

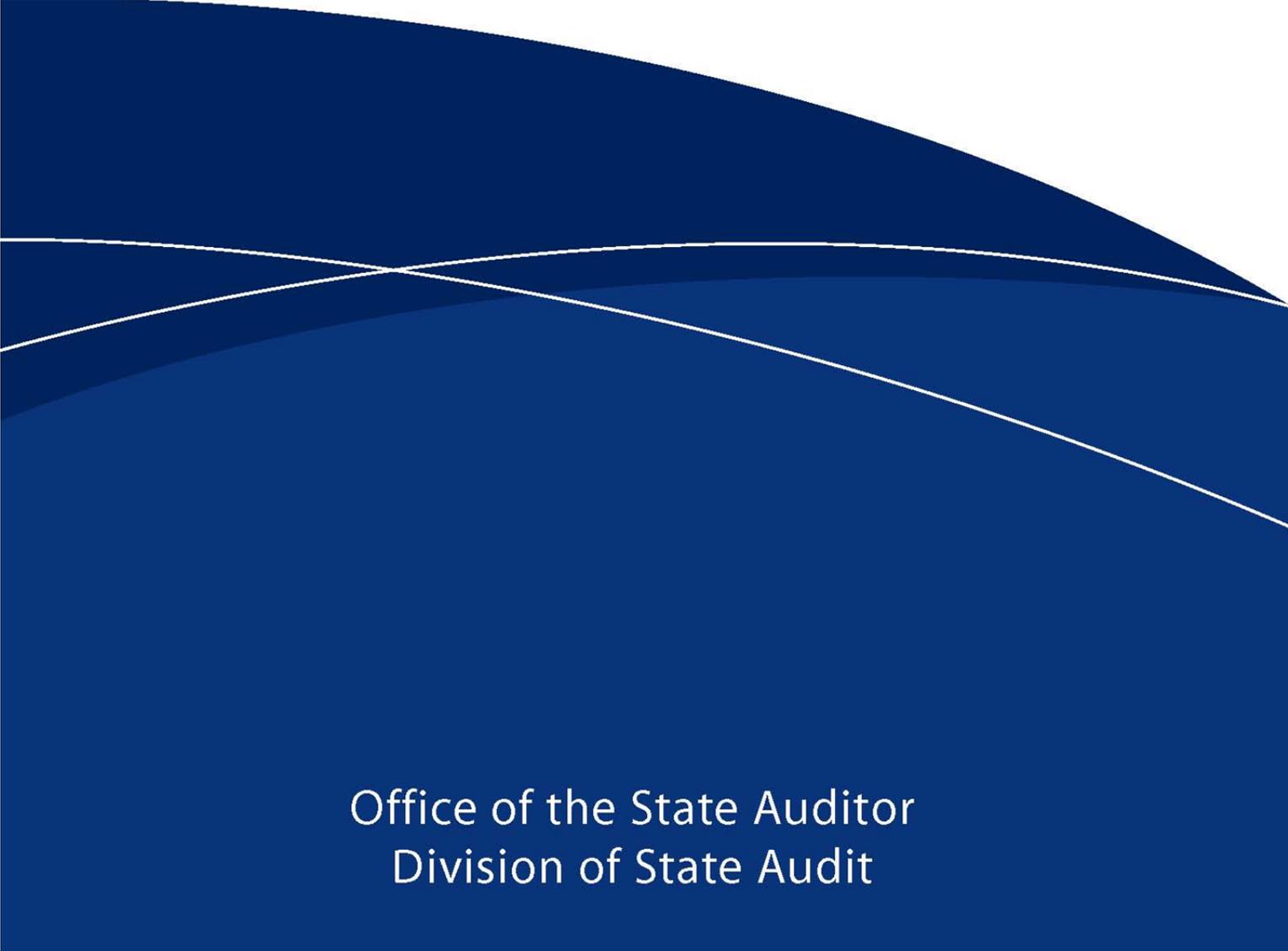
NORTH DAKOTA STATE
UNIVERSITY

FARGO, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

May 25, 2012

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
The North Dakota State Board of Higher Education
Dr. Dean L. Bresciani, President, North Dakota State University

We are pleased to submit this audit of North Dakota State University for the biennium ended June 30, 2011. 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 Cory Wigdahl, CFE. 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 Bresciani 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

Honoring the commitment of the Morrill Act of 1862, the land-grant universities were established to provide studies that were a blend of technical and academic subjects. Known as a "people's college," North Dakota State University was part of the bold experiment to provide access to a college education for the common person.

North Dakota State University is well positioned to prepare graduates for the global marketplace and technologically oriented economy. Through a statewide network of centers and electronic technology, NDSU provides a growing capability for delivering education, cultural activities, and information to schools and homes throughout North Dakota. North Dakota State University is a publicly supported comprehensive land-grant institution, with a strong agriculture and applied science tradition.

North Dakota State University is clearly an institution of choice. Having experienced a remarkable period of growth and with the development of expanded academic opportunities, NDSU is a national model of the contemporary land-grant institution.

An institution committed to progress, North Dakota State University continues to advance in all areas because of the energy and dedication of faculty, staff, students, alumni, and friends.

Responses to LAFRC Audit Questions

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

An unqualified opinion was issued on the annual financial report of the North Dakota University System. The financial statements for North Dakota State University were obtained from the Annual Financial Report of the North Dakota University System; however, the related note disclosures are not included in accordance with generally accepted accounting standards, so an opinion is not applicable.

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?

Yes.

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

Yes, a management letter addressing appropriation carryover, executive budget leases, surprise counts, refunds, budgets and code of conduct was issued and is included on page 23 of this report, along with management's response.

LAFRC Audit Communications

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

There were no management conflicts of interest noted, no contingent liabilities were identified or significant unusual transactions. However, there was a significant change in accounting policy. As of June 30, 2011, North Dakota State University began reporting the receipt and disbursement of student financial aid on the Statement of Cash Flows as Direct Lending Receipts and Direct Lending Disbursements. Prior to June 30, 2011 these amounts were included net on the Statement of Cash Flows as Agency Fund Cash Increases/Decreases.

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 North Dakota State University include the useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and judgment based on historical experience. 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 estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All significant audit adjustments we proposed for the North Dakota State University were recorded during the fiscal year 2010 and 2011 audits of the North Dakota University System. The adjustments can be seen in the fiscal year 2010 and fiscal year 2011 NDUS 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 North Dakota State University. No exceptions related to the operations of an information technology system were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of North Dakota State University for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of North Dakota State University is for the biennium ended June 30, 2011. 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 years 2011 and 2010 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial information in 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, as applicable. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota State University's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present North Dakota State University's revenues and expenses 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, 2011, operations of North Dakota State University were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Assets increased \$35.6 million in fiscal year 2011 from \$409.2 million in fiscal year 2010 to \$444.8 million in fiscal year 2011. This is primarily due to an increase in cash, restricted cash, and capital assets. The increase in cash included \$4.6 million of appropriated funds (tuition) and the receipt of a \$7.3 million performance bond. Capital assets also increased by \$19.1 million mainly due to the completion of the Niskanen Hall Apartments.

Operating revenues consisted primarily of student tuition and fees, federal grants and contracts, auxiliary enterprises, and sales and service. Nonoperating revenues were primarily from state appropriations, but also included federal grants and contracts, gifts, and federal appropriations. Total revenues for fiscal year 2011 were \$383 million, which is a \$13.5 million (3.6%) increase over total revenues of \$369.5 million in fiscal year 2010. All revenues remained fairly constant except nongovernmental grants and contracts increased \$3.7 million, primarily due to additional AES Plant Science grants; auxiliary enterprises increased \$4.3 million, primarily from rental income from newly completed apartments (\$2 million), residence hall fees (\$500,000), and single game tickets (\$500,000); and state appropriations of capital assets increased \$3.6 million due to the timing of payments received from the state. .

Total expenses for North Dakota State University were \$350.6 million for fiscal year 2011, which is only a \$300,000 (4%) increase over the \$350.3 million in total expenses for fiscal year 2010. In general, expenses for both years remained fairly constant.

Analysis of Significant Changes in Operations

North Dakota State University had the following academic changes:

- To offer a dual degree with Minot State University in Social Work
- To offer a PhD in Developmental Science
- To terminate Interior Design minor
- To offer a Masters in Natural Resource Management
- To offer a PhD in Psychological Science
- To offer a B.S. and B.A. in New Media and Web Design
- To offer a minor in Therapeutic Horsemanship
- To offer a certificate in Therapeutic Riding
- To offer a B.S. in Architecture for undergraduate Architecture program
- To offer M.P.H. in Public Health
- To offer a minor in Vaccinology

- To offer M.S. in Materials and Nanotechnology
- To offer a M.S. and Grad Certificate in International Infectious Disease Management & Biosecurity

Analysis of Significant Variances - Budgeted and Actual Expenditures

North Dakota State University did not have any significant variances for the general, federal, or special fund expenses as reflected on the statement of appropriations, as all projects are ongoing except for the Ellig Softball Complex project, which is discontinued.

Financial Statements

Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS		
Cash and cash equivalents	\$ 30,675,597	\$ 12,119,109
Investments	60,184,699	67,944,276
Accounts receivable, net	4,676,499	5,133,865
Receivable from component units	2,217,412	1,785,957
Notes receivable, net	5,248,755	5,220,912
Due from state general fund	12,544,787	8,494,995
Grants & Contracts Receivable	22,791,161	20,632,242
Inventories	1,972,710	2,353,744
Notes receivable, net	1,458,622	1,455,839
Unamortized bond discount and cost of issuance	2,815,887	2,961,887
Other Assets	272,705	339,197
Capital assets, net	299,992,500	280,797,332
Total Assets	<u>\$ 444,851,334</u>	<u>\$ 409,239,355</u>
LIABILITIES:		
Accounts payable	\$ 12,888,488	\$ 14,562,961
Payable to component units		547,765
Accrued payroll	9,576,766	9,402,163
Deferred revenue	4,336,655	3,685,503
Deposits	1,044,445	1,250,531
Other noncurrent liabilities	48,913	82,865
Due to Component Units	46,369,225	42,434,932
Due to Others	110,330,425	109,398,869
Total liabilities	<u>\$ 184,594,917</u>	<u>\$ 181,365,589</u>
NET ASSETS:		
Invested in capital assets, net of related debt	\$ 177,148,436	\$ 157,467,135
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	370,017	368,262
Expendable:		
Scholarships and fellowships	200,622	66,841
Research	9,448,019	9,773,128
Institutional	1,092,274	1,274,249
Loans	7,101,729	7,134,912
Capital projects	323,341	161,866
Debt service	5,945,026	6,396,401
Unrestricted	58,626,953	45,260,972
Total Net Assets	<u>\$ 260,256,417</u>	<u>\$ 227,903,766</u>

Statement of Revenues and Expenditures

	June 30, 2011	June 30, 2010
OPERATING REVENUES:		
Student tuition and fees	\$ 88,520,912	\$ 86,530,951
Federal grants and contracts	62,875,204	59,654,535
State and local grants and contracts	6,365,517	8,875,502
Nongovernmental grants and contracts	9,629,053	5,941,320
Sales and services of educational departments	18,704,427	16,801,691
Auxiliary enterprises	43,120,108	38,862,245
Other	697,822	488,664
Total operating revenues	\$ 229,913,043	\$ 217,154,908
OPERATING EXPENSES:		
Salaries and wages	\$ 229,476,898	\$ 223,362,634
Operating expenses	70,891,189	78,764,285
Data processing	4,733,873	6,758,820
Depreciation	18,847,583	16,758,943
Scholarships and fellowships	7,185,029	6,916,093
Cost of sales and services	10,403,114	10,418,281
Total operating expenses	\$ 341,537,686	\$ 342,979,056
Operating loss	\$ (111,624,643)	\$ (125,824,148)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 97,500,691	\$ 104,702,614
Federal appropriations	5,646,298	6,166,317
Federal grants and contracts	13,572,764	11,305,624
Gifts	8,942,480	7,600,730
Investments income	3,312,224	2,437,339
Interest on capital asset-related debt	(6,650,373)	(6,908,596)
Loss on capital assets	(122,598)	(292,344)
Insurance proceeds	71,635	2,061
Tax proceeds	201,801	190,378
Other nonoperating revenues (expenses)	(2,020,148)	6,304
Net nonoperating revenues	\$ 120,454,774	\$ 125,210,427
Income (loss) before capital grants, gifts, and transfers	\$ 8,830,131	\$ (613,721)
State appropriations-capital assets	\$ 21,714,103	\$ 18,104,824
Transfers to Building Authority	(283,491)	(146,897)
Capital grants and gifts	2,119,373	1,811,803
Total nonoperating revenues	\$ 23,549,985	\$ 19,769,730
Increase in net assets	\$ 32,380,116	\$ 19,156,009
NET ASSETS		
Net Assets-beginning of the year, restated	\$ 227,876,301	\$ 208,747,757
Net Assets-end of the year	\$ 260,256,417	\$ 227,903,766

Statement of Cash Flows

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 89,185,735	\$ 86,952,384
Grants and contracts	77,070,076	71,493,030
Payments to suppliers	(86,393,180)	(95,194,026)
Payments to employees	(228,667,333)	(220,946,023)
Payments for scholarships and fellowships	(7,185,029)	(6,916,093)
Loans issued to students	(1,206,838)	(1,047,099)
Collection of loans to students	1,047,495	964,206
Auxiliary enterprise charges	43,044,818	38,937,459
Sales and service of educational departments	18,848,149	15,927,265
Cash received (paid) on deposits	(2,828)	42,863
Other receipts	764,920	842,343
Net cash used by operating activities	<u>\$ (93,494,013)</u>	<u>\$ (108,943,691)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 96,127,555	\$ 102,261,787
Federal appropriations	5,342,580	6,155,352
Grants and gifts received for other than capital purposes	22,515,244	18,906,353
Direct Lending Receipts	57,735,676	
Direct Lending Disbursements	(56,575,077)	
Agency fund cash decrease	(1,365,112)	(1,216,099)
Tax Revenue	201,801	190,378
Net cash flows provided by noncapital financing activities	<u>\$ 123,982,667</u>	<u>\$ 126,297,771</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt	\$ 7,266,959	\$ 26,135,464
Transfers to Building Authority	(283,491)	
Capital appropriations	19,037,447	16,862,747
Capital grants and gifts received	1,693,587	894,270
Proceeds from sale of capital assets	10,000	12,637
Purchases of capital assets	(37,661,160)	(44,368,109)
Insurance proceeds	71,635	2,061
Principal paid on capital debt and lease	(5,240,560)	(4,862,158)
Deposits with capital debt payment trustees		(223,806)
Interest paid on capital debt and lease	(6,369,806)	(6,534,147)
Net cash used by capital and related financing activities	<u>\$ (21,475,389)</u>	<u>\$ (12,081,041)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	\$ 8,945,986	\$ 4,250,034
Interest on investments	2,870,813	2,040,740
Purchase of investments	(745,000)	(16,458,434)
Net cash provided (used) by investing activities	<u>\$ 11,071,799</u>	<u>\$ (10,167,660)</u>
Net increase (decrease) in cash	<u>\$ 20,085,064</u>	<u>\$ (4,894,621)</u>
CASH - BEGINNING OF YEAR, RESTATED	<u>10,590,532</u>	<u>17,013,730</u>
CASH - END OF YEAR	<u>\$ 30,675,597</u>	<u>\$ 12,119,109</u>

(Continued on next page)

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**RECONCILIATION OF NET OPERATING REVENUES TO
NET CASH USED BY OPERATING ACTIVITIES**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating loss	\$ (111,624,643)	\$ (125,824,148)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation expense	18,847,583	16,758,943
Other nonoperating revenues (expenses)	607	(25,764)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(9,063)	(1,175,653)
Grant & contract receivables	(1,799,698)	(2,978,327)
Inventories	381,034	(312,898)
Notes receivable	(30,626)	29,870
Other assets	66,491	379,445
Accounts payable and accrued liabilities adjusted for interest payable	(783,587)	1,025,358
Accrued payroll	237,022	1,081,530
Compensated absences	572,543	1,335,081
Deferred revenue	651,151	720,011
Deposits	(2,827)	42,863
Net cash used by operating activities	<u>\$ (93,494,013)</u>	<u>\$ (108,943,689)</u>

SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS

Assets acquired through capital lease	\$ 657,254	\$ 1,567,371
Expenses paid by capital lease/special assessments	2,024,706	139,795
Gifts of capital assets	425,786	1,350,563
Net increase in value of investments	441,411	581,609
Total non-cash transactions	<u>\$ 3,549,156</u>	<u>\$ 3,639,338</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

NORTH DAKOTA STATE UNIVERSITY

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating expenses	\$ 108,367,622	\$ 27,403,320	\$ 135,770,942	\$ 134,750,342	\$ 1,020,600
Capital assets	72,792,225	(57,700,000)	15,092,225	8,409,934	6,682,291
Capital assets - carryover		3,889,215	3,889,215	3,889,215	
Capital improvements -					
Off system					
Bison Sports Arena		23,029,981	23,029,981	232,114	22,797,867
Ellig Softball Complex		4,500,000	4,500,000		4,500,000
West Dining Center		7,000,000	7,000,000	4,935,635	2,064,365
Niskanen Apartments		20,000,000	20,000,000	13,782,208	6,217,792
Student Health Expansion		1,100,000	1,100,000	897,228	202,772
Minard Hall		843,144	843,144	418,478	424,666
Ceres/Living Learning Center		123,419	123,419	89,754	33,665
Geosciences		750,000	750,000	191,707	558,293
Research I		29,361,750	29,361,750	359,110	29,002,640
Deferred maintenance	5,355,817		5,355,817	4,391,886	963,931
Totals	\$ 186,515,664	\$ 60,300,829	\$ 246,816,493	\$ 172,347,611	\$ 74,468,882
Expenses by source:					
General fund	\$ 128,415,664	\$ 28,899,214	\$ 157,314,878	\$ 149,668,656	\$ 7,646,222
Federal fund		16,381,750	16,381,750		16,381,750
Special fund	58,100,000	15,019,865	73,119,865	22,678,955	50,440,910
Totals	\$ 186,515,664	\$ 60,300,829	\$ 246,816,493	\$ 172,347,611	\$ 74,468,882

Appropriation Adjustments:

Operating Expenses

The \$27,403,320 adjustment is comprised of the following:

- \$25,683,139 transfer from the NDUS for system information technology services pursuant to 09 SB 2003, section 13;
- \$97,460 transfer from the NDUS for security and emergency preparedness pursuant to 09 SB 2003, section 19;
- \$250,000 transfer from the NDUS to enhance the use of science, technology, engineering, and mathematics (STEM) in existing teacher education programs pursuant to 09 SB 2003, section 28.
- \$1,772,720 special funds carried over from the prior biennium pursuant to NDCC 54-44.1-11; and
- (\$400,000) transferred to the capital asset line for a telecommunication upgrade and approved by the BHE pursuant to 09 SB 2003, section 17.

Capital Assets

The (\$57,700,000) adjustment was comprised of the following:

- (\$58,100,000) transferred to the capital improvement – off system line for various projects whose funding will not be abstracted through the state:
- \$400,000 transfer from the operating expense line for a telecommunication upgrade.

Capital Asset Carryover

\$3,889,215 of general funds carried over from the prior biennium pursuant to NDCC 54-44.1-11. All but \$5,512 was from the Minard hall project.

Capital Improvement – Off System

The adjustments are explained in detail below:

- \$58,100,000 transferred from the capital asset line as follows:
 - BSA Renovation \$25,500,000
 - This project was reduced \$2,470,019 for expenses in prior bienniums.
 - Ellig Softball Complex 4,500,000
 - West Dining Center 7,000,000
 - Niskanen Apartments 20,000,000
 - Student Health Services 1,100,000
- The following projects were approved in prior bienniums and their authority was carried over to this biennium:
 - Minard Hall \$ 843,144
 - Ceres/Living Learning 123,419
 - Geosciences 750,000
 - Research I 29,361,750

FOREST SERVICE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating expenses	\$ 4,471,040	\$ 40,568	\$ 4,511,608	\$ 4,224,747	\$ 286,861
Capital assets	336,638	116,669	453,307	413,023	40,284
Biennium carryover	45,576		45,576	45,576	
Totals	\$ 4,853,254	\$ 157,237	\$ 5,010,491	\$ 4,683,346	\$ 327,145

Expenses by source:					
General fund	\$ 3,855,768		\$ 3,855,768	\$ 3,780,956	\$ 74,812
Special fund	997,486	\$ 157,237	1,154,723	902,390	252,333
Totals	\$ 4,853,254	\$ 157,237	\$ 5,010,491	\$ 4,683,346	\$ 327,145

Appropriation Adjustments:

Operating Expenses

The \$40,568 adjustment is comprised of the following:

- \$60,568 additional income pursuant to SB 2003, section 16 and
- (\$20,000) transfer to the capital asset line for the purchase of equipment at the Towner Nursery. This was approved by the BHE pursuant to 2009 SB 2003, section 17.

Capital Assets

The \$116,669 adjustment is comprised of the following:

- \$91,000 increase in authorization of the Greenhouse project at the Towner State Nursery approved by the Budget Section June 22, 2010;
- \$5,669 increase in authorization of the Greenhouse project at the Towner State Nursery approved to seek legislative authorization by the BHE in May 2011.
- \$20,000 transfer from the operating line approved by the BHE pursuant to 2009 SB 2003, section 17.

NORTHERN CROPS INSTITUTE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Northern Crops Institute	\$ 3,216,684		\$ 3,216,684	\$ 3,216,684	
Totals	\$ 3,216,684		\$ 3,216,684	\$ 3,216,684	

Expenses by source:					
General fund	\$ 1,439,221		\$ 1,439,221	\$ 1,439,221	
Special fund	1,777,463		1,777,463	1,777,463	
Totals	\$ 3,216,684		\$ 3,216,684	\$ 3,216,684	

Appropriation Adjustments:

None

UPPER GREAT PLAINS TRANSPORTATION INSTITUTE

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Transportation Institute	\$ 26,326,992		\$ 26,326,992	\$ 15,299,676	\$ 11,027,316
Totals	\$ 26,326,992		\$ 26,326,992	\$ 15,299,676	\$ 11,027,316

Expenses by source:				
General fund	\$ 1,589,793		\$ 1,589,793	\$ 1,579,848 \$ 9,945
Special fund	24,737,199		24,737,199	13,719,828 11,017,371
Totals	\$ 26,326,992		\$ 26,326,992	\$ 15,299,676 \$ 11,027,316

Appropriation Adjustments:

None

EXTENSION SERVICE

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
NDSU - Extension Services	\$ 47,091,489		\$ 47,091,489	\$ 42,103,722	\$ 4,987,767
Soil Conservation Committee	837,800		837,800	837,800	
Totals	\$ 47,929,289		\$ 47,929,289	\$ 42,941,522	\$ 4,987,767

Expenses by source:				
General fund	\$ 22,000,412		\$ 22,000,412	\$ 22,000,412
Special fund	25,928,877		25,928,877	20,941,110 \$ 4,987,767
Totals	\$ 47,929,289		\$ 47,929,289	\$ 42,941,522 \$ 4,987,767

Appropriation Adjustments:

None

MAIN RESEARCH STATION

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Deferred Maintenance	\$ 450,000		\$ 450,000	\$ 450,000	
Main Research Center	104,530,418	\$ 9,110,709	113,641,127	104,350,273	\$ 9,290,854
Grape & Wine Program	250,000		250,000	250,000	
Federal Stimulus Funds	700,000		700,000		700,000
Totals	\$ 105,930,418	\$ 9,110,709	\$ 115,041,127	\$ 105,050,273	\$ 9,990,854

Expenses by source:					
General Fund	\$ 60,217,151	\$ 6,143,613	\$ 66,360,764	\$ 63,828,496	\$ 2,532,268
Federal Fund	700,000		700,000		700,000
Special Fund	45,013,267	2,967,096	47,980,363	41,221,777	6,758,586
Totals	\$ 105,930,418	\$ 9,110,709	\$ 115,041,127	\$ 105,050,273	\$ 9,990,854

Appropriation Adjustments:

Main Research Center

\$9,110,709 is comprised of the following:

- \$8,671,084 carried over from the prior biennium including \$5,759,988 general fund and \$2,911,096 special fund;
- \$56,000 special fund increase in the project authorization for the headquarters building heating and cooling system project at the Langdon Research Extension Center approved by the Budget Section March 11, 2010; and
- \$383,625 general fund increase pursuant to 2011 HB 1020, section 11.

DICKINSON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Dickinson Research Center	\$ 6,287,580		\$ 6,287,580	\$ 5,081,008	\$ 1,206,572
Totals	\$ 6,287,580		\$ 6,287,580	\$ 5,081,008	\$ 1,206,572

Expenses by source:					
General fund	\$ 2,353,771		\$ 2,353,771	\$ 2,353,771	
Special fund	3,933,809		3,933,809	2,727,237	\$ 1,206,572
Totals	\$ 6,287,580		\$ 6,287,580	\$ 5,081,008	\$ 1,206,572

Appropriation Adjustments:

None

CENTRAL GRASSLANDS RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Central Grasslands Research	\$ 2,560,602		\$ 2,560,602	\$ 2,217,891	\$ 342,711
Totals	\$ 2,560,602		\$ 2,560,602	\$ 2,217,891	\$ 342,711

Expenses by source:					
General fund	\$ 1,486,428		\$ 1,486,428	\$ 1,486,428	
Special fund	1,074,174		1,074,174	731,463	\$ 342,711
Totals	\$ 2,560,602		\$ 2,560,602	\$ 2,217,891	\$ 342,711

Appropriation Adjustments:

None

HETTINGER RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Hettinger Research Center	\$ 2,995,155		\$ 2,995,155	\$ 2,866,340	\$ 128,815
Totals	\$ 2,995,155		\$ 2,995,155	\$ 2,866,340	\$ 128,815

Expenses by source:					
General fund	\$ 1,349,649		\$ 1,349,649	\$ 1,349,649	
Special fund	1,645,506		1,645,506	1,516,691	\$ 128,815
Totals	\$ 2,995,155		\$ 2,995,155	\$ 2,866,340	\$ 128,815

Appropriation Adjustments:

None

LANGDON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Langdon Research Center	\$ 2,091,572		\$ 2,091,572	\$ 1,891,791	\$ 199,781
Totals	\$ 2,091,572		\$ 2,091,572	\$ 1,891,791	\$ 199,781

Expenses by source:					
General fund	\$ 1,217,179		\$ 1,217,179	\$ 1,217,179	
Special fund	874,393		874,393	674,612	\$ 199,781
Totals	\$ 2,091,572		\$ 2,091,572	\$ 1,891,791	\$ 199,781

Appropriation Adjustments:

None

NORTH CENTRAL RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
North Central Research	\$ 3,973,952		\$ 3,973,952	\$ 3,328,225	\$ 645,727
Totals	\$ 3,973,952		\$ 3,973,952	\$ 3,328,225	\$ 645,727

Expenses by source:					
General fund	\$ 1,486,111		\$ 1,486,111	\$ 1,486,111	
Special fund	2,487,841		2,487,841	1,842,114	\$ 645,727
Totals	\$ 3,973,952		\$ 3,973,952	\$ 3,328,225	\$ 645,727

Appropriation Adjustments:

None

WILLISTON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Williston Research Center	\$ 2,922,183		\$ 2,922,183	\$ 2,735,001	\$ 187,182
Totals	\$ 2,922,183		\$ 2,922,183	\$ 2,735,001	\$ 187,182

Expenses by source:					
General fund	\$ 1,922,183		\$ 1,922,183	\$ 1,922,183	
Special fund	1,000,000		1,000,000	812,818	\$ 187,182
Totals	\$ 2,922,183		\$ 2,922,183	\$ 2,735,001	\$ 187,182

Appropriation Adjustments:

None

CARRINGTON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Carrington Research Center	\$ 6,727,962		\$ 6,727,962	\$ 6,103,933	\$ 624,029
Totals	\$ 6,727,962		\$ 6,727,962	\$ 6,103,933	\$ 624,029

Expenses by source:					
General fund	\$ 2,551,869		\$ 2,551,869	\$ 2,551,869	
Special fund	4,176,093		4,176,093	3,552,064	\$ 624,029
Totals	\$ 6,727,962		\$ 6,727,962	\$ 6,103,933	\$ 624,029

Appropriation Adjustments:

None

AGRONOMY SEED FARM

Expenses by line item:	<u>Original</u>		<u>Final</u>		<u>Unexpended</u>
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Agronomy Seed Farm	\$ 1,275,238		\$ 1,275,238	\$ 1,275,208	\$ 30
Totals	\$ 1,275,238		\$ 1,275,238	\$ 1,275,208	\$ 30

Expenses by source:

General fund					
Special fund	\$ 1,275,238		\$ 1,275,238	\$ 1,275,208	\$ 30
Totals	\$ 1,275,238		\$ 1,275,238	\$ 1,275,208	\$ 30

Appropriation Adjustments:

None

Internal Control

In our audit for the biennium ended June 30, 2011, we identified the following areas of North Dakota State University'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 North Dakota State University in a management letter dated May 25, 2012.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested North Dakota State University's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- North Dakota State University reported on one-time funding: \$5,355,817 deferred maintenance, \$13,000,000 capital projects general fund, and \$58,100,000 capital projects special fund. (09 SB 2003, section 7)
- \$826,284 was available on a dollar-for-dollar basis to offset lost federal funds. (09 SB 2003, chapter 31, section 14)
- Evidences of indebtedness issued to North Dakota State University west dining services renovation and addition and auxiliary services renovation for \$7,000,000 and any unexpended balance resulting from the proceeds of the evidences of indebtedness were placed in a sinking fund to be used for the retirement of indebtedness. (09 SB 2003, Section 26)
- Evidences of indebtedness issued to North Dakota State University Niskanen student apartments for \$20,000,000 and any unexpended balance resulting from the proceeds of the evidences of indebtedness were placed in a sinking fund to be used for the retirement of indebtedness. (09 SB 2003, Section 26)
- The sum of \$250,000 was used to enhance the use of science, technology, engineering, and mathematics in existing teacher education program curriculums and was not used for infrastructure projects. (09 SB 2003, chapter 31, section 28)
- The extension service, northern crops institute, upper great plains transportation institute, main research center, branch research centers, and agronomy seed farm reported to the appropriations committees of the sixty-second legislative assembly on the use of one-time funding. (09 SB 2020, section 2)
- \$700,000 from federal fiscal stimulus funds made available to the state under the federal American Recovery and Reinvestment Act of 2009 was appropriated to the main research center for installing a geothermal heating system in the main research center greenhouse project. (09 SB 2020, section 4)
- \$925,000 from the permanent oil tax trust fund was used only for defraying the costs of operations of the Dickinson research center, for the biennium beginning July 1, 2009, and ending June 30, 2011. (09 SB 2020, chapter 48, section 10)
- \$250,000 of general fund appropriation that was paid from the Main Research Center to the grape and wine program was spent property. (09 SB 2373, section 1)
- 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, Attorney General's letter dated September 11, 1987)
- BND used as credit card processing depository. (NDCC 54-06-08.2)
- Gifts are used in compliance with the wishes of the donor. (Article IX, Section 1 of the ND Constitution, NDCC section 1-08-02, and NDCC section 15-10-12)
- Fixed asset requirements were followed including record keeping, and lease analysis requirements (NDCC 44-04-07, 54-27-21, and 54-27-21.1).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Sole source purchases. (NDCC 44-08-01)
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08, and 48-02-12).
- 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 North Dakota State University in a management letter dated May 25, 2012.

Management Letter (Informal Recommendations)

May 25, 2012

Mr. Bruce Bollinger
Vice-President for Finance & Administration
NDSU Dept. 3000
PO Box 6050
Fargo, ND 58108-6050

Dear Mr. Bollinger:

We have performed an audit of North Dakota State University for the biennium ended June 30, 2011 and have issued a report thereon. As part of our audit, we gained an understanding of North Dakota State University's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

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

The following presents our informal recommendations.

CARRYOVER

Informal Recommendation 11-1:

NDSU did not report on the special funds carried over for Ceres/Living Learning of \$123,419, Geosciences Hall of \$750,000 and Research I of \$9,011,750.

Unexpended appropriations for the North Dakota University System are not subject to section 54-44.1-11 and per this NDCC section the North Dakota University System shall report on the

amounts and uses of funds carried over from one biennium to the next to subsequent appropriations committees of the legislative assembly.

We recommend NDSU report to subsequent appropriation committees on general fund and special fund amount carried over from one biennium to the next in compliance with NDCC 54-44.1-11.

North Dakota State University Response:

Agree. NDSU will report to appropriation committees on general fund and special fund carryover amounts as required.

According to the NDUS Office, "in the future, instructions from the University System office will provide clarification that campuses are required to report on the amounts and uses of all unexpended appropriations (both general and special funds) in their presentations to subsequent appropriations committees".

EXECUTIVE BUDGET LEASES

Informal Recommendation 11-2:

North Dakota State University entered into four new capital leases during fiscal year 2010 and 2011 that were paid with appropriated funds and were greater than \$50,000. They included:

- Greenhouse generator - \$151,418
- Tractor/loader - \$99,900
- Analytical instruments - \$99,017
- Loader - \$57,600

These four leases were not included in the Governor's Executive Budget for the 2011-2013 biennium. The last three leases were entered into during the second year of the biennium and NDSU Ag Budget Office stated the timing would not have worked to put those in the 2011-2013 biennial budget requests. However, this does not reflect proper biennium budgeting and planning.

Pursuant to NDCC 54-44.1-06, the director of the budget, through the office of the budget, shall prepare budget data which must contain and include a list of every individual asset or service, excluding real estate, with a value of at least fifty thousand dollars and every group of assets and services comprising a single system with a combined value of at least fifty thousand dollars acquired through a capital or operating lease arrangement or debt financing arrangement by a state agency or institution. The list must include assets or services acquired in the current biennium and anticipated assets or services to be acquired in the next biennium.

We recommend NDSU properly budget and plan to report all leases greater than \$50,000 and paid with appropriated funds in the Governor's Executive Budget that are anticipated for the biennium.

North Dakota State University Response:

Agree. All leases will be included in the Governor's Executive Budget, however, there may be instances where unanticipated leases will occur during the second year of the biennium and are therefore unable to be included in the budget request. Those unanticipated leases will be

included in the next biennial request. The agriculture leases noted above are (or were) part of the North Dakota University System Master Lease program.

SURPRISE COUNTS

Informal Recommendation 11-3:

We noted no surprise counts of petty cash were performed during fiscal year 2010 and fiscal year 2011 and no other compensating controls were in place to ensure the proper use of petty or till fund cash.

Petty and till fund cash is a highly liquid asset and as such is at high risk for fraud and theft. It is management's responsibility to provide reasonable assurance that assets are safeguarded from loss or unauthorized use.

We recommend NDSU management take appropriate action to ensure:

1. Petty and till cash is used properly and safeguarded from loss by misuse or theft.
2. Surprise counts of petty and till fund cash are performed by an employee other than the fund custodian.

North Dakota State University Response:

Agree. NDSU will perform surprise cash counts in the future. Additionally, reimbursements of petty cash are audited by the Accounting Office.

REFUNDS

Informal Recommendation 11-4:

During our test of refunds, we noted the following:

- \$24,000 a year is paid to the Fargodome for student parking. The expenses were recorded as a reduction in parking permit revenue, instead of being recorded to the applicable expense account.
- Taxes paid on nonresident alien taxable scholarships were recorded as a reduction of income instead of being recorded to the applicable expense account.
- 1 out of 15 (7%) refunds tested did not have proper approval.

Generally accepted accounting principles state that expenditures should be recognized for services incurred and revenue should be recognized for serviced provided. In addition, good internal controls dictate that accounts are properly coded, and amounts be reviewed to ensure they are for the correct amount and a legitimate business purpose.

We recommend:

- All revenues and expenses be recorded at their full value, rather than recorded net.
- All items be reviewed and approved by an appropriate individual.

North Dakota State University Response:

Agree. The NDSU Accounting Office will issue guidance to all departments on the proper coding of refunds. In addition, we will do the best we can to monitor compliance in the future.

BUDGETS

Informal Recommendation 11-5:

While reviewing budgets we noted the following for fiscal year 2010 and fiscal year 2011:

- The Upper Great Plains Transportation Institute, Extension Service, Northern Crops Institute, Main Research, and all the Research stations are adjusting budgets of salaries and wages, operating, and equipment to equal the expenses.
- North Dakota State University is adjusting budgets for "other" after year-end to equal the expenses.
- Budget adjustments are not properly approved.

Per SBHE policy 802.6, Budgeting means the process whereby the plans of an institution, the Board or the system office are translated into an authorized and systematic plan of operation, expressed in dollars, for a given period. "Budget" means the blueprint for the orderly execution of program plans; a budget serves as a control mechanism to match anticipated and actual revenues and expenditures. Additionally the policy states that the annual budgets are approved at the institutional level, not functional or departmental level. Institutions may make budget revisions if the revisions are adequately documented and the president or other institution officer who is delegated that authority has approved the revisions.

We recommend:

- NDSU, UGPTI, Extension, NCI, Main Research, and all the stations monitor and budget anticipated expenditures during the year rather than after year-end.
- All budget adjustments be properly approved.

North Dakota State University Response:

Agree. It is NDSU's position that we are in compliance with board policy and that NDSU is properly monitoring budgets throughout the year, as well as approving budget adjustments. However, NDSU understands the auditor's desire to have the President's delegation of budget authority done in a more explicit manner in order to show clear compliance with Board policy, so we will get that authority more clearly documented before June 30, 2012. Furthermore, our budget offices will work with the State Auditors on an acceptable method of structuring internal controls over budget revisions.

CODE OF CONDUCT

Informal Recommendation 11-6:

We noted 3 out of 10 employee's code of conduct forms and/or annual notices were missing from the employee's file.

The last paragraph in NDSU policy 151 and the last paragraph in SBHE policy 308.1 states that the NDUS office and each institution shall require that each new employee review the Code of Conduct and sign a statement certifying the employee has read and agrees to comply with the Code. Further, all benefited employees are require to annually certify in writing that they have read and are in compliance with the Code of Conduct.

A code of conduct is one step towards fostering a strong ethical climate by setting forth management's expectations and consequences for not meeting those expectations.

We recommend NDSU ensure that all employees have completed the proper training and/or acknowledgement surrounding the code of conduct policy and retain the proper documentation in each of the employee's files.

North Dakota State University Response:

Agree. Since these annual certifications are relatively new requirements, initial implementation was through the use of paper forms and delegated monitoring. NDSU intends to identify a central office responsible for oversight and seek an automated method of complying with the requirements in the future.

I encourage you to call myself or an audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Cory Wigdahl', with a long horizontal flourish extending to the right.

Cory Wigdahl, CFE
Auditor in-charge

You may obtain audit reports on the internet at:

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