quotes being obtained; totaling \$42,765.
- A payment made to the general contractor in the amount of \$60,305 was incorrectly coded to 591095 repair services noncapitalized, which should have been coded to 682040 - general contractor capitalized.
- Furnishings, fixtures, and equipment were being coded incorrectly to 682090 - other capitalized payments; totaling approximately \$127,000.
- State Surplus Property was not contacted before disposing of tables and desks in the city landfill.

Effect:

An unfamiliarity of SBHE and NDUS policies and procedures, and a lack of controls surrounding the monitoring and accounting for the capital project can unnecessarily increase the cost of the project, misstate the financial statements and increase the risk of fraud, waste, and abuse.

Cause:

The coding of project costs was mainly done by the facilities department and there was little review of coding. Additionally, there was a lack of review of the AIA Request for Payment by the University - no review was conducted to ensure amounts were supported and correct. Finally, there was unfamiliarity with several SBHE and NDUS policies and procedures surrounding capital improvements and purchasing.

Criteria:

SBHE Policy 902, part 10 and 11; NDUS Accounting Manual, page 57; SBHE Policy 902.3, part 9; NDUS Procedure 902.5, part 10.2; SBHE Policy 803.1, part 3; NDUS Procedure 803.1, part 2 thru 4;

NDCC 44-08-01, part 3; and NDCC 54-44-04.6 part 1. (See Appendix A for the Policy, Procedure or Code)

Recommendation:

We recommend VCSU:

- Review and follow the various SBHE and NDUS policies and procedures related to capital improvements and purchasing as to allow for better monitoring and accounting for the capital projects, ensure that all change orders are documented and signed by the appropriate personnel before allowing the contract amount to be adjusted, and competitive pricing obtained through the formal/informal bidding requirements.
- Comply with NDCC 54-44-04.6 part 1, and inform the appropriate OMB personnel of all excess and surplus property.

University System Response/Planned Corrective Actions:

Agree. VCSU will utilize NDUS's new Director of Facilities Planning function to assist in upcoming projects to ensure SBHE and NDUS policies are met. Furthermore, additional training and validation will take place related to proper coding of expenditures by June 30, 2014.

Appendix A – NDCC, SBHE Policies, Procedures and NDUS Accounting Manual Citations

Finding	NDCC / SBHE P&P / Accounting Manual	Description
Finding 13-3	NDCC 15-10-12.1	<p>Acceptance of buildings and campus improvements – Legislative Approval states that the state board of higher education may authorize campus improvements and building maintenance on land under the control of the board which are financed by donations, gifts, grants, and bequests if the cost of the improvement or building maintenance is not more than three hundred eighty-five thousand dollars. The consent of the legislative assembly is required for construction of any building financed by donations, gifts, grants, and bequests and for campus improvements or building maintenance financed by donations, gifts, grants, and bequests if the cost of the improvements or maintenance is more than three hundred eighty-five thousand dollars. During the time the legislative assembly is not in session, except for the six months preceding the convening of a regular session and the three months following the close of a regular session, and unless otherwise restricted by previous legislative action or other law, the state board of higher education, with the approval of the budget section of the legislative management, may authorize the use of land under the control of the board and construct buildings financed by donations, gifts, grants, and bequests and campus improvements and building maintenance financed by donations, gifts, grants, and bequests and if the cost of the improvement or maintenance is more than three hundred eighty-five thousand dollars. The budget section approval must include a specific dollar limit for each building, campus improvement project, or maintenance project. The state board of higher education may authorize the sale of any real property or buildings which an institution of higher learning has received by gift or bequest. The board shall prescribe such conditions for the sale of the property as it determines necessary. The conditions must include requiring an appraisal and public auction or advertisement for bids, unless the gift instrument requires a different process. If the state board of higher education submits a request for campus improvements, building maintenance, or to construct buildings under this section to the budget section for approval, the legislative council shall notify each member of the legislative assembly of the date of the budget section meeting at which the request will be considered and provide a copy of the meeting agenda to each member of the legislative assembly. The chairman of the budget section shall allow any member of the legislative assembly an opportunity to present testimony to the budget section regarding any such request.</p>
Finding 13-3	NDCC 15-10-12.3	<p>If any institution under the control of the state board of higher education undertakes a capital construction project, including any renovation or expansion, with the approval of the legislative assembly, all local funds to be used for the project must be derived from sources that have been presented to and approved by the legislative assembly or the budget section pursuant to section 15-10-12.1. The source of any local matching funds required for state-funded or bonded projects must be funds raised and designated for the project and may not include funding from the state general</p>

		fund, state and federal grant and contract funds, tuition or fees, endowment or investment income, institutional sales and services income including indirect and administrative costs, or transfers or loans from other institutions' funds or agency funds unless the institution has received prior approval from the legislative assembly or from the budget section pursuant to section 15-10-12.1. Each institution undertaking a capital construction project that was approved by the legislative assembly and for which local funds are to be used shall present a biennial report to the budget section of the legislative management detailing the source of all funds used in the capital construction project, including local funds. This section applies to projects approved after July 1, 2001.
Finding 13-3	NDCC 15-55-10	No building or other campus improvement may be erected or constructed under this chapter, and no bonds may be issued for the payment of the cost of any building or other campus improvement under this chapter, unless authorized by legislative act, nor may any building or other campus improvement be erected at a cost exceeding the amount fixed by the legislative assembly as the maximum to be expended for the building or other campus improvement undertaken under this chapter. The legislative authorization may be aggregated and the appropriation of the proceeds of the bonds for the construction of the buildings or improvements are not subject to cancellation under section 54-44.1-11. Authorization for the issuance of bonds by the legislative assembly expires four years after the effective date of the authorization unless bonds have been issued for the construction of buildings or improvements in the amounts so authorized or a contract for the design of the building has been signed by the state board of higher education before the expiration date or the authorization specifies a different expiration date. Refunding bonds may be issued by the state board of higher education under this chapter without legislative act to refund, at or before the maturity of or pursuant to any privilege of prepayment reserved in or granted with respect to, any bonds issued to pay the cost of buildings or other campus improvements designated and authorized by legislative act.
Informal #17	NDCC 44-08-01, part 3	The office of management and budget, any other state entity, and the governing body of any political subdivision of the state in specifying or purchasing any goods, merchandise, supplies, or equipment, may not specify any trademarked or copyrighted brand or name, nor the product of any one manufacturer, nor any patented product, apparatus, device, or equipment, when the same will prevent proper competition, unless bidders also are asked for bids or offers upon other articles of like nature, utility, and merit. When it is advantageous that the purchase be of a particular brand of product or products of a particular manufacturer to the exclusion of competitive brands or manufacturers, the purchasing board or entity must document those circumstances and provide written justification for the proprietary specification or purchase. The purchasing board or entity shall procure the proprietary product through a competitive process unless the needed product is available exclusively from one source of supply or other circumstances exist under which competition can be waived.
Informal #17	NDCC 54-44-04.6, part 1	The person in charge of any department, agency, or institution of the state shall inform the director of the office of management and

		budget or the director's designee whenever that department, agency, or institution possesses property surplus to its needs, whether originally obtained with state or other funds.
Finding 13-3	NDCC 54-27-12	The administrative department, office, or board of any penal or charitable state institution, or the state board of higher education, or any person thereof, in the transaction of the business of any state institution under its direction or control, may not make nor authorize knowingly any expenditure in the matter of the erection or improvement of any public building or structure, or the purchase of any real property, in excess of any appropriation made by the legislative assembly for such purpose. The president, superintendent, or managing officer of any state institution conducted under the direction or control of any department, office, or board, or the state board of higher education may not connive nor conspire knowingly with such departments, offices, or boards, nor with any member thereof, to procure to be expended in the matter of the erection or improvement of any public building or structure, or the purchase of any real property at the state institution of which the person is president, superintendent, or managing officer, any sum in excess of the appropriation therefor as made by the legislative assembly.
Finding 13-3	NDCC 54-44.1-10	No payment may be made and no obligation may be incurred against any appropriation unless such payment or obligation has been authorized as provided by law. Every official authorizing payments in violation of this chapter is subject to the penalties and provisions of chapter 12.1-23.
Finding 13-3	The Constitution of North Dakota Article X, Section 12.1	All public moneys, from whatever source derived, shall be paid over monthly by the public official, employee, agent, director, manager, board, bureau, or institution of the state receiving the same, to the state treasurer, and deposited by him to the credit of the state, and shall be paid out and disbursed only pursuant to appropriation first made by the legislature; provided, however, that there is hereby appropriated the necessary funds required in the financial transactions of the Bank of North Dakota, and required for the payment of losses, duly approved, payable from the state hail insurance fund, state bonding fund, and state fire and tornado fund, and required for the payment of compensation to injured employees or death claims, duly approved, payable from the workmen's compensation fund, and required for authorized investments made by the board of university and school lands, and required for the financial operations of the state mill and elevator association, and required for the payment of interest and principal of bonds and other fixed obligations of the state, and required for payments required by law to be paid to beneficiaries of the teachers' insurance and retirement fund, and required for refunds made under the provisions of the Retail Sales Tax Act, and the State Income Tax Law, and the State Gasoline Tax Law, and the Estate and Succession Tax Law, and the income of any state institution derived from permanent trust funds, and the funds allocated under the law to the state highway department and the various counties for the construction, reconstruction, and maintenance of public roads. This constitutional amendment shall not be construed to apply to fees and moneys received in connection with the licensing and

		organization of physicians and surgeons, pharmacists, dentists, osteopaths, optometrists, embalmers, barbers, lawyers, veterinarians, nurses, chiropractors, accountants, architects, hairdressers, chiropodists, and other similarly organized, licensed trades and professions; and this constitutional amendment shall not be construed to amend or repeal existing laws or Acts amendatory thereof concerning such fees and moneys.
Finding 13-1	SBHE Policy 340.2, section 3e	<p>3. e. A requirement to provide the institution with GAAP-compliant financial statements, including separately reported current assets, noncurrent assets, current liabilities and noncurrent liabilities on the face of the financial statements and an annual GAAP audit of the foundation, or a draft of an audited financial statement submitted for but pending foundation board approval by September 15 each year for:</p> <ol style="list-style-type: none"> 1. all entities considered component units of the NDUS under GASB 39, and 2. all other related organizations that are not component units, whose total assets exceed \$1 million and total program expenses exceed \$100,000, for the previous fiscal year-end.
Informal #3 and #4	SBHE Policy 611.10	<ol style="list-style-type: none"> 1. Each employee, as a basic condition of employment, assumes responsibility for safeguarding and preserving the assets and resources of the state and university system and its institutions, particularly those for which the employee is responsible. 2. Each institution and the system office shall develop and implement controls designed to minimize opportunities for theft, fraud, abuse, waste or unlawful or improper use of public resources, including funds, supplies, data, technology, property or position. <ol style="list-style-type: none"> a. Theft means knowingly taking, exercising unauthorized control over, or making an unauthorized transfer of interest in, or receiving or disposing of property of another, including institution or state property or funds, with the intent to deprive the owner, including, but not limited to, embezzlement, obtaining money by false pretenses, fraudulent conversion or misappropriation of public funds or authorizing or receiving compensation for goods not received or services not performed. b. Fraud means any intentional act or omission designed to deceive others that results in a loss or other disadvantage to resources or achieving a gain or advantage to which an employee or other person would not normally be entitled, including, but not limited to, making false statements or creating or reporting false information. c. Abuse means intentional or willful destruction, diversion, manipulation, misapplication or misuse of resources, including, but not limited to, destruction, damaging or removal of records or property. d. Waste means intentional or willful expenditure, consumption, mismanagement, squandering or use of resources, resulting in unnecessary costs. 3. The controls must include a process for reporting of suspected theft, fraud or unlawful or improper use of public resources, designation of an officer with responsibility for receiving and

		<p>investigating such reports, a process for investigation, audit or referral to law enforcement officials if there is reasonable basis to suspect theft, fraud, or unlawful or improper use of public resources and a report summarizing findings, disposition and, if appropriate, recommendations for additional controls to prevent recurrence. Each institution and the system office must subscribe to a fraud hotline service enabling anonymous reports. All reports regarding institutions must be submitted simultaneously to a designated institution officer and the NDUS Director of Internal Audit. An investigation and disposition must include:</p> <ol style="list-style-type: none"> a. Review and inquiry regarding allegations and documentation of fact-finding steps completed; b. Documentation regarding when the report or complaint was made and when the review or investigation was started and completed; c. Conclusion regarding the results of the review or investigation; and d. Documentation of any internal control or process changes recommended in order to mitigate concerns. <ol style="list-style-type: none"> 4. Each employee is expected to report suspected theft, fraud or unlawful or improper use of public resources to a supervisor, department head, chief fiscal officer or other institution or system officer designated with responsibility for receiving and investigating such reports. 5. An employee found to have engaged in theft, fraud or unlawful or improper use of public resources, or an employee with knowledge of such acts by another who unreasonably fails to report such information as required by this policy, is subject to discipline, up to and including dismissal. 6. Each institution and the system office shall require that each benefited employee annually complete fraud awareness training. The training requirement may be satisfied by classroom instruction, a seminar or online training, provided it is approved by the NDUS Director of Internal Audit. The training must include review of this policy and the required Code of Conduct. Each employee must agree to comply with the policy and Code of Conduct and each institution and the system office shall enforce this policy and document annual training.
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<p>Prior Not Implemented #1 and #2</p>	<p>SBHE Policy 802.8, Part 1, 2 and 5</p>	<p>1. Overview. Internal audit assists the State Board of Higher Education and all levels of management within the North Dakota University System with:</p> <ul style="list-style-type: none"> a. Managing business risk; b. Ensuring stewardship and management accountability; and c. Ensuring integrity of assets, operations and financial information. <p>Internal audit functions should be modeled after "International Standards for the Practice of Internal Auditing" and Government Auditing Standards (the "Yellow Book" referred to as generally accepted government auditing standards) using such audit programs, techniques, and procedures considered necessary under the circumstances. The operation of the internal audit function shall be consistent with the Code of Ethics, Professional Practices Framework, and Practice Advisories as promulgated by the Institute of Internal Auditors.</p> <p>Consistent with International Standards for the Practice of Internal Auditing Standards section 1300, the chief audit executive should strive to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity, including both internal and external assessments, with results communicated to senior management and the Board's Audit Committee.</p> <p>Internal audit is intended to complement, and not to replace, other services at NDUS institutions or in the system office. It has particular relevance for auditing, accounting, internal controls, risk management, and organizational development. Outside of these areas of expertise, internal auditors may require assistance of other experts in the organization or external consultative services.</p> <p>2. Objective and Scope. The objective of internal audit is to assist the Board's Audit Committee and administrators in the effective discharge of their duties by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning activities reviewed. The attainment of this objective includes such activities as:</p> <ul style="list-style-type: none"> a. Reviewing and appraising the soundness, adequacy, and application of accounting, administrative and other operating controls and promoting effective control at a reasonable cost; b. Ascertaining the extent of compliance with established laws, policies, plans and procedures; c. Ascertaining the extent to which assets are accounted for and safeguarded from losses of all kinds; d. Ascertaining the reliability of management data developed within the organization; e. Conducting special examinations and reviews at the request of the Board, Audit Committee, chancellor or institutional management; and f. Evaluating the effectiveness, economy and efficiency with which resources are employed and recommending improvements in operations.
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Informal #17	SBHE Policy 803.1, part 3	<p>Personal property, equipment or supplies estimated at less than \$25,000 may be purchased at the discretion of the institution. When feasible, informal quotes or proposals should be solicited from a minimum of three vendors. Reasonable steps shall be taken to ensure that qualified North Dakota vendors have an opportunity to compete for the contract. Personal property, equipment or supplies estimated at \$25,000 or more must be purchased from formal bids. As many sources as possible, including qualified North Dakota vendors should be solicited.</p>
Informal #17	SBHE Policy 902, part 10 and 11	<p>10. "FF&E" means furniture, fixtures and equipment which have no permanent connection to the structure of a building or utilities.</p> <p>11. "Fixed or attached equipment and furnishings" means any piece of property which is built-in or that when installed in a facility for continuing use in connection with the facility, it is considered a permanent part of the facility and cannot be reasonably removed without affecting the structural integrity of the facility, including its utility or ventilation systems.</p>
Informal #17	SBHE Policy 902.3, part 9	<p>The contract sum and contract time may be changed only by change order. Change orders may not be utilized to significantly change or expand a project or increase expenditures beyond what has been approved by the Board or legislature or to evade competitive bidding laws or policies. A "change order" means a written order to the contractor signed by the owner and architect and issued after execution of the contract, authorizing a change in the work or an adjustment in the contract sum or contract time.</p>

Informal #1	NDUS Procedure 602.3, part 3	<p>3. A criminal history records check, which may be a North Dakota BCI check, a FBI nationwide check or check of another state or multiple jurisdictions, is required before beginning employment in the following positions:</p> <ul style="list-style-type: none"> a. Chancellor, president and vice presidents; b. Resident hall and apartment manager or director and assistants; c. Custodians and other employees with master keys or other means of unsupervised access to residence halls or secure buildings or facilities; d. Child care employees and other employees who have unsupervised contact with children; e. Employees responsible for or with access to controlled substances and other drugs, explosives or potentially dangerous chemicals and other substances; and f. Counselors and coaches.
Informal #17	NDUS Procedure 803.1, part 2 thru 4:	<p>2. Requirements governing when bids or proposals are required and when items or services may be purchased at the discretion of the institution are established in SBHE Policy 803.1. As a general rule, personal property, equipment or supplies estimated at less than \$25,000 may be purchased at the discretion of the institution; personal property, equipment or supplies estimated at \$25,000 or more must be purchased from formal bids. Also, as a general rule, consulting or other contract services or insurance estimated at less than \$100,000 may be purchased by negotiation or telephone or informal quote or proposal; consulting or other contract services or insurance estimated at \$100,000 or more must be purchased through a formal request for proposal process.</p> <p>3. When formal bids or proposals are not required, institutions should when feasible solicit informal quotes or proposals from more than one vendor and take reasonable steps to ensure that qualified North Dakota vendors have an opportunity to compete for the contract.</p> <p>4. When formal bids are required, institutions should solicit proposals from as many sources, including North Dakota vendors, as possible. Specific times and dates for bid opening must be specified. A bid bond or certified check may be required.</p>
Informal #17	NDUS Procedure 902.5, part 10.2	<p>A change order shall be issued for any change in the work, adjustment to the contract sum, or in the contract time. The budget for the project must have sufficient funds to support any changes in contract amounts. Change orders are not to be utilized as a procedure for substantially increasing the scope of the project. The A/E shall prepare all change orders and submit three copies to the institutional representative for review. The institutional representative shall obtain approval of the change order. Change orders must be signed by 1) the contractor, 2) the A/E and 3) the institutional representative. Change orders shall contain the following information:</p> <ul style="list-style-type: none"> 10.2.1 Number of change order. 10.2.2 Original contract amount. 10.2.3 Total amount of previous amendments or change orders. 10.2.4 Amount of present change order request, including a list and cost of each change. 10.2.5 Total revised contract amount.

Informal #17	NDUS Accounting Manual, page 57	Individual equipment purchases costing less than \$5,000 should be expensed when paid and the institutions can account for equipment that is less than \$5,000 for insurance purposes, even though it is not capitalized. This equipment can be tagged and "tracked" in the fixed asset module of the accounting system. (See Capital Assets under Asset Section for accounting for asset purchases greater than \$5,000.)
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You may obtain reports by contacting the
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600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060
(701) 328-2241

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