

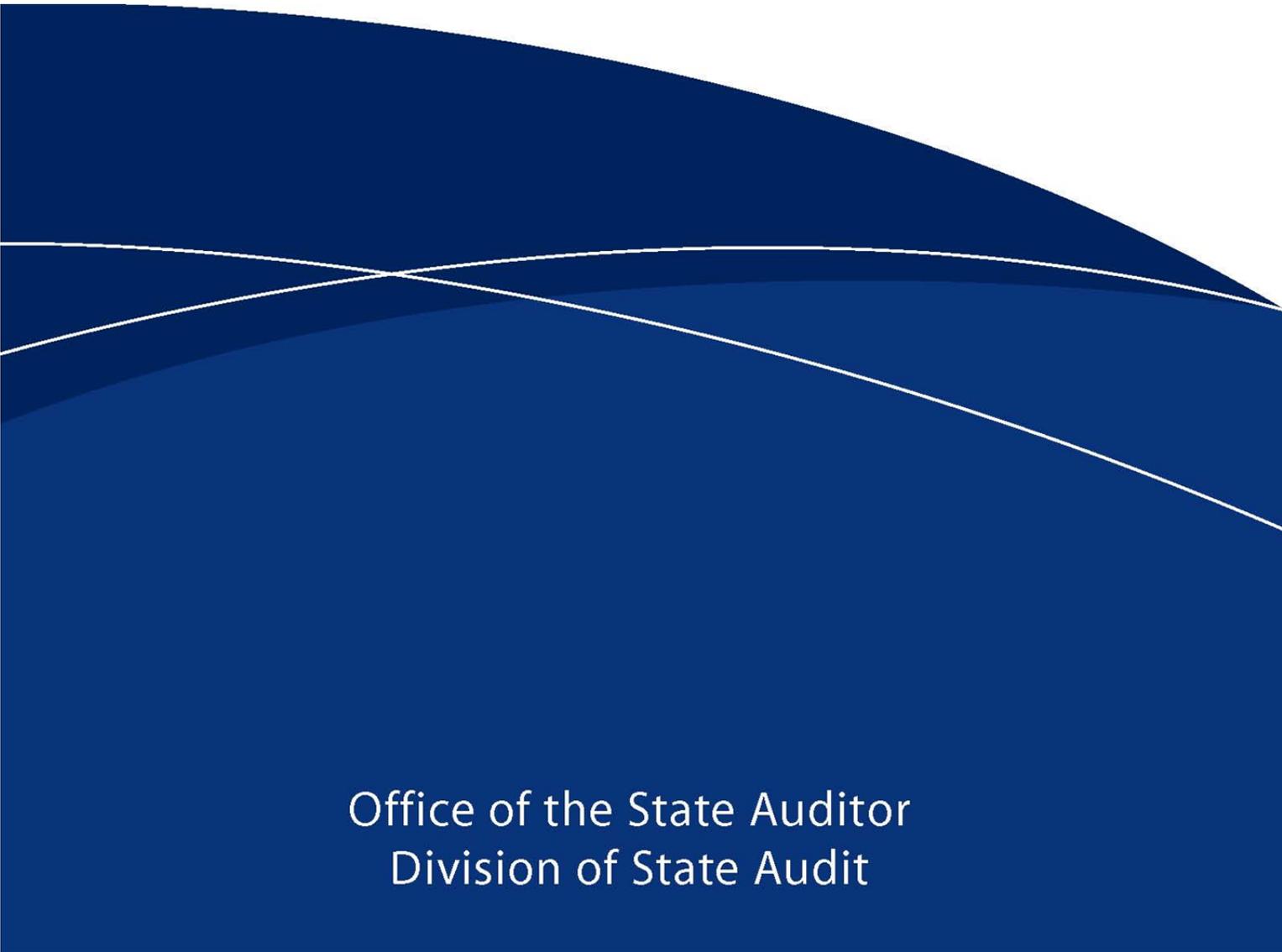
North Dakota University  
System Office

BISMARCK, NORTH DAKOTA

**Audit Report**

For the Two-year Period Ended  
June 30, 2010

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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

## *Transmittal Letter*

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October 3, 2011

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

We are pleased to submit this audit of the North Dakota University System office for the two-year period ended June 30, 2010. 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 Hoffmann, CPA. Mary Feltman, CPA, and Andrea Wike were the staff auditors. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Chancellor Goetz and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

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

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

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

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

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

## *Responses to LAFRC Audit Questions*

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

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

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

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 was issued and is included on page 17 of this report, along with management's response.

### **LAFRC Audit Communications**

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

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

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

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

9. *Identify any significant audit adjustments.*

In our North Dakota University System audit reports for fiscal years 2010 and 2009, all of the material adjustments we proposed for the North Dakota University System Office were recorded. In fiscal year 2010 the adjustments included: \$2,418,790 adjustment to reclassify SNA and SRECNA activity that did not agree, \$619,080 to reverse an elimination entry, \$215,111 to properly classify net assets, \$217,140 to correct double recording of revenue and expense of NDHECSAP funds transferred from UND to NDUSO, and \$200,000 to correct double recording of revenue and expenses by NDUSO and VCSU. In fiscal year 2009 the adjustments included: \$247,876 to change recording of deposit balance, \$2,957,730 to add back improper revenue reversal, \$1,977,276 to add back ConnectND balances and activity that were eliminated by NDSU and not reflected by the NDUSO, and \$1,962,946 to remove elimination entry column and place activity in NDUSO column. A listing of all Posted Audit Adjustments was included in the 2010 and 2009 North Dakota University System audit reports.

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

None.

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

None.

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

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

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

None.

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

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

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the North Dakota University System Office for the two-year period ended June 30, 2010 were to provide reliable, audited financial statements and to answer the following questions:

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

## ***Audit Scope***

This audit of the North Dakota University System Office is for the two-year period ended June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the data used in the fiscal year 2010 and fiscal year 2009 North Dakota University System Annual Financial Reports and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. 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 the North Dakota University System Office's processes and procedures.

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

## ***Discussion and Analysis***

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

### ***Financial Summary***

Assets at June 30, 2010 were \$20,916,268 compared to \$16,405,944 at June 30, 2009. The increase was mainly due to the increase in cash and cash equivalents and decrease in accounts receivable due to the change in the method of recording the ConnectND tuition and fee activity. In fiscal year 2010, the North Dakota University System Office recorded Connect ND tuition and fee activity on their financial statements instead of at North Dakota State University.

Total liabilities at June 30, 2010 were \$10,729,602 compared to \$10,539,721 and the increase is mainly due to a deposit being recorded for the timing of the payment from the state of Minnesota for reciprocity, a correction of the 2008-2009 payment and a decrease in due to others for the fiscal year 2010 bond payment.

For the two-year period ended June 30, 2010, operations of the North Dakota University System Office were primarily supported by appropriations from the state's general fund (69%). Other revenue consisted primarily of ConnectND tuition and fees collected at the various campuses and used to partially fund System Information Technology Services at the system-wide level (21%). Total revenues were \$37,547,267 for the year ended June 30, 2010 as compared to \$27,798,512 for the year ended June 30, 2009. The increase in revenue for the year ended June 30, 2010, was primarily due to the timing of the drawdowns of state appropriations, recording the ConnectND fee on the North Dakota University System Office's financial statements, and a reclassification entry between the University of North Dakota and the North Dakota University System Office to properly record the ConnectND activity.

Total expenses for the North Dakota University System Office were \$34,354,665 for the year ended June 30, 2010 as compared to \$27,773,940 for the prior year. This includes transfers to the building authority of \$5,425,762 and \$7,236,183 for June 30, 2010 and 2009, respectively. The increase in total expenses for the audit period was primarily for scholarships and fellowships for the Student Financial Assistance Grants.

### ***Analysis of Significant Changes in Operations***

No significant changes noted.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

For the fiscal years ended June 30, 2010 and 2009, there were no significant variances between the original and final budgeted amounts or between the final budgeted and actual expenses except for \$31,126,098 and \$29,785,973 adjustment for technology funding during the biennium ended June 30, 2009 and the year ended June 30, 2010, respectively.

# Financial Statements

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## Statement of Net Assets

| <b>ASSETS</b>                                   | <b>June 30, 2010</b> | <b>June 30, 2009</b> |
|---|----------------------|----------------------|
| Current assets                                  |                      |                      |
| Cash and cash equivalents                       | \$ 7,753,912         | \$ (669,082)         |
| Accounts receivable, net                        | 95,128               | 4,312,237            |
| Due from State General Fund                     | 1,393,321            | 884,691              |
| Grants & contracts receivables, net             | 2,967                | 51,277               |
| Other assets                                    | 1,120                |                      |
| Total current assets                            | <u>\$ 9,246,448</u>  | <u>\$ 4,579,123</u>  |
| Noncurrent assets                               |                      |                      |
| Unamortized bond discount & cost of issuance    | \$ 48,837            | \$ 65,117            |
| Capital assets, net                             | 11,620,983           | 11,761,704           |
| Total noncurrent assets                         | <u>\$ 11,669,820</u> | <u>\$ 11,826,821</u> |
| Total assets                                    | <u>\$ 20,916,268</u> | <u>\$ 16,405,944</u> |
| <br><b>LIABILITIES</b>                          |                      |                      |
| Current liabilities                             |                      |                      |
| Accounts payable and accrued liabilities        | \$ 1,959,171         | \$ 1,506,509         |
| Accrued payroll                                 | 186,516              | 92,806               |
| Deposits  | 1,209,467            |                      |
| Long-term liabilities--current portion          |                      |                      |
| Due to Others                                   | 1,643,910            | 1,574,740            |
| Total current liabilities                       | <u>\$ 4,999,064</u>  | <u>\$ 3,174,055</u>  |
| Noncurrent liabilities                          |                      |                      |
| Other noncurrent liabilities                    | \$ 118,306           | \$ 157,742           |
| Long-term liabilities                           |                      |                      |
| Due to Others                                   | 5,612,232            | 7,207,924            |
| Total noncurrent liabilities                    | <u>\$ 5,730,538</u>  | <u>\$ 7,365,666</u>  |
| Total liabilities                               | <u>\$ 10,729,602</u> | <u>\$ 10,539,721</u> |
| <br><b>NET ASSETS</b>                           |                      |                      |
| Invested in capital assets, net of related debt | \$ 4,662,983         | \$ 3,241,704         |
| Restricted for:                                 |                      |                      |
| Expendable:                                     |                      |                      |
| Other   | 37,583               | 117,403              |
| Unrestricted                                    | 5,486,100            | 2,507,116            |
| Total net assets                                | <u>\$ 10,186,666</u> | <u>\$ 5,866,223</u>  |

## Statement of Revenues, Expenses and Changes in Net Assets

|  | <u>June 30, 2010</u>   | <u>June 30, 2009</u>  |
|--|------------------------|-----------------------|
| <b>OPERATING REVENUES</b>                          |                        |                       |
| Student tuition and fees                           | \$ 7,245,710           | \$ 6,289,113          |
| Federal grants and contracts                       | 673,774                | 925,256               |
| State grants and contracts                         | 11,400                 |                       |
| Sales and services for technology                  | 906,276                |                       |
| Other  |                        | 377,343               |
| Total operating revenues                           | <u>\$ 8,837,160</u>    | <u>\$ 7,591,712</u>   |
| <b>OPERATING EXPENSES</b>                          |                        |                       |
| Salaries and wages                                 | \$ 4,404,907           | \$ 4,697,927          |
| Operating expenses                                 | 4,909,105              | 3,571,703             |
| Data processing                                    | 218,543                | 26,126                |
| Depreciation expense                               | 1,634,602              | 1,069,246             |
| Scholarships and fellowships                       | 12,507,208             | 5,868,692             |
| Total operating expenses                           | <u>\$ 23,674,365</u>   | <u>\$ 15,233,694</u>  |
| Operating loss                                     | <u>\$ (14,837,205)</u> | <u>\$ (7,641,982)</u> |
| <b>NONOPERATING REVENUES (EXPENSES)</b>            |                        |                       |
| State appropriations                               | \$ 25,360,789          | \$ 19,510,567         |
| Endowment investment income                        |                        | 1                     |
| Interest on capital asset-related debt             | (308,406)              | (371,308)             |
| General and special grant expenditures             | (4,946,132)            | (4,932,755)           |
| Other nonoperating revenues                        | 580,529                | 346,232               |
| Net nonoperating revenues                          | <u>\$ 20,686,780</u>   | <u>\$ 14,552,737</u>  |
| Income before capital grants, gifts, and transfers | <u>\$ 5,849,575</u>    | <u>\$ 6,910,755</u>   |
| Transfers to Building Authority                    | \$ (5,425,762)         | \$ (7,236,183)        |
| Inter-institutional transfers                      | 2,418,789              |                       |
| Capital grants and gifts                           | 350,000                | 350,000               |
| Increase in net assets                             | <u>\$ 3,192,602</u>    | <u>\$ 24,572</u>      |
| <b>NET ASSETS</b>                                  |                        |                       |
| Net assets--beginning of year                      | <u>\$ 6,994,064</u> *  | <u>\$ 5,841,651</u>   |
| Net assets--end of year                            | <u>\$ 10,186,666</u>   | <u>\$ 5,866,223</u>   |

\* - Fiscal year 2010 beginning net asset balance was restated for a change in accounting method per GASB statement 51 – intangible assets.

## Statement of Appropriations

### For The Biennium Ended June 30, 2009

| OBJECT                           | 2007-2009                 |                              | FY 2009<br>Expense   | FY 2008<br>Expense   | Balance<br>6-30-09  |
|----------------------------------|---------------------------|------------------------------|----------------------|----------------------|---------------------|
|                                  | Original<br>Appropriation | Appropriation<br>Adjustments |                      |                      |                     |
| Operations Pool                  |                           | \$ 8,085                     | \$ 8,085             |                      |                     |
| Capital Assets                   | \$ 16,504,112             | 200,000                      | 7,986,183            | \$ 7,332,909         | \$ 1,385,020        |
| Student Fin. Assistance Grants   | 5,987,497                 | 548,728                      | 2,877,244            | 3,102,398            | 556,583             |
| Scholars Program                 | 1,478,566                 | 185,019                      | 731,904              | 588,439              | 343,242             |
| Title II Grant                   | 695,600                   |                              | 470,138              | 169,555              | 55,907              |
| Native American Scholarships     | 380,626                   | 666                          | 194,117              | 186,000              | 1,175               |
| Technology                       | 31,477,093                | (31,126,098)                 | 186,557              | 128,727              | 35,712              |
| Education Incentive Program      | 1,740,314                 | 273,030                      | 750,040              | 1,173,654            | 89,650              |
| Tribal Community College Grnts   | 700,000                   |                              | 350,000              | 350,000              |                     |
| Student Exchange                 | 2,722,946                 | 53,564                       | 1,274,087            | 1,221,845            | 280,578             |
| Professional Liability Insurance | 1,100,000                 |                              | 550,000              | 550,000              |                     |
| Competitive Research Program     | 5,650,000                 |                              | 2,825,000            | 2,825,000            |                     |
| Biennium Carryover               |                           | 450,354                      | 82,599               | 92,676               | 275,079             |
| Board Initiatives                | 398,500                   | (398,500)                    |                      |                      |                     |
| System Governance                | 5,883,394                 | 472,000                      | 2,939,406            | 3,058,700            | 357,289             |
| <b>TOTALS</b>                    | <b>\$ 74,718,648</b>      | <b>\$ (29,333,152)</b>       | <b>\$ 21,225,359</b> | <b>\$ 20,779,902</b> | <b>\$ 3,380,235</b> |
| General Fund Authority           | \$ 68,601,118             | \$ (27,423,576)              | \$ 19,595,919        | \$ 19,719,409        | \$ 1,862,214        |
| Federal Fund Authority           | 1,090,600                 | 532,428                      | 918,372              | 342,369              | 362,287             |
| Special Fund Authority           | 5,026,930                 | (2,442,004)                  | 711,068              | 718,123              | 1,155,735           |
| <b>TOTALS</b>                    | <b>\$ 74,718,648</b>      | <b>\$ (29,333,152)</b>       | <b>\$ 21,225,359</b> | <b>\$ 20,779,902</b> | <b>\$ 3,380,235</b> |

**Appropriation Adjustments:**

| Line Item                        | Amount                 | Reason  |
|----------------------------------|------------------------|---|
| Equity and Special Needs Pool    | \$ 116,978             | 2005-07 carryover                               |
|                                  | (107,293)              | Transfer to NDSCS for grant writing position    |
|                                  | (1,600)                | Transfer to MASU for Dr. Hagen meeting costs    |
| Capital Assets                   | 200,000                | 2005-07 carryover                               |
| Student Financial Assistance Grt | 364,300                | 2005-07 carryover                               |
|                                  | 184,428                | Additional federal funds received               |
| Contingency Fund                 | 126,318                | 2005-07 carryover                               |
|                                  | (22,000)               | Transfer to NDSCS for disabled student services |
|                                  | (55,000)               | Transfer to WSC for operations                  |
|                                  | (49,318)               | Transfer to VCSU for operations                 |
| Scholars Program                 | 185,019                | 2005-07 carryover                               |
| Native American Scholarships     | 666                    | 2005-07 carryover                               |
| Technology                       | (15,189,174)           | Transfer to NDSU & UND for technology funding   |
|                                  | (1,773,800)            | Transfer to NDSU for technology funding         |
|                                  | (14,163,124)           | Transfer to NDSU & UND for technology funding   |
| Education Incentive Program      | 273,030                | 2005-07 carryover                               |
| Student Exchange                 | 53,564                 | 2005-07 carryover                               |
| Biennium Carryover               | 242,559                | 2005-07 carryover                               |
|                                  | 192,290                | 2005-07 carryover                               |
|                                  | 15,505                 | 2005-07 carryover                               |
| Board Initiatives                | (98,500)               | Transfer to MISU-BC for recruiting initiative   |
|                                  | (300,000)              | Transfer to UND for the Space Grant Consortium  |
|                                  | 26,174                 | 2005-07 carryover                               |
|                                  | (26,174)               | Transfer to NDSCS for grant writing position    |
| System Governance                | 142,000                | Additional funding received for SAA and FINDET  |
|                                  | 330,000                | Additional funding received for Access Grant    |
| Total Appropriation Adjustments  | <u>\$ (29,333,152)</u> |   |

**For The Year Ended June 30, 2010**

| <b>OBJECT</b>                    | 2010-2011                 |                              | FY 2010<br>Expense   | Balance<br>6-30-10   |
|----------------------------------|---------------------------|------------------------------|----------------------|----------------------|
|                                  | Original<br>Appropriation | Appropriation<br>Adjustments |                      |                      |
| Capital Assets                   | \$ 12,014,048             |                              | \$ 5,425,762         | \$ 6,588,286         |
| Student Fin. Assistance Grants   | 19,374,022                | \$ 553,546                   | 8,520,595            | 11,406,973           |
| Scholars Program                 | 2,113,584                 | 343,242                      | 926,369              | 1,530,457            |
| Title II Grant                   | 695,600                   |                              | 276,340              | 419,260              |
| Native American Scholarships     | 381,292                   | 1,175                        | 190,700              | 191,767              |
| Technology                       | 30,230,038                | (29,785,973)                 | 140,580              | 303,485              |
| Teacher Education Enhancement    | 1,500,000                 | (1,500,000)                  |                      |                      |
| Education Incentive Program      | 3,176,344                 | 89,650                       | 1,538,382            | 1,727,612            |
| Tribal Community College Grnts   | 700,000                   |                              | 350,000              | 350,000              |
| Academic & Tech Ed Scholar.      | 3,000,000                 |                              |                      | 3,000,000            |
| Student Exchange                 | 3,337,100                 | 283,755                      | 1,344,554            | 2,276,301            |
| Professional Liability Insurance | 1,100,000                 |                              | 550,000              | 550,000              |
| Two-Year Campus Marketing        | 800,000                   |                              | 428,096              | 371,904              |
| Security & Emergency Prepare.    | 750,000                   | (750,000)                    |                      |                      |
| Competitive Research Program     | 7,050,000                 |                              | 3,525,000            | 3,525,000            |
| Biennium Carryover               |                           | 384,206                      | 264,983              | 119,223              |
| Grants                           | 100,000                   | (100,000)                    |                      |                      |
| System Governance                | 7,185,612                 |                              | 3,428,639            | 3,756,973            |
| <b>TOTALS</b>                    | <b>\$ 93,507,640</b>      | <b>\$ (30,480,399)</b>       | <b>\$ 26,910,000</b> | <b>\$ 36,117,241</b> |
| General Fund Authority           | \$ 88,758,682             | \$ (29,615,730)              | \$ 25,288,895        | \$ 33,854,057        |
| Federal Fund Authority           | 1,320,138                 |                              | 874,064              | 446,074              |
| Special Fund Authority           | 3,428,820                 | (864,669)                    | 747,041              | 1,817,110            |
| <b>TOTALS</b>                    | <b>\$ 93,507,640</b>      | <b>\$ (30,480,399)</b>       | <b>\$ 26,910,000</b> | <b>\$ 36,117,241</b> |

**Appropriation Adjustments:**

| Line Item                              | Amount                        | Reason  |
|--|-------------------------------|---|
| Student Financial Assistance Grt       | \$ 553,546                    | 2007-09 carryover   |
| Scholars Program                       | 343,242                       | 2007-09 carryover   |
| Native American Scholarships           | 1,175                         | 2007-09 carryover   |
| Technology                             | (14,571,624)                  | Transfer to NDSU & UND for technology funding             |
|  | 64,563                        | 2007-09 carryover   |
|  | (14,768,612)                  | Transfer to NDSU & UND for technology funding             |
|  | (510,300)                     | Transfer to NDSU for technology funding                   |
| Teacher Education Enhancement          | (1,500,000)                   | Transfer to DSU, MASU, MISU, NDSU, UND, and VCSU for STEM |
| Education Incentive Program            | 89,650                        | 2007-09 carryover   |
| Student Exchange                       | 244,399                       | 2007-09 carryover   |
|  | 39,356                        | Refund from Iowa  |
| Security & Emergency Prepared          | (700,000)                     | Transfer to NDUS institutions                             |
|  | (50,000)                      | Transfer to NDUS institutions                             |
| Biennium Carryover                     | 384,206                       | 2007-09 carryover   |
| Grants                                 | (100,000)                     | Transfer to UND for the Space Grant Consortium            |
| <b>Total Appropriation Adjustments</b> | <b><u>\$ (30,480,399)</u></b> |   |

## ***Internal Control***

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In our audit for the two-year period ended June 30, 2010, we identified the following areas of the North Dakota University System Office's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

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

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota University System Office in a management letter dated October 3, 2011.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2010, we identified and tested the North Dakota University System Office's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- \$12,014,048, or as much of the sum as may be necessary, included in the capital assets line item (subdivision 1 of section 1) was used by the State Board of Higher Education to satisfy outstanding bond obligations (2009 SB 2009, chapter 31, section 10).
- \$2,011,570, or so much of the sum as may be necessary, from the student loan trust fund was used for the professional student exchange program (\$990,970) and \$1,020,600 for the ConnectND campus solution positions (2009 SB 2003, chapter 31, section 15).
- \$750,000, or so much of the sum as may be necessary, included in the security and emergency preparedness line item (subdivision 1 of section 1), was used for the benefit of the institutions and entities under the control of the State Board of Higher Education, as determined by the board for security and emergency preparedness (2009 SB 2003, chapter 31, section 19).
- The University System reported full-time equivalent position adjustments to the Office of Management and Budget before the submission of the 2011-13 biennium budget request (2009 SB 2003, chapter 31, section 20).
- Each University System employee whose documented performance meets all standards received a minimum monthly salary increase of \$100 as of July 1, 2009 and 2010 (2009 SB 2003, chapter 31, section 27).
- Any qualified returning technology occupation loan forgiveness program applicant for the 2009-2010 academic year received up to \$1,500 per year, for up to four years combined between the technology occupation loan forgiveness program and science, technology, engineering, and mathematics loan forgiveness program (2009 SB 2003, chapter 31, section 29).
- The State Board of Higher Education did not increase tuition for students attending institutions under its control for the 2009-10 and 2010-11 academic years at two-year campuses and not more than four percent at four-year campuses unless the board received prior budget section approval (2009 SB 2003, chapter 31, section 30).
- Legislative Council studied options for funding higher education institutions (2009 SB 2003, chapter 31, section 31), impact of tuition waivers on institutions under the control of the State Board of Higher Education (2009 SB chapter 31, section 32), feasibility and desirability of creating a department to oversee early childhood, elementary, secondary and postsecondary education (2009 SB 2003, chapter 31, section 33) and the establishment of a higher education student trust fund, including available funding sources (2009 SB 2003, chapter 31, section 34).
- Each tribally controlled community college submitted grant applications documenting the enrollment status of each student whose account financial assistance is sought and for approved application, the board distributed to each tribally controlled community college, \$5,304, or pro-rated amount per full-time equivalent non-beneficiary student (2009 HB 1394, chapter 170, section 2 and NDCC 15-70-04).

- Each institution that received a grant under chapter 15-70 submitted to the legislative council a report detailing the expenditures of the grant funds received by the institution under this chapter, a copy of the institution's latest audit report, and documentation of the enrollment status of each student on whose account financial assistance is sought (2009 HB 1394, chapter 170, section 3 and NDCC 15-70-05).
- The State Board of Higher Education's performance and accountability report includes all the required information (NDCC 15-10-14.2).
- Proper use of the Higher Education Special Revenue Fund for scholarships and grants.
- Travel-related expenditures are made in accordance with state statute (NDCC 44-08-03).
- Compliance with payroll related laws including statutory salaries for applicable appointed positions and certification of payroll.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 and 2009 North Dakota Session Laws chapters 3 and 31, respectively).
- Adequate blanket bond coverage of employees (NDCC 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and annual inventory (NDCC 54-27-21 and NDCC 44-04-07).

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.

## ***Management Letter (Informal Recommendations)***

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October 3, 2011

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

Dear Ms. Putnam:

We have performed an audit of the North Dakota University System Office for the two-year period ended June 30, 2010, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota University System Office's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal, state or local 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.

### **System Information Technology Services (Informal Recommendation #1)**

The NDUS has established System Information Technology Services (SITS) to support NDUS information technology business processes. The NDUS receives an appropriation for the SITS pool, \$30,230,038 for the 2009 biennium, which is transferred to UND and NDSU. A CIO who is accountable to the NDUS Chancellor governs SITS. Current budget and accounting practices are not consistent with this accountability in that most of the employees and related expenses are budgeted as part of North Dakota State University in either appropriated or agency funds, as NDSU acts as the fiscal and human resource agent for SITS. These people are not NDSU employees. There are currently 17 funds, 8 appropriated and 9 agency on NDSU's general

ledger used to account for the activity. During the year, NDSU records the activity in its' general ledger and at year-end, NDSU closes out the agency fund activity and balances and the activity and balances are added to the North Dakota University System Office (NDUSO) for reporting purposes. The activity not charged to agency funds is reflected as part of NDSU's expenses.

Although the SBHE determines the allocation of SITS funds as part of their annual budget process, UND and NDSU have written service level agreements in place in the administration and delivery of SITS services, there are no written accounting and budgeting policies and procedures for SITS. The NDUS should improve current procedures to consolidate the accounting balances and activity of SITS. Additionally, in the state of North Dakota Single Audit for fiscal years 2010 and 2009, we noted a finding regarding SITS related service level agreements (page 138) and the actual cost basis for the rates charged.

The NDUS needs to establish written policies and procedures surrounding the SITS to promote accountability, proper internal control, and consistency in financial reporting and administration of the technology services that the North Dakota University System Office provides. Without adequate guidance from management in the form of written policies and procedures, there is increased risk of improper accounting, budgeting and administration of the SITS pool that could lead to a loss of stakeholder confidence in the NDUS's management and accountability for SITS pool funds.

Recommendation:

We recommend the North Dakota University System Office:

- Document the entire operations of the SITS pool
- Establish written budgeting, accounting, and administrative policies and procedures surrounding the operation of the SITS pool to enhance adequate accountability and ensure compliance with legislative intent
- Study and review areas to streamline the process, while still maximizing the utilization of staff resources and expertise across the system, including but not limited to:
  - budgeting of SITS employees;
  - accounting for SITS activity (business unit, fund, project, NDUSO Office level, etc.);
  - service level agreements including terms, rates, etc.

**North Dakota University System Office Response:**

- *Agree. We believe this can be adequately addressed in the policies and procedures noted below.*
- *Agree. The development of these operational procedures will be completed by the end of February 2012. It should be noted that the funds at NDSU are separately maintained on the general ledger for SITS and are not utilized by NDSU. UND and NDSU, not SITS, sets rates for services provided under the Service Level Agreements*
- *Agree. The NDUS will continue to look at processes related to the SITS budget and the services provided, with any changes implemented with the beginning of the FY 2014 fiscal year or the beginning of the 13-15 biennium, if more appropriate.*

## Accountability Measures Support (Informal Recommendation #2)

During our review of the North Dakota University System's Accountability Measures Report for 2010 and 2009, we noted that the "Total 25 to 44-Year-Old Population Enrolled in NDUS Colleges and Universities" table in the Adult Learner Enrollments measure (AS9) did not agree to the Fall enrollment reports and ConnectND as stated as the source of the data in the report.

Proper design and implementation of internal controls for performance measures are necessary to ensure the data reported to legislators, stakeholders, and citizens is accurate, complete, and fairly presented in the accountability measures report.

### Recommendation:

We recommend the amounts reported agree to the original source.

### **North Dakota University System Office Response:**

*Agree: The NDUS will review our processes to ensure that the data agrees to the fall enrollment reports and ConnectND data. It is important to note that the data will not agree when there are differences in the age categories presented between the accountability measures report and the NDUS fall enrollment reports. The accountability measures report reports the age range of 25-44 and the fall enrollment report reports age ranges of 25-49.*

## Interagency Cooperative Agreement (Informal Recommendation #3)

We reviewed the FINDET Interagency Cooperative Agreement (November 13, 2007) that was signed by the North Dakota University System and six other state agencies. We noted there was no clause in the agreement that allowed for an audit or auditor access of the information that FINDET has in their possession.

When an agreement such as this is signed in order to have proper accountability to all parties and the state of North Dakota, an audit clause should be added to give access and lend credibility to the data. Without this accountability, it is not possible to determine if the data is complete and accurate.

### Recommendation:

We recommend an audit clause be included in all future agreements to ensure the auditor is able to access the data to prove its validity.

### **North Dakota University System Office Response:**

*Agree. However, it should be noted that access to the required data was provided and effective August 1, 2011, FINDET was replaced by a State Longitudinal Data System (SLDS) managed by a different state agency and the interagency agreement in question is no longer operative.*

I encourage you to call myself or an audit manager at 239-7289 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

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