



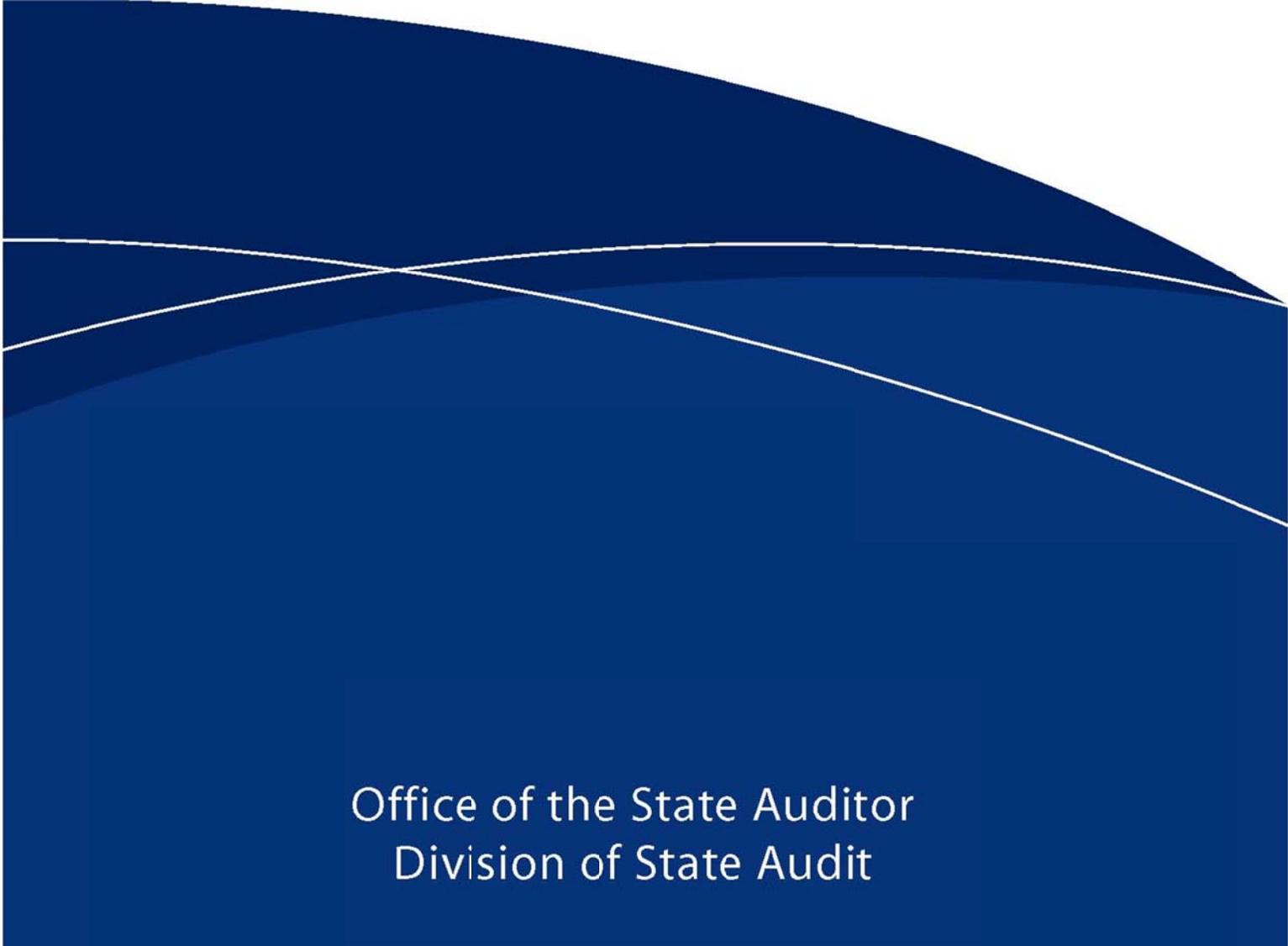
UNIVERSITY OF NORTH
DAKOTA

GRAND FORKS, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

July 1, 2010

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
North Dakota State Board of Higher Education
Dr. Robert Kelley, President, University of North Dakota

We are pleased to submit this audit of the University of North Dakota for the biennium ended June 30, 2009. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Robyn Hofmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Kelley and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The University of North Dakota (UND) is the state's most comprehensive intensive research university and the primary center for professional education and training. According to their website, UND has brought in more than \$353 million for sponsored programs from internal and external sources over the last five years. UND's economic impact on the state and region is nearly \$1 billion a year.

Founded by the Dakota Territorial Assembly in 1883, six years before statehood, UND was intended to be, and has remained, a university with a strong liberal arts foundation surrounded by a variety of professional and specialized programs. UND is one of only 47 public universities in the nation with both accredited graduate schools of law and medicine. It is admired for its spacious, beautiful campus and extensive resources. The University has earned an international reputation for its academic and research programs.

As their website states, UND enrolls 13,172 students (fall 2009) in 217 fields of study from baccalaureate through doctoral and professional degrees. 46% come from North Dakota; the rest represent all other states, eight Canadian provinces, and more than 50 nations.

Responses to LAFRC Audit Questions

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

An unqualified opinion was issued in the fiscal years 2008 and 2009 annual financial reports of the North Dakota University System. The financial statements for the University of North Dakota were obtained from the Annual Financial Reports of the North Dakota University System.

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

The University of North Dakota has implemented all recommendations included in the prior audit report.

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

Yes, a management letter was issued and is included on page 18 of this report, along with management's response.

LAFRC Audit Communications

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

In fiscal year 2009 the University of North Dakota began reporting Pell receipts as nonoperating rather than operating revenue in the financial statements. This was done to comply with GASB's Comprehensive Implementation Guide which states that Pell grant receipts should be reported as nonoperating revenues because they are nonexchange transactions. The total amount for fiscal year 2009 was \$5,736,105.

There were no management conflicts of interest noted, no contingent liabilities identified, or significant unusual transactions.

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

The most significant accounting estimates used by the University of North Dakota includes the useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets based on history and industry standards. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All of the material adjustments we proposed for the University of North Dakota were recorded. Fiscal year 2009 significant adjustments included \$1,908,102 to post auxiliary revenue that was eliminated per reclass entry; \$3,225,605 to restrict investments per amount allowed by bond indentures; \$2,570,475 and \$2,426,887 to restrict debt service and investment in plant net assets; and \$3,398,790 to eliminate School of Medicine revenue and expense in a local fund. In fiscal year 2008 adjustments included \$1,424,255 to correct revenue related to advance pay contracts; \$1,040,052 to correct receivable and deferred revenue related to advance pay contracts; \$1,967,374 to correct accounts receivable for School of Medicine; \$1,988,212 to correct student tuition and fees for the School of Medicine; \$3,670,011 to reverse recording of lease for equipment not received in fiscal year 2008; \$1,108,030 to establish an allowance account for the School of Medicine; and \$2,794,302 to record bond restrictions. A complete list of Posted Audit Adjustments is included in the 2009 and 2008 North Dakota University System audit reports.

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

None.

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

None.

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

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

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

None.

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

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to the University of North Dakota.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the University of North Dakota for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the University of North Dakota's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the University of North Dakota and are they in compliance with these laws?
3. Are there areas of the University of North Dakota's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the University of North Dakota is for the biennium ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal year 2009 and fiscal year 2008 Annual Financial Reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed University of North Dakota's processes and procedures.

Discussion and Analysis

The accompanying financial statements have been prepared to present the University of North Dakota's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2009, operations of the University of North Dakota were primarily supported by student tuition and fees (28%) and appropriations from the state's general fund (22%). This is supplemented by federal grants and contracts (20%), auxiliary enterprises (9%), sales and services (8%), and nongovernmental grants and contracts (5%).

Financial Summary

Total assets for fiscal year 2009 were \$487,859,093 compared to \$477,554,703 for fiscal year 2008. This increase was mainly due to intergovernmental receivables increase of \$3 million and capital assets increase of \$6.6 million. Intergovernmental receivables increase was mainly due to the timing of payments received for various federal grants. Capital assets increase was due to an increase in equipment for aerospace.

Liabilities for fiscal year 2009 were \$147,922,334 compared to \$141,582,618 from the prior year. This is mainly due to an increase in capital leases (long term liabilities) for the West Campus Steamline.

Operating revenues consisted primarily of student tuition and fees, as well as federal grants and contracts, auxiliary enterprises, sales and services, and nongovernmental grants and contracts. Nonoperating revenues during the audit period included state appropriations, federal grants, and contracts and gifts. Total revenues were \$363,210,598 for the year ended June 30, 2009 as compared to \$338,689,402 for the year ended June 30, 2008. The major revenue increases are as follows:

- Federal grants and contracts (\$5.4 million) – Various grants primarily INBRE grant (\$2.7 million) and Science Application International grant (\$1.03 million) and Northern Great Plains Center for People and the Environment grant (\$785,000).
- Auxiliary enterprises (\$5.1 million) – Increase in board contracts, season tickets, sponsorships and steam revenue. Additionally, the entry made in fiscal year 2008 to adjust for auxiliary and non-auxiliary funds was corrected for fiscal year 2009 so no entry was made.
- Student tuition and fees (\$3.6 million) – Increase in enrollment and rates.
- Nongovernmental grants and contracts (\$3.3 million) – new grants from foundations and corporations for the Aerospace program, EERC, and Medical School.
- Sales and services (\$4.3 million) – Increase in goods and services for the UND Aerospace Foundation International Training program.

Total expenditures for the University of North Dakota were \$359,245,923 for the year ended June 30, 2009 as compared to \$333,474,592 for the prior year. The largest expense fluctuations are as follows:

- Salaries and wages (\$14 million) - which account for 61% of total expenditures; Average salary increase of 5.45% with an increase in employee tuition waivers and temporary contracts for flight instructors to handle an increase in short-term flight contracts and 82 new positions were created and 66 positions were inactivated.
- Operating expenses (\$3.4 million) - which account for 23% of total expenditures.
- Cost of sales and services (\$3.4 million) - Increase in purchases for resale for central warehouse supply room, maintenance parts and line services.

Analysis of Significant Changes in Operations

Federal grants and contracts revenue for the Pell Grant program was recognized as non-operating revenue beginning in fiscal year 2009 to comply with current accounting standards. Total Pell revenue reported as operating revenue for fiscal year 2008 was \$5.3 million and total Pell revenue reported as non-operating for fiscal year 2009 was \$5.7 million.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

There were significant variances were the final appropriations over actual expenditures for the capital improvements- off system line. For the biennium ending fiscal year 2009, \$104,717,111 was the remaining appropriation for projects on the capital improvement – off system line. For detail of the projects, see the Statement of Appropriations on page 12.

Financial Statements

Statement of Net Assets

	June 30, 2009	June 30, 2008
ASSETS		
Cash and cash equivalents	\$ 13,609,978	\$ 18,531,946
Investments	77,636,329	74,174,924
Accounts receivable, net	8,881,732	7,536,985
Receivable from component units	2,312,137	670,210
Due from state general fund	1,233,555	300,971
Grants & contracts receivables, net	17,684,798	14,692,672
Inventories	2,829,078	2,860,499
Notes receivable, net	24,456,623	25,784,566
Unamortized bond discount and cost of issuance	374,950	683,931
Other assets	581,394	689,004
Capital assets, net	338,258,519	331,628,995
Total assets	\$ 487,859,093	\$ 477,554,703
LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,951,283	\$ 9,547,077
Payable to component units	325,148	335,433
Accrued payroll	10,283,226	9,541,658
Deferred revenue	7,099,431	6,961,360
Deposits	5,570,395	3,042,331
Advances from Bank of North Dakota		1,479,887
Other noncurrent liabilities	920,061	819,974
Due to component units	12,224,929	12,953,985
Due to others	103,547,861	96,900,913
Total liabilities	\$ 147,922,334	\$ 141,582,618
NET ASSETS		
Invested in capital assets, net of related debt	\$ 231,238,112	\$ 231,771,376
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	9,977,114	11,364,104
Expendable:		
Scholarships and fellowships	4,001,766	4,057,231
Research	8,400,144	2,324,812
Instructional department uses	2,206,068	1,619,076
Loans	27,537,149	27,186,136
Debt service	4,733,603	4,862,769
Unrestricted	51,842,803	52,786,581
Total net assets	\$ 339,936,759	\$ 335,972,085

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2009	June 30, 2008
OPERATING REVENUES		
Student tuition and fees	\$ 100,196,553	\$ 96,532,462
Federal grants and contracts	66,297,853	67,638,700
State and local grants and contracts	7,556,570	5,043,326
Nongovernmental grants and contracts	20,823,270	17,512,651
Sales and services of educational departments	30,395,074	26,108,379
Auxiliary enterprises	34,196,564	29,087,756
Other	550,321	449,064
Total operating revenues	<u>\$ 260,016,205</u>	<u>\$ 242,372,338</u>
OPERATING EXPENSES		
Salaries and wages	\$ 216,831,070	\$ 202,388,431
Operating expenses	81,236,381	77,853,011
Data processing	7,487,121	6,353,741
Depreciation	18,610,079	17,900,832
Scholarships and fellowships	7,238,475	6,809,137
Cost of sales and services	20,335,506	16,926,898
Total operating expenses	<u>\$ 351,738,632</u>	<u>\$ 328,232,050</u>
Operating loss	<u>\$ (91,722,427)</u>	<u>\$ (85,859,712)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 81,077,457	\$ 78,243,012
Federal grants and contracts	6,769,088	35,372
Gifts	6,479,694	6,624,730
Investments income	923,459	2,319,472
Interest on capital asset-related debt	(6,230,938)	(5,034,227)
Loss on capital assets	(1,276,353)	(208,315)
Insurance proceeds	234,637	516,210
Tax proceeds	1,941,848	1,899,034
Other nonoperating revenues	3,921	477,024
Net nonoperating revenues	<u>\$ 89,922,813</u>	<u>\$ 84,872,312</u>
Loss before capital grants, gifts, and transfers	<u>\$ (1,799,614)</u>	<u>\$ (987,400)</u>
State appropriations-capital assets	\$ 4,542,190	\$ 1,801,503
Capital grants and gifts	1,222,099	4,400,707
Total other revenue	<u>\$ 5,764,289</u>	<u>\$ 6,202,210</u>
Increase in net assets	<u>\$ 3,964,675</u>	<u>\$ 5,214,810</u>
NET ASSETS		
Net Assets-beginning of the year	335,972,085	330,757,275
Net Assets-end of the year	<u>\$ 339,936,760</u>	<u>\$ 335,972,085</u>

Statement of Cash Flows

	June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 102,889,097	\$ 95,629,033
Grants and contracts	91,679,303	90,403,544
Payments to suppliers	(111,235,227)	(94,440,062)
Payments to employees	(215,906,836)	(201,048,378)
Payments for scholarships and fellowships	(7,238,475)	(6,829,974)
Loans issued to students	(1,908,918)	(4,726,774)
Collection of loans to students	2,528,821	2,839,594
Auxiliary enterprise charges	34,339,180	28,936,071
Sales and service of educational departments	25,463,248	28,935,086
Cash collected (paid) on deposits	2,414,372	(697,877)
Other receipts (payments)	794,450	(3,328,187)
Net cash used by operating activities	\$ (76,180,985)	\$ (64,327,924)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 81,077,557	\$ 78,243,012
Grants and gifts received for other than capital purposes	13,248,782	6,871,230
Principal paid on advances from Bank of North Dakota	(1,479,887)	(35,372)
Agency fund cash (decrease) increase	98,613	(89,066)
Tax proceeds	1,941,848	1,899,034
Other nonoperating revenue		4,562,131
Net cash flows provided by noncapital financing activities	\$ 94,886,913	\$ 91,450,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 9,750,000	
Capital appropriations	3,609,506	\$ 1,676,796
Capital grants and gifts received	782,448	3,116,803
Proceeds from sale of capital assets	46,541	455,151
Purchases of capital assets	(13,412,466)	(27,746,954)
Insurance proceeds	199,270	501,994
Principal paid on capital debt and lease	(6,416,621)	(7,426,878)
Deposits with capital debt payment trustees	(9,725,000)	
Interest paid on capital debt and lease	(5,978,740)	(4,901,984)
Net cash used by capital and related financing activities	\$ (21,145,062)	\$ (34,325,072)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 43,321,130	\$ 46,183,272
Interest on investments	3,106,042	4,005,407
Purchase of investments	(48,910,006)	(36,469,641)
Net cash provided (used) for investing activities	(2,482,834)	13,719,038
Net increase (decrease) in cash	(4,921,968)	6,517,011
CASH - BEGINNING OF YEAR	18,531,946	12,014,935
CASH - END OF YEAR	\$ 13,609,978	\$ 18,531,946

(Continued on next page)

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RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)

TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Operating loss	\$ (91,722,428)	\$ (85,859,712)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	18,610,079	17,900,832
Other nonoperating revenues	136,516	
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(4,612,945)	(545,813)
Grant & contract receivables	(2,998,390)	208,867
Inventories	31,421	(37,359)
Notes receivable	1,327,942	685,468
Other assets	107,611	(3,777,251)
Accounts payable and accrued liabilities adjusted for interest payable	(2,338,506)	4,898,024
Accrued payroll	717,766	898,239
Compensated absences	206,468	441,814
Deferred revenue	1,939,110	1,556,844
Deposits	2,414,372	(697,877)
Net cash used by operating activities	<u>\$ (76,180,984)</u>	<u>\$ (64,327,924)</u>

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital leases	\$ 11,970,450	\$ 4,018,938
Expenses paid by capital lease/special assessments		4,085,112
Gifts of capital assets	132,594	1,307,089
Net increases (decrease) in value of investments	439,651	(2,155,004)
Total non-cash transactions	<u>\$ 12,542,695</u>	<u>\$ 7,256,135</u>

Statement of Appropriations

For The Biennium Ended June 30, 2009

UNIVERSITY OF NORTH DAKOTA

Expenses by line item	Original		Adjusted		Remaining Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating expenses	\$ 107,211,830	\$ 16,002,735	\$ 123,214,565	\$ 123,214,565	
Capital assets	81,828,875	(73,920,000)	7,908,875	6,343,693	\$ 1,565,182
Capital improvements - off system					
Wilkerson Dining Center	4,000,000		4,000,000		4,000,000
Wellness Center		1,509,992	1,509,992	141,923	1,368,069
Neuroscience Research Facility		17,000,000	17,000,000		17,000,000
Carnegie Library Renovation		2,968,125	2,968,125		2,968,125
Squires Dining Center		902,064	902,064	784,349	117,715
SOM Neuroscience		824,922	824,922	22	824,900
SOM Pet Scanner and Renovation		1,156,525	1,156,525		1,156,525
Nursing Facility		3,607,402	3,607,402	3,597,078	10,324
Parking Ramp Structure		5,729,510	5,729,510	4,087,482	1,642,028
Housing Unit Replacement		2,246,397	2,246,397	2,143,883	102,514
Energy Improvement Projects		2,178,742	2,178,742	571,831	1,606,911
O'Kelly Hall and Ireland Renovation		220,000	220,000		220,000
Allied Health Facility		20,400,000	20,400,000		20,400,000
American Indian Center		10,000,000	10,000,000		10,000,000
EERC Communication Center		5,000,000	5,000,000		5,000,000
Earth Systems Science Building		5,000,000	5,000,000		5,000,000
Indoor Track Facility		15,000,000	15,000,000		15,000,000
Memorial Union Renovation		4,500,000	4,500,000		4,500,000
SOM Lab and Administration		9,800,000	9,800,000		9,800,000
SOM Bismarck FPC Building		4,000,000	4,000,000		4,000,000
Hanger Renovation and Addition		43,339	43,339	43,339	
1997 Flood Expenditures		2,858,771	2,858,771	1,617,403	1,241,368
Totals	\$ 193,040,705	\$ 57,028,524	\$ 250,069,229	\$ 142,545,568	\$ 107,523,661
Expenses by source					
General fund	\$ 115,120,705	\$ 18,861,506	\$ 133,982,211	\$ 131,175,661	\$ 2,806,550
Special fund	77,920,000	38,167,018	116,087,018	11,369,907	104,717,111
Totals	\$ 193,040,705	\$ 57,028,524	\$ 250,069,229	\$ 142,545,568	\$ 107,523,661

Appropriation Adjustments:

Operating expenses:

The \$16,002,735 adjustment includes \$15,702,735 from the NDUS Technology line pursuant to 07 HB 1003, section 7 for Common Information Services and \$300,000 transfer from the NDUS Board initiatives line pursuant to 07 HB 1003, section 5 for the UND Space Grant Consortium.

Capital assets:

The \$73,920,000 adjustment transferred authority for various capital improvement projects to the Capital improvement off system line because expenditures for these projects are not abstracted through the state. The projects and amounts transferred were as follows:

- \$ 220,000 O'Kelly Hall and Ireland Renovation
- 20,400,000 Allied Health Facility
- 10,000,000 American Indian Center
- 5,000,000 EERC Communication Center
- 5,000,000 Earth Systems Science Building
- 15,000,000 Indoor Track Facility
- 4,500,000 Memorial Union Renovation
- 9,800,000 SOM Lab and Administration
- 4,000,000 SOM Bismarck FPC Building

Capital improvement - off system:

The adjustments are explained in detail below:

- \$73,920,000 was a transfer from the capital asset line as described above.
- \$43,339 authorization for the Hanger Renovation and Addition was pursuant to 09 SB 2003, section 26. This section of the act was declared an emergency measure.

The following projects were approved in prior bienniums and their authority was carried to this biennium:

- Wellness Center \$1,509,992
- Neuroscience Research Facility \$17,000,000
- Carnegie Library Renovation \$2,968,125
- Squires Dining Center \$902,064
- SOM Neuroscience \$824,922
- SOM Pet Scanner and Renovation \$1,156,525
- Nursing Facility \$3,593,705 from the prior biennium and the Budget Section approved an additional \$13,697 authorization increase June 23, 2009.
- Parking Ramp Structure \$5,729,510
- Housing Unit Replacement \$2,246,397
- Energy Improvement Projects \$2,178,742

1997 Flood Expenditures:

The adjustment for \$2,858,771 was the deficiency appropriation pursuant to 09 HB 1023 section 1. This act was declared an emergency measure.

MEDICAL SCHOOL

Expenses by line item	Original Appropriation	Adjustments	Adjusted Appropriation	Expenses	Remaining Appropriation
Operating expenses	\$ 34,488,501		\$ 34,488,501	\$ 34,488,501	
Totals	\$ 34,488,501	\$ -	\$ 34,488,501	\$ 34,488,501	\$ -

Expenses by source	Original Appropriation	Adjustments	Adjusted Appropriation	Expenses	Remaining Appropriation
General fund	\$ 34,488,501		\$ 34,488,501	\$ 34,488,501	
Totals	\$ 34,488,501	\$ -	\$ 34,488,501	\$ 34,488,501	\$ -

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of the University of North Dakota's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the University of North Dakota in a management letter dated July 1, 2010.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested University of North Dakota's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- \$300,000 from the board initiatives line item was used for a grant to the space grant consortium to match federal funds (07 HB 1003, chapter 3, section 5).
- Indebtedness issued during the biennium ending June 30, 2009 was used for the purpose of financing the Wilkerson Dining Center (07 HB 1003, chapter 3, section 16).
- \$200,000 from the general fund of the state treasury was used for funding the costs of a simulation laboratory program for the nursing education consortium (07 SB 2379, chapter 155, section 2).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Article X, Section 12, part 1 of the North Dakota Constitution and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Fixed asset requirements including record keeping, lease and financing arrangements in budget requests, and lease analysis requirements (NDCC 54-44.1-06, 54-27-21, 54-27-21.1).
- Inventory records (NDCC 44-04-07).
- Expenses being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1-5, and 54-06-09 parts 1a, 1b, 3, 4, 5, and 6).
- Conflict of interest (NDCC 12.1-13-03 and 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1 and 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the University of North Dakota in a management letter dated July 1, 2010.



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

Management Letter (Informal Recommendations)

July 1, 2010

Ms. Alice Brekke
Vice President for Finance and Operations
Twamley Hall - Room 314
264 Centennial Drive Stop 8378
Grand Forks, ND 58202-8378

Dear Ms. Brekke:

We have performed an audit of the University of North Dakota for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the University of North Dakota's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of state or federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations:

TILL CASH FUNDS

Informal Recommendation 09-1:

The University of North Dakota has three till cash funds on the general ledger (\$3,050) that did not have approval from the State Auditor's Office.

NDCC 54-06-08.1 states that subject to the approval of the state auditor, a state entity may maintain a cash balance reasonable for the conduct of business at the location of the entity.

We recommend that the University of North Dakota obtain the state auditor's approval for all till cash funds.

University of North Dakota Response:

Agree. UND will work with the State Auditor's Office for clarification regarding process and procedure for obtaining approval for till funds.

CARRYOVER OF UNEXPENDED APPROPRIATIONS

Informal Recommendation 09-2:

The University of North Dakota did not present a report on carryover funds from the 2005-07 biennium to the subsequent appropriations committee of the legislative assembly. The University of North Dakota carried over \$38,109,982 of special funds to the 2007-2009 biennium.

NDCC 54-44.1-11 requires the North Dakota University System to report on the amounts and uses of funds carried over from one biennium to the next subsequent appropriations committee of the legislative assembly.

We recommend that the University of North Dakota report on the amount and use of funds carried over from one biennium to the next to the appropriations committee of the legislative assembly.

University of North Dakota Response:

Agree. In conversations with NDUS, their instructions will require campuses to include this information in their presentations to the appropriations committees during this next legislative session.

TEAM TRAVEL

Informal Recommendation 09-3:

We noted one UND team travel report (10%) for \$397.72 which did not detail and document coaches, trainers, other employee's travel expenses as required by NDUS Human Resource Manual (HR) policy 31.

NDUS Human Resources Policy Manual Section 31.1 states "employees who are authorized to travel at institutional expense are required to submit a detailed record of travel expenses on a travel reimbursement voucher. However, coaches and other authorized employees may detail and document athletic team and other organized group travel expenses, including expenses of coaches, trainers and other employees, on a team or group travel expense report. Employees are not required to submit separate individual travel reimbursement vouchers for expenses detailed and documented on a team or other organized group report."

UND claims that coaches, trainers and other employees traveling with a team or group are not subject to the meal reimbursement limits established by North Dakota Century Code section

44-08-04. They believe that the language in subpart 1 of NDCC 44-08-04 which states "Claims may also be made for a registration fee for a conference, seminar, or other meeting and for meals attended at the request of and on behalf of the state or any of its subdivisions, agencies, bureaus, boards, or commissions..." provides the exemption. We do not believe this was the intent of the legislature.

We recommend that UND:

1. Properly detail and document coaches, trainers and other employee travel expenses on a team or group travel expense report as required by NDUS HR policy 31 or coaches, trainers and other employees submit separate individual travel reimbursement vouchers for expenses.
2. Seek a formal opinion from the Attorney General related to their interpretation of subpart 1 of NDCC 44-08-04.

University of North Dakota Response:

Disagree. NDUS Human Resources Policy Manual Section 31.1, states "employees who are authorized to travel at institutional expense are required to submit a detailed record of travel expenses on a travel reimbursement voucher. However, coaches and other authorized employees may detail and document athletic team and other organized group travel expenses, including expenses of coaches, trainers and other employees, on a team or group travel expense report. Employees are not required to submit separate individual travel reimbursement vouchers for expenses detailed and documented on a team or other organized group report." Policy permits submission of a team or group travel expense report which is attached to the reimbursement documentation and additional documentation and detail is not required per SBHE policy.

In addition NDCC 44-08-04 (1) states: "claims may also be made for meals that are included as part of a registration fee for a conference, seminar, or other meeting and for meals attended at the request of and on behalf of the state." Since these meals were part of a function that was attended at the request of the institution, actual costs, which may exceed per diem rates, are permissible.

The NDUS will not seek an AG's opinion at this time, as recommended by the Auditor's Office.

Auditor's concluding remarks:

We understood the requirement to detail and document as stated in the policy to mean that each employee's portion of the total or other organized group report must be adequately detailed and documented in such a way as to determine the amount expended on behalf of each employee. If that is not the intent of the policy then we believe the policy to be inadequate for the reasons stated above in relation to support needing to be adequately detailed and documented in order to demonstrate compliance with NDCC meal reimbursement limits.

I encourage you to call me at (701) 239-7291 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Robyn Hoffmann, CPA
Auditor in-charge

You may obtain audit reports on the internet at:

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Division of State Audit

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