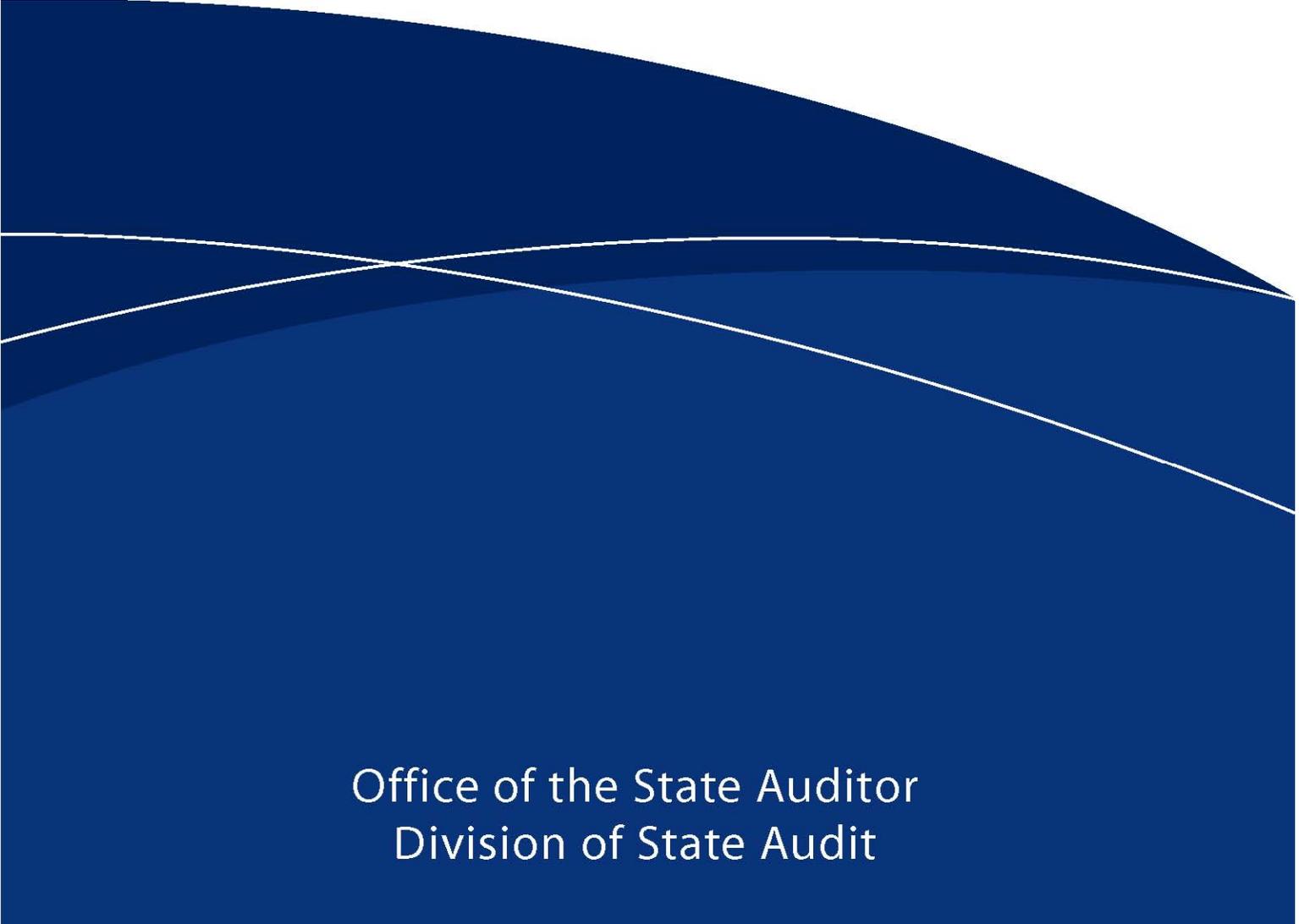


NORTH DAKOTA UNIVERSITY SYSTEM

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

For the Year Ended
June 30, 2014

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

December 10, 2014

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

I am pleased to submit our report on internal control and compliance for the North Dakota University System. This report relates to the audit of the North Dakota University System's financial statements for the year ended June 30, 2014. This report on internal control and compliance has been completed in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States.

Also enclosed you will find our audit findings, governance communication, posted and passed audit adjustments, and management letter. These communications are required by generally accepted auditing standards.

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

Respectfully submitted,

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

Robert R. Peterson
State Auditor

Executive Summary

RESPONSES TO THE LAFRC AUDIT QUESTIONS

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

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

Unmodified on Business-Type Activities and Qualified on the Aggregate Discretely Presented Component Units.

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

No. For additional commentary see the schedule of Prior Recommendations Not Implemented and University System Responses #2 and #6 on pages 10 and 15, respectively.

3. Was internal control adequate and functioning effectively?

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

- SBHE/NDUS - Internal Control and Training (Prior Recommendations Not Implemented #1)
- CTS – Online Entry Issues (Prior Recommendations Not Implemented #3)
- CTS/VCSU – Inadequate Monthly Bank/Investment Reconciliation (Prior Recommendations Not Implemented #4)
- NDSCS - Improper Classification of Net Position (Prior Recommendation Not Implemented #5)
- WSC – Reconciling (Prior Formal Not Implemented #7)
- MASU/MISU/NDUS/UND/WSC – Student Worker Background Checks (Finding 14-1)
- NDSU - Lack of Internal Auditor Audit Documentation (Finding 14-2)
- NDSCS – Accounting Issues (Finding 14-3)

For additional commentary see the Prior Recommendations Not Implemented starting on page 8 and Findings, Recommendations, and University System Responses section starting on page 18 of this report.

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

Yes. Based on the number of unimplemented prior recommendations (7), posted audit adjustments (5), passed audit adjustments (7), and new formal (3) and informal (14) recommendations, in our opinion, there is a lack of efficiency in financial operations and management of the NDUS.

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

No. Seven (three pre-fiscal year 2013 and four fiscal year 2013) prior recommendations were not implemented as follows:

- NDUS management has not:
 - conducted a comprehensive fraud and control risk assessment by each institution, or
 - established appropriate internal controls to detect, deter, and avoid potential fraudulent activity and risks relevant to the preparation of financial statements. [2008, 2009, 2010, 2011, 2012, and 2013 audits]
- WSC did not perform monthly bank reconciliations and understated their general ledger for cash accounts. [2011, 2012, and 2013 audits]
- NDSCS misclassified net position on the Statement of Net Position. [2011, 2012, and 2013 audits]
- NDUS management had not obtained GAAP-compliant financial statements or an annual GAAP audit for all component units in compliance with SBHE Policy 340.2. [2013 audit]
- CTS is not recording journal entries in a timely manner. [2013 audit]
- CTS has not been performing bank reconciliations and VCSU understated investments and did not properly reconcile bank accounts. [2013 audit]
- MISU, NDSU, and UND did not obtain proper legislative or budget section approval for certain capital projects funded with local funds, nor did the NDUS take appropriate action to modify state law to make it clear when legislative approval is required for capital projects and improvements which utilize local fund moneys. [2013 audit]

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

Yes. We made the following 14 informal recommendations to which management responded and agreed to implement. For additional commentary and management responses, see the Management Letter starting on page 26.

1. SBHE/NDUS – Fraud Hotline Reports Follow-Up
2. SBHE/NDUS – Fraud Reporting and Training for Employees
3. SBHE/NDUS – Inconsistent Classification of Resident Advisor Room and Board
4. SBHE/NDUS – Inadequate Clarification of NDUS Procedure 1901.3
5. NDUS - Tracking Special, Course, Program Fees, and UND Application and Orientation Fees
6. NDUS - Accounts Receivable and Due From Other NDUS Institutions Not Properly Identified
7. CTS/NDUS - Creation of IDB Source Code
8. DCB - Proper Reporting of Net Position Balances
9. VCSU - Inadequate Capital Asset Procedures
10. BSC/DCB/DSU/LRSC/MASU/NDSCS/NDSU/WSC - Asset Management System Utilization
11. BSC/MASU/UND/WSC - Pledged Revenues Note
12. DCB/CTS/UND/WSC/NDUS - Deficit Cash in Agency Funds
13. LRSC/MISU/NDSCS - Commingling of Cash Between Institutions and Foundations
14. LRSC/MISU/NDSCS/VCSU/WSC - Improper Recording of Institution Endowments/Investments

LAFRC AUDIT COMMUNICATIONS

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

There were no significant changes in accounting policies; no management conflicts of interest or significant unusual transactions noted. The NDUS's commitments and contingent liabilities are reported on pages 53 and 70 of the fiscal year 2014 NDUS Annual Financial Report.

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

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

- Fair value of investments (Note 2)
- Useful lives of capital assets (Note 5)
- Scholarship allowance: \$63,913,461
- Allowance for uncollectible receivables:
 - Accounts \$6,959,545 (22.2%)
 - Loans and notes \$8,408,226 (19.0%)

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

3. Identify any significant audit adjustments.

The Posted Audit Adjustments schedule on page 24 lists material misstatements detected as a result of audit procedures that were corrected by management.

The Passed Audit Adjustments schedule on page 25 summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

We are pleased to report that no significant disagreements arose during the course of our audit. However, we had three instances of disagreement with the prior recommendations not implemented, current year's findings and recommendations and informal auditor recommendations. The disagreements are included in the University System Response/Planned Corrective Actions on pages 16, 18, and 31.

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

None.

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

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

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

None.

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

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

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

Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

The State Board of Higher Education

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the aggregate discretely presented component units of the North Dakota University System as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the North Dakota University System's basic financial statements, and have issued our report thereon dated December 10, 2014. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the North Dakota University System's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies numbered 1, 2, 3, 4, and 5 in the accompanying schedule of *Prior Findings Not Implemented and University System Responses* to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies numbered 6 and 7 in the accompanying schedule of *Prior Findings Not Implemented and University System Responses* and findings 14-1, 14-2, and 14-3 in the accompanying schedule of *Findings, Recommendations, and University System Responses* to be significant deficiencies.

Compliance and Other Matters

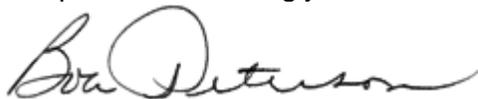
As part of obtaining reasonable assurance about whether the North Dakota University System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of *Prior Findings Not Implemented and University System Responses* as items 2 and 6.

North Dakota University System's Response to Findings

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

Purpose of this Report

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



Robert R. Peterson
State Auditor

Fargo, North Dakota

December 10, 2014

Prior Recommendations Not Implemented and University System Responses

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

1. SBHE/NDUS - INTERNAL CONTROL AND TRAINING

Condition:

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

Current Status:

NDUS did complete internal control training for the required participants at each campus, Board Office, and CTS by June 30, 2014. During fiscal year 2014, a comprehensive fraud and control risk assessment was not completed and the establishment of appropriate internal control policies and procedures were not established.

Effect:

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

Cause:

Prior to 2013, the Board Office has not pressed this issue with the campuses enough or has not provided specific direction on how to accomplish a comprehensive fraud and control risk assessment. After we issued the recommendation in 2013, the NDUS advertised for a full-time position to develop a multi-year implementation plan for the risk assessment and internal control. However, this position did not get filled during fiscal year 2014 and they are looking to fill it in fiscal year 2015.

Criteria:

COSO (Committee on Sponsoring Organizations of the Treadway Commission) outlines five essential components of an effective internal control system. Risk assessment which involves the identification and analysis by management of relevant risks to achieving predetermined objectives is one of these five essential components.

Recommendation:

We recommend the North Dakota University System:

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

University System Response/Planned Corrective Actions:

Agree. A newly-hired NDUS Assistant General Counsel with extensive risk management and compliance experience will present a comprehensive compliance plan to the SBHE Audit Committee in January 2015. Risk management and compliance responsibility will be assigned to the Assistant General Counsel. Another recently hired staff person has responsibility for training and assisting campus personnel with internal control methodology and tools.

2. SBHE/NDUS – GOVERNANCE AND INTERNAL CONTROLS OF FOUNDATION AUDITS

Condition:

During the 2013 audit, we recommended the Board Office, as part of its governance responsibility, direct the impacted foundations to improve operations and reporting to obtain GAAP compliant financial statements as required by SBHE Policy 340.2.

Current Status:

We noted during our review of the foundation audit reports:

- The DSU Foundation (DSUF) received a qualified audit opinion for its fiscal year ending June 30, 2013, and for its current fiscal year now ending December 31, 2013, the foundation was unable to receive an audit opinion because of litigation and inadequate financial records. In addition, there is currently no up-to-date operating agreement between DSU and the DSUF.
- The DCB Foundation's audit report was qualified for fair value of mineral rights.

Effect:

There is noncompliance with SBHE policy 340.2, modified opinion on the NDUS financial statements, potential accreditation, bond rating and reputational issues which could affect future funding.

Additionally, NDUS institutions could become financially liable for costs associated with foundations in financial distress up to being placed in receivership.

Cause:

Inadequate oversight by the NDUS to ensure the affiliated foundations comply with SBHE policies in which they exist.

Criteria:

SBHE policy 340.2, section 3, in-part states, a foundation is a private legal entity separate from the institution and must be governed accordingly to protect the foundation's private, independent status. However, because the State Board of Higher Education is responsible for ensuring the integrity and reputation of the University System, it must be assured of the manner in which any affiliated foundation will operate.

SBHE policy 340.2, section 3e, states, a requirement to provide the institution with GAAP-compliant financial statements, including separately reported current assets, noncurrent assets, current liabilities and noncurrent liabilities on the face of the financial statements and an annual GAAP audit of the foundation, or a draft of an audited financial statement submitted for but pending foundation board approval by September 15 each year for:

- all entities considered component units of the NDUS under GASB 39, and
- all other related organizations that are not component units, whose total assets exceed \$1 million and total program expenses exceed \$100,000, for the previous fiscal year-end.

SBHE policy 340.2, section 4, states, agreements shall be reviewed annually and updated as necessary. A copy of each agreement shall be filed with the NDUS General Counsel.

Recommendation:

We recommend the NDUS:

- Review all affiliated organization operating agreements annually to ensure compliance with SBHE policies, updates are made to the agreement in a timely manner, and that the agreement is filed with the NDUS General Counsel;
- Obtain and document assurance that all campus-affiliated foundations are operating effectively and reasonably for the college/university;
- Strengthen its oversight over all campus-affiliated foundations to ensure a positive relationship between all institutions and their affiliated foundations; and
- Ensure the affiliated foundations provide GAAP compliant financial statements.

University System Response/Planned Corrective Actions:

Agree. Prior to March 31, 2015, the NDUS will present to the SBHE proposed revisions to Policy 340.2, related to Foundations, to address Composite Financial Index (CFI) utilized by the Higher Learning Commission, closer institution president oversight concerning affiliated organizations, expanding the scope of the policy beyond institution-related foundations to the thirty-seven affiliated organizations within the NDUS, and related matters.

3. CTS – ONLINE ENTRY ISSUES

Condition:

During the 2013 audit, we recommended that CTS obtain proper approval by someone other than the preparer for all online entries and all accounting entries are entered on a timely basis at or near the date of the transaction.

Current Status:

CTS is not recording journal entries in a timely manner. The entire year of state appropriation revenue was recorded in a one week period at the beginning of June 2014.

Effect:

The risk of both error and fraud increase when accounting is not performed in a timely manner.

Cause:

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

Criteria:

Good internal control requires accounting entries to be made timely to avoid human error, and to reduce the risk of fraud to a reasonable level.

Recommendation:

We recommend CTS record accounting entries in a timely manner; at or very near the time the related transactions applies.

University System Response/Planned Corrective Actions:

Agree. CTS continues to work on its accounting processes to ensure transactions are recorded on a timely basis. We are working with UND to have many periodic accounting activities processed by them on CTS' behalf. Process improvements will be implemented by June 30, 2015 to ensure timely recording of journal entries going forward.

4. CTS/VCSU – INADEQUATE MONTHLY BANK/INVESTMENT RECONCILIATION

Condition:

In our 2013 audit, we recommended CTS and VCSU reconcile cash and investment bank and general ledger balance to a zero difference on a monthly basis and isolate and investigate all differences fully so that the appropriate adjustments can be made in a timely manner.

Current Status:

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

- CTS had not been performing monthly bank reconciliations in fiscal year 2014. They retroactively performed monthly bank reconciliations at year end;
- VCSU understated investments by \$74,507 when comparing general ledger recorded balances to external confirmations; and
- VCSU did not properly reconcile their bank accounts to a zero balance. They made an unsubstantiated entry to the general ledger to reduce the amount recorded as cash by \$16,457 in order to reconcile the bank to the book balance.

Effect:

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

Cause:

CTS did not realize the importance or complexity of reconciling the cash bank balance to the general ledger to zero on a monthly basis.

VCSU was not agreeing investment balances that were reported by the bank/trustee to the general ledger. Also, employee turnover and past lapses in timely monthly reconciliations contributed to this issue.

Criteria:

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

Recommendation:

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

University System Response/Planned Corrective Actions:

VCSU: Agree. VCSU will balance cash and investments monthly for Fiscal Year 2015 and going forward.

CTS: Agree. CTS does understand the importance of monthly reconciliations. We have worked with UND accounting staff to complete bank reconciliations, and have identified all outstanding items. We will continue to work with UND accounting staff, as noted above, to improve the timeliness of recording transactions, which will also enable timely reconciliation. Process improvements will be implemented by June 30, 2015 to ensure timely recording of journal entries going forward.

5. NDSCS – IMPROPER CLASSIFICATION OF NET POSITION

Condition:

During the 2011 and subsequent audits, we recommended that NDSCS properly classify net position on the Statement of Net Position in compliance with GASB Standards.

Current Status:

NDSCS misclassified \$4,620,740 of Invested in Capital Asset net position that should have been recorded as Unrestricted net position.

Effect:

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

Cause:

NDSCS did not make an adjustment at year-end for the difference in the unspent bond proceeds from fiscal year 2013 to 2014.

Criteria:

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

Recommendation:

We recommend NDSCS present net position in compliance with GASB standards.

University System Response/Planned Corrective Actions:

Agree. NDSCS will implement immediately a dual review process of the classifications of Net Position as presented on the financial statements to ensure accurate reporting.

6. MISU/NDU/UND – LEGISLATIVE APPROVAL FOR LOCAL FUND EXPENDITURES

Condition:

During the 2013 audit, we recommended the State Board of Higher Education and/or institutions improve capital projects, improvements, and renovations funded by local funds by complying with NDCC Section 15-10-12.1, ensuring that all capital projects which exceed \$385,000 and used donations, gifts, grants or bequests are properly identified for appropriate legislative approval, taking appropriate action to modify state law to clarify when legislative approval is or is not required for capital projects and improvements which utilize local fund moneys and establish a definition of local funds within SBHE policy.

Current Status:

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

- Low Rise renovation phase I (Stockbridge Hall) - budget \$1,000,000; expenditures to date \$892,618;
- Memorial Union renovation - budget \$975,000; expenditures to date \$748,488;
- Low Rise renovation phase II (Stockbridge Hall) - budget \$1,030,000; expenditures to date \$64,662;
- Low Rise renovation phase III (Dinan Hall) - budget \$1,085,000; expenditures to date \$161,648.

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

- McCannel Hall renovations - budget \$470,000; expenditures to date \$36,375;
- Memorial Union renovations - budget \$688,500; expenditures to date \$22,566;
- Johnstone Hall Fire Protection- budget \$1,500,000; expenditures to date \$691,750.

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

- Stadium seating - budget \$2,000,000; expenditures to date \$1,579,287.

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

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

Effect:

Potential noncompliance with state law or legislative intent.

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

Cause:

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

Criteria:

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

Recommendation:

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

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

University System Response/Planned Corrective Actions:

- a. Agree. *The NDUS has complied with 15-10-12.1 for those projects that were funded one hundred percent with local funds; each local fund project request is verified, at the time it is submitted to the SBHE, to ensure it does not include any unrestricted gift funds.*
- b. Agree. *See response to (a.) above.*
- c. Disagree. *Based on legal opinion dated 1/13/14 from the NDUS Office of General Counsel, the laws pertaining to legislative approval of capital projects are clear and projects funded 100% with local funds do not currently require legislative approval.*
- d. Agree. *Revisions to current policy are currently in draft format, and this will be addressed in the final version of policy.*

Auditor Concluding Remarks:

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

7. WSC - RECONCILING

Condition:

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

Current Status:

WSC did not perform monthly bank reconciliations and understated their general ledger cash accounts by \$119,216.

Effect:

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

Cause:

In our opinion, the problem is largely due to excessive turnover over the past several years.

Criteria:

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

Recommendation:

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

University System Response/Planned Corrective Actions:

Agree. WSC is committed to performing timely reconciliations and completing the backlog of reconciliations. However, current staffing levels are not sufficient to reconcile prior fiscal years and complete current monthly reconciliations, thus, our focus is on stabilizing the unreconciled differences and performing timely reconciliations moving forward. Outstanding differences will be reviewed as time permits to determine how to properly dispose of those differences. We are limited by financial resources and time resources when hiring and then training new staff. A new finance position has been created to work with existing staff to develop and implement reconciliation procedures. Assuming we are able to fill this position, existing staff resources and time will be needed to train the new employee. In addition, WSC continues to explore other options, such as internal and external outsourcing, to alleviate the hiring and turnover challenges WSC has experienced in recent years due to the Bakken oil activity.



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

Findings, Recommendations, and University System Responses

MASU/MISU/NDSU/UND/WSC – STUDENT WORKER BACKGROUND CHECKS (FINDING 14-1)

Condition:

During our testing of background investigations, we noted Mayville State University, Minot State University, North Dakota State University, University of North Dakota, and Williston State College failed to require background checks for student workers given access to PeopleSoft HRMS, Financials, and Campus Connection allowing them to view other student's names, ID numbers, addresses, etc.

Effect:

There is noncompliance with SBHE policy and procedure and an unnecessary risk to the NDUS of hiring of persons who have civil or criminal histories for sensitive jobs.

Cause:

Either the institutions are ignoring or they are unaware of SBHE procedures.

Criteria:

State Board of Higher Education Procedure, 602.3 Job Applicant/Employee Criminal History Background Checks, part 1, authorizes a background check to be performed for employees responsible for or with unsupervised access to cash, credit, debit or other financial transactions or numbers, or confidential, or other protected information, including medical records, social security numbers, tax, retirement, or vendor or contractor proprietary or other confidential information.

Recommendation 14-1:

We recommend MASU, MISU, NDSU, UND, and WSC complete background investigations for all employees including student workers before access is given to PeopleSoft.

University System Response/Planned Corrective Actions:

*Disagree. The NDUS procedure 602.3, section #1 contains a list of positions for which a background check is **authorized**, not required. Sections #2 and #3 of this procedure list positions which **require** a background check. The three types of positions listed below appear to be authorized but not required because the positions are listed in section #1 and not sections #2 and #3.*

- 1. Information technology staff*
- 2. Employees responsible for or with unsupervised access to cash, credit, debit or other financial transactions or numbers, or confidential or other protected information...etc.*
- 3. Part-time instructional staff.*

Criminal background check requirements are currently under review within the NDUS and will be completed by June 30, 2015. Campus policies will be updated to reflect any possible future changes in SBHE policy or NDUS procedure.

Auditor Concluding Remarks:

We acknowledge the procedure states that a background check for student workers are only authorized. It is still our recommendation that the NDUS begin requiring background checks for student workers based on the sensitive data that is being accessed.

NDSU – LACK OF INTERNAL AUDITOR AUDIT DOCUMENTATION (FINDING 14-2)

Condition:

Based on our review of audit work performed by the internal audit staff at NDSU, audit work papers did not include audit programs, internal control testing, written audit reports, or written responses to recommendations.

Effect:

The lack of internal audit supporting documentation for work performed increases the risk of engagement inefficiency and questionable results and conclusions.

Cause:

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

Criteria:

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

Recommendation 14-2:

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

University System Response/Planned Corrective Actions:

Agree. It is important for Internal Audit to comply with the International Standards for the Professional Practice of Internal Auditing (Standards). A stated goal for NDUS Internal Audit in FY2015 is to review and standardized internal audit practices within the System to ensure compliance with the Standards, and all audits performed in FY2015 will be reviewed for compliance with the established practices.

NDSCS – ACCOUNTING ISSUES (FINDING 14-3)

Condition:

We noted various coding, classification and reconciliation problems with North Dakota State College of Science's accounting procedures:

- Last year's template was used to calculate the scholarship allowance;
- A proper reconciliation was not done of the appropriation revenue and receivable;
- Account 722015, Mandatory Transfers, was used to record the bond principal payments instead of account 701010, Bond Principal Payments;
- Debt Service funds have not been set up on the general ledger for payment of the 2012 Housing and Auxiliary Facilities Bond, instead the bond principal and interest is being paid out of the construction fund;
- Restricted cash was overstated by \$2,453,206 on the Statement of Net Position. This amount should have been shown as Current Cash - Unrestricted; and
- An improper entry was made to the general ledger causing cash to be understated by \$214,577.

Effect:

The lack of proper internal controls can cause the financial statements to be materially misstated or improper entries recorded on the general ledger, which are not prevented or detected and corrected on a timely basis.

Cause:

NDSCS has not implemented proper controls to ensure accounting entries and account balances are properly recorded, reconciled and coded to the general ledger and ultimately the NDUS financial statements.

Criteria:

NDSCS should have internal controls in place which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, and compliance with GAAP. Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions and inaccurate records and financial statements.

Recommendation 14-3:

We recommend NDSCS implement procedures to ensure the accuracy of the general ledger and financial statements and:

- Use the correct template to calculate the scholarship allowance in the future;
- Prepare a proper reconciliation of the appropriation revenue and receivable;
- Use the proper account, 701010, when making bond principal payments;
- Set up the debt service funds on the general ledger for the 2012 Housing and Auxiliary Facility Bond;
- Properly restrict cash on the Statement of Net Position; and
- Ensure the general ledger cash accounts are properly reported and tie to the bank reconciliation.

University System Response/Planned Corrective Actions:

Agree. NDSCS will immediately begin examining its internal checklists, timelines, duties and responsibilities and make the necessary adjustments to ensure greater accuracy of general ledger activity and its financial statements. Changes identified through the review will be implemented by June 30, 2015.



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600 E. BOULEVARD AVENUE – DEPT 117
BISMARCK, NORTH DAKOTA 58505

Governance Communication

December 10, 2014

The North Dakota State Board of Higher Education

The Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the North Dakota University System for the year ended June 30, 2014, and have issued our report thereon dated December 10, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 12, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota University System are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the North Dakota University System changed accounting policies related to certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. We noted no transactions entered into by the NDUS during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Fair values of investments (Note 2)
- Useful lives of capital assets (Note 5)
- Scholarship allowance: \$63,913,461

- Allowance for uncollectible receivables:
 - Accounts \$6,959,545 (22.2%)
 - Loans and notes \$8,408,226 (19.0%)

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of Component Unit Transactions in Note 15 to the financial statements.
- The disclosure of Subsequent Events in Note 25 to the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

The Passed Audit Adjustments schedule on page 25 summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The Posted Audit Adjustments on page 24 lists material misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit. However, we had three instances of disagreements with auditor recommendations that are shown on pages 16,18, and 31.

Management Representations

We have requested certain representations from management that are included in the management representation letters dated November 12, 2014 and December 10, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

We issued a qualified opinion on the aggregate discretely presented component units for fiscal year 2014. This is due to the fact that the financial statements of Dickinson State University Foundation have not been audited because of litigation and inadequate financial records and we were not engaged to audit the Dickinson State University Foundation financial statements as part of our audit of the North Dakota University System. The Dickinson State University Foundation's financial activities are included in the North Dakota University System's financial statements as a major discretely presented component unit. This is addressed in Prior Recommendations Not Implemented #2 – SBHE/NDUS – Governance and Internal Controls of Foundation Audits on page 10.

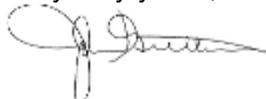
Other Matters

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

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Under GASB No. 68, the North Dakota University System, as a cost-sharing employer, will be required to recognize its proportionate share of the collective unfunded net pension liability, pension expense, and deferred pension outflows (inflows) of the North Dakota Public Employees' Retirement System (PERS) plan within its financial statements. This will be a significant change for the North Dakota University System. The North Dakota University System will see a significant liability reflected on their balance sheets along with significant increases to pension expenses and a corresponding reduction to unrestricted net assets. We estimate, based on numbers supplied by PERS and the North Dakota University System, the North Dakota University System's proportionate share of the unfunded net pension liability to be approximately \$71 million for the fiscal year ended June 30, 2014. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

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

Very truly yours,



John Grettum, CPA
Audit Manager, Division of State Audit

December 10, 2014

Audit Adjustments

POSTED AUDIT ADJUSTMENTS

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
UND	SCREN			
1	Federal grant and contract non operating	631,826		To correct miscoding of federal awards.
	Private grants and contracts		331,389	
	State grants and contracts		300,437	
LRSC	SCREN			
2	Federal grants and contracts	1,196,428		To reclassify Pell revenue to non operating.
	Federal grant and contract non operating		1,196,428	
UND	SCREN			
3	Other supplies	31,688,049		To correct recharge center expense.
	Cost of goods sold		31,688,049	
NDSCS	SNP			
4	Cash in BND current	2,453,206		To reclassify unspent bond proceeds for the Forkner Riley project.
	Cash in BND restricted		2,453,206	
NDSCS	SNP			
5	Invested in capital assets	4,620,740		To properly classify net position per GASB 34.
	Unrestricted net position		4,620,740	

SNP – Statement of net position

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

PASSED AUDIT ADJUSTMENTS

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
NDUS	SNP			
1	Grant & contract receivable current Expendable Institutional	395,418	395,418	To post calculated variance for grants and contracts receivable testing for all schools except MISU, NDSU and UND.
	SRECNP			
	Net increase/decrease Federal grants and contracts	395,418	395,418	
WSC	SCREN			
2	Interdepartmental revenue Other supplies	427,206	427,206	To eliminate WSC's internally generated income.
DCB	SNP			
3	Unrestricted net position Invested in capital assets	698,005	698,005	To properly classify net position per GASB 34.
NDSCS	SNP			
4	Cash in BND Appropriation receivable	206,587	206,587	To reverse appropriation receivable.
NDSCS	SCREN			
5	Net increase/decrease State capital appropriation	340,734	340,734	To record appropriation revenue received in FY 14.
NDUS	SCREN			
6	Residence hall revenue Net increase/decrease	470,360	470,360	To post difference in housing revenue from analytical test of housing rates.
CTS	SNP			
7	Unrestricted net position Amounts held for others	865,300	865,300	To correct coding of expense posted to an agency fund that should have been unrestricted.
	SCREN			
	Software/license/maint non operating Net increase/decrease	865,300	865,300	

SNP – Statement of net position

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

Management Letter

December 10, 2014

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

Dear Ms. Putnam:

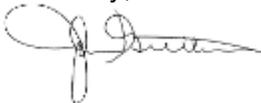
The Office of the State Auditor has completed its financial audit of the North Dakota University System for the year ended June 30, 2014. As part of our examination, we gained an understanding of the internal control over financial reporting and tested compliance with laws and regulations to the extent we considered necessary. We have issued our report on internal control over financial reporting and compliance and other matters dated December 10, 2014.

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

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

I would encourage you to contact our Fargo office if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



John Grettum, CPA
Audit Manager, Division of State Audit

1. SBHE/NDUS – Fraud Hotline Reports Follow-Up

Condition:

State Board of Higher Education Policy 611.10, Employee Responsibility and Activities: Theft, Fraud, Abuse, and Waste, does not establish a time table for follow-up to the fraud hotline reports. The policy refers to a timely disposition, however, does not define the term timely.

Effect:

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

Cause:

The policy does not define what a timely resolution to follow-up on the fraud hotline reports.

Criteria:

Although SBHE has a policy in place 611.10 regarding reporting suspected theft, fraud or unlawful or improper use of public resources through the fraud hotline, there are no procedures on how the SBHE or NDUS should handle the timeliness of the fraud hotline calls. Policies and procedures should be clear and concise and include definitions for relevant terms.

Recommendation:

We recommend the SBHE develop a procedure to establish a time table for follow-up to the fraud hotline reports.

University System Response/Planned Corrective Actions:

Agree. Proposed amendments to Policy 611.10, related to fraud, will be submitted to the Audit Committee meeting in January 2015. Amendments will further address the timely disposition of fraud reports.

2. SBHE/NDUS – Fraud Reporting and Training for Employees

Condition:

The State Auditor's Office fraud survey from the current and prior year showed some weaknesses in training, implementation of fraud internal controls, and knowledge in how to report fraud.

Effect:

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

Cause:

There is a lack of proper information, communication and training or ineffective information, communication and training for employees.

Criteria:

SBHE Policy 611.10. (See Appendix A for policy)

Recommendation:

We recommend all schools effectively train employees:

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

University System Response/Planned Corrective Actions:

Agree. Current SBHE policy requires all benefitted employees to annually participate in fraud training. This training is delivered via technology and addresses the training components recommended above, but will continue to be reviewed and improved. Additionally, employees have on-line access to policies and procedures related to fraud. Additionally, the newly-hired NDUS Assistant General Counsel will have responsibility for risk management, which will include the training program.

3. SBHE/NDUS – Inconsistent Classification of Resident Advisor Room and Board

Condition:

Individual colleges and universities are not consistently classifying resident advisor compensation. Students hired as resident advisors receive a reduction in fees of housing and board in lieu of payment. Resident advisor credits are being recorded as either waiver, scholarships through non-cash adjustments, and/or treating the student as an employee. Every institution treats resident advisors differently including one institution that does not record them at all.

Effect:

There is potential tax reporting responsibilities for benefits to the student depending on the classification. Certain Resident Advisor room and board classifications could be evading federal taxes. In addition, Resident advisor credits are not consistently being reported which affects the comparability of waivers between all colleges and universities.

Cause:

NDUS has not developed adequate policies and procedures for classification of Resident Advisor room and board.

Criteria:

As published in the publication Internal Control – Integrated Framework from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, control activities are performed at various levels of a company to reduce risks to achievement of financial reporting objectives. Policies related to reliable financial reporting are to be established and communicated throughout the company. Procedures are to be implemented consistently across the business.

Recommendation:

We recommend NDUS develop policies and procedures to ensure consistent classification of resident advisor room and board credits at the individual campuses within Campus Solutions.

University System Response/Planned Corrective Actions:

Agree. By September 30, 2015, the NDUS will review the finding to determine whether any changes are needed.

4. SBHE/NDUS – Inadequate Clarification of NDUS Procedure 1901.3

Condition:

It was noted in a prior audit that NDUS Procedure 1901.3 did not clearly state whether State Board of Higher Education approval was required for information technology related projects that exceed \$250,000. NDUS procedure 1901.3 was updated, however it continued to be vague in regards to SBHE approval for information technology projects, as required in SBHE policy 902.3.

Effect:

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

Cause:

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

Criteria:

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

Recommendation:

We recommend that NDUS clarify procedure 1901.3 stating whether SBHE approval is necessary for information technology related projects that exceed \$250,000.

University System Response/Planned Corrective Actions:

Agree. We will examine whether explicit SBHE approval is required for projects that exceed \$250,000 by March 2, 2015. If, after the review, it is determined that SBHE approval is required, the policy will be modified and presented to the SBHE for consideration.

5. NDUS – Tracking Special, Course, Program Fees and UND Application and Orientation Fees

Condition:

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

Additionally, we noted UND coded application and orientation fees to the Other Services (462010) account rather than Tuition and Fees (460001) like the rest of the schools in the NDUS.

Effect:

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

Lack of consistency related to coding of application and orientation fees.

Cause:

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

The same can be said for the issue at UND where it accounts for application and orientation fees as Other Services; there are no related policies in place to ensure consistency within the NDUS in coding revenues.

Criteria:

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

Additionally, consistency within the NDUS for coding like items at different schools should be strived for and where considered necessary, set in policy.

Recommendation:

We recommend:

- The NDUS develop clear and consistent policies and procedures related to tracking program, special course and other fees, to ensure they are expended for the intended purpose (i.e. the program, special course, etc.) to ensure transparency with accountability for all fees charged;
- Coding of application and orientation fees be set in Board policy or the Accounting Manual as to whether to code as Other Services (UND) or Tuition and Fees (all other schools).

University System Response/Planned Corrective Actions:

Agree. The NDUS is in the process of implementing a new tuition model that will merge tuition and several fees. Once that model is in place no later than Fall 2017, a comprehensive review and update of tuition and fee policies will occur. However, generally fees are available for use in supporting the fee specific activity and other institutional costs. Coding will be separately examined prior to June 30, 2015.

6. NDUS – Accounts Receivable and Due From Other NDUS Institutions Not Properly Identified

Condition:

Per review of the Accounts Receivable Aging Report for each school, we noted that not all receivables, Due From Other NDUS Institutions (account 137005), were eliminated. We understand the aging report doesn't tie exactly to the AR Recon report and/or general ledger, but it normally approximates those amounts and allowed us to find from what institution the receivables were due. We keyed on Type = O (organizations) rather than Type = P (student receivables). In total, we approximate that about \$322,000 Due From Other NDUS Institutions was not reclassified from Accounts Receivable (124001) to Due to Other NDUS Institutions (137005), so therefore were not identified as requiring elimination.

Effect:

This could misstate the financial statements if inter or intra-institutional accounts receivable (124001) are not identified and eliminated.

Cause:

In our opinion, these receivables weren't considered as they are coded to Student Accounts Receivable (124001).

Criteria:

GASB 34 identifies interfund activity as "activity that takes place between and among governmental, proprietary, and fiduciary funds, as well as blended component units, in the fund financial statements, such as transfers and their associated due to's and due from's, and revenues and expenses/expenditures with their associated receivables and payables, is called interfund activity. This interfund activity within the fund statements will have to be analyzed and reclassified and/or eliminated in the government-wide statement of net position and statement of activities. This interfund activity reported in the fund statements could be either reciprocal (added: meaning recorded by both entities) or nonreciprocal (added: recorded by only one of the entities).

Recommendation:

We recommend as part of the closing process that all institutions include a review of subsidiary ledgers for accounts receivable (124001) and identify and eliminate receivables and associated revenues due from other NDUS institutions.

University System Response/Planned Corrective Actions:

Agree. The process for capturing inter-institution accounts receivable balances will be reviewed and changes will be made by June 30, 2015.

7. CTS/NDUS – Creation of IDB Source Code

Condition:

During prior audits, we recommended the addition to PeopleSoft of a new Source Code for IDB's (Interdepartmental Billings). It is difficult, if not impossible, to identify IDB's and ensure they are used solely for Interdepartmental transactions.

Effect:

There is a lack of transparency as there is no easy to follow audit trail.

Cause:

It was not built into the current PeopleSoft system, and it doesn't appear the schools believe it to be necessary.

Criteria:

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

Recommendation:

We recommend the NDUS establish and use a separate PeopleSoft Source Code in the general ledger to properly identify interdepartmental billings to enhance and ensure transparency in accounting for interdepartmental billings.

University System Response/Planned Corrective Actions:

Disagree. In FY2014, the NDUS Controllers Group analyzed this issue and determined that this is not a high priority for the use of limited IT resources, as it adds little to no value for the NDUS and is not required by accounting regulations. Specifically:

- a. The general ledger already contains interdepartmental revenue account codes (479000-479020) that can be used to record such revenue. Campuses can enter or upload these charges using the same screen/process in PeopleSoft that exists for all journal entries. Queries can easily be run in PeopleSoft to review activity for these accounts.
- b. Source codes DEPT AND ONL currently exist for journal entries and are adequate for tracking purposes.
- c. All journal entries are required to have the appropriate level of supporting documentation which is retained with the journal entry and can be reviewed upon request.
- d. Creating an IDB code does not ensure that all inter-department billings will be coded as such, as the code has to be selected manually. It is not system-generated.
- e. CTS and institution accounting staff time and resources would be needed to review the impacts to queries, reports and feeds to and from other PS modules. The priority of creating a new IDB source code would need to be evaluated against other multiple high priority CTS projects.
- f. There is no accounting regulation or NACUBO guidance in place that requires a separate source code for IDB.

8. DCB – Proper Reporting of Net Position Balances

Condition:

Dakota College at Bottineau had \$698,005 of Invested in Capital Assets net position balance improperly reported as Unrestricted on the Statement of Net Position.

Effect:

Net position on the Statement of Net Position is misstated.

Cause:

DCB had capital assets balances in non-plant funds that didn't have corresponding proper net position account mapped to these funds on the general ledger.

Criteria:

GASB 34 paragraph 33 states that Invested in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or notes that are attributable to the acquisition, construction, or improvement of those assets.

Recommendation:

We recommend DCB properly classify net position balances on the Statement of Net Position and if necessary determine if funds need to be properly mapped on PeopleSoft.

University System Response/Planned Corrective Actions:

Agree. DCB will review the mapping of the funds and will make the necessary changes by June 30, 2015.

9. VCSU – Inadequate Capital Asset Procedures

Condition:

During review of the Rhoades Science Center and Vangstad capital projects at Valley City State University, we noted various instances of noncompliance with NDCC, SBHE Policies, NDUS Procedures, and NDUS Accounting manual. Specifically we noted:

- A portion of the Vangstad Project was executed before the project had been let out, or acceptance of competitive bids, as required by Century Code.
- Board approval was not obtained to utilize Rhoades Science Center remodel funds to replace a roof on a non-adjointing building on campus through a change order totaling \$36,350.
- Purchases were made for the Rhoades Science Center without acquiring competitive bids, totaling \$74,546.
- Account coding errors were made for both the Vangstad and Rhoades Science Center projects totaling \$144,491.

Effect:

Improper implementation of the NDUS Accounting Manual, SBHE Policy, NDUS Procedure, and NDCC could result in noncompliance with board policy and state law, improperly stated financial statements and potential abuse or misuse of public funds.

Cause:

There is a lack of compliance and unfamiliarity with NDCC, NDUS Accounting manual, SBHE Policies, and NDUS Procedures.

Criteria:

NDCC 48-01.2-02.1 - The threshold for bidding construction of a public improvement is one hundred thousand dollars. The threshold for procuring plans, drawings, and specifications from an architect or engineer for construction of a public improvement is one hundred thousand dollars.

SBHE Policy 902.3(8) - Projects estimated to cost more than \$100,000 shall be contracted from competitive bids as required by NDCC chapter 48-01.2. A project estimated to cost more than \$100,000 may not be separated or broken down into two or more separate projects for the purpose of evading the competitive bid requirement.

SBHE Policy 803.1(3) - Personal property, equipment or supplies estimated at \$25,000 or more must be purchased from formal bids.

NDUS Accounting Manual Appendix A lists and explains when to use the expense accounts and capital accounts.

Recommendation:

We recommend Valley City State University implement adequate capital asset procedures to ensure:

- The competitive bidding process is utilized for all public improvement projects over \$100,000.
- Board approval is obtained prior to expanding the scope of a project.
- Formal bids are obtained for all equipment, supplies and personal property greater than \$25,000.
- Proper account codes are used to appropriately report capital expenditures, furniture, internal labor and supplies, repairs, and equipment.

University System Response/Planned Corrective Actions:

Agree. VCSU has conducted training with staff that work with capital projects to ensure the appropriate approval, bidding and coding processes are followed. A flowchart has been created and procedures have been implemented during Fiscal Year 2015.

10. BSC/DCB/DSU/LRSC/MASU/NDSCS/NDSU/WSC - Asset Management System Utilization

Condition:

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

Further, WSC was using AM for tracking all assets prior to the FY13 audit period. In FY13 and FY14 they did not add any assets to AM, including equipment, and tracked all additions on a spreadsheet.

Effect:

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

Cause:

There have been no established policies and procedures for tracking capital assets to ensure effective and efficient capital asset records. Land, buildings, improvements, and infrastructure have always been tracked using off-system records so institutional personnel have continued to track them as they have in the past.

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

Criteria:

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

Recommendation:

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

University System Response/Planned Corrective Actions:

Agree. In FY14, the NDUS implemented PeopleSoft Asset Management on a staggered schedule, with all campuses fully implemented by December 31, 2014.

11. BSC/MASU/UND/WSC – Pledged Revenues Note

Condition:

We noted a number of errors in the note disclosure for Note #17 - Pledged Revenue:

- We noted that there are two part e's, and those two numbers which represent Current Year Net Revenue by Source and Principal and Interest Payments for current year should equal and for a number of schools, they didn't equal;
- There was no plan for "what if" there was not enough Current Year Pledged Revenue to cover Current Year Principal & Interest payments. One school recorded the extra cash used under Current Pledge and one school didn't record it in this manner;
- BSC only included the principal total for part a, which asks for all Estimated Current and Future Net Pledged revenue (which should be equal to all remaining principal and interest payments on the Bond Indentures);
- MASU used gross revenues for the first part e, when it clearly states to use net revenue;
- UND left out accrued principal and interest in the second part e, and it shows in parenthesis (actual payments + interest accruals); and
- WSC understated part a, by \$746,888, total principal and interest should be \$18,548,040.

Effect:

Notes to the financial statements are misstated therefore incorrect information is included which could potentially mislead financial statement users.

Cause:

The note is a work in progress. We believe the NDUS has a good template, but the schools personnel had never filled it out this way as it was a recommendation changing it from the prior year, so there must have been uncertainty relative to completion.

Criteria:

Internal controls should provide assurances that all financial statements and notes are accurate and information is comparable between the schools.

Recommendation:

We recommend:

- Campuses ensure that the two Part e's of the template equal;
- If not enough pledged revenue is available to meet current year payments of principal & interest, then the difference be included in the first part e, under a category of Other;
- BSC include in part a, both remaining principal & interest payments due on the bonds;
- MASU use Net Revenue in the first part e, as indicated in the instructions;
- UND included accrued interest in the second part e, or use the correct fiscal year's information; and
- WSC ensure it reflects all current and future net pledged revenue in part a, which should equal all remaining principal and interest on the bonds.

University System Response/Planned Corrective Actions:

Agree. The year-end Pledged Revenue template will be revised by June 30, 2015 to ensure that reported pledged revenue is materially correct.

12. DCB/CTS/UND/WSC/NDUS - Deficit Cash in Agency Funds

Condition:

We noted several schools as well as CTS had negative cash balances in agency funds which required an off-set to a negative liability to balance to zero, since agency funds do not have equity. The schools and totals are:

- DCB-Fund 82606, Direct Loans, had a negative balance of \$146,470 plus a negative receivable of \$4,955, both offset by a negative liability (account 224027-Deposits Held for Others) totaling \$151,425;
- CTS-Fund 81000, POs in Future Budget Years, had a \$865,300 negative cash balance off-set by negative liability (account 224027);
- UND-Fund 82552, ELS Language Centers, had a negative cash & liability balances totaling \$104,845; and
- WSC-Funds 80360, ND State Grant Program, 81093, Great NW Education Consortium and 80388, Japan Trip-Humanities, had a negative cash and negative receivables (\$4,198) off-set by the following negative liabilities (account 224027) of \$105,548, \$78,178 & \$19,159, respectively totaling \$202,885 for all three funds. Additionally, WSC has one fund where the account receivable balance appears in doubt. This fund is 80053, WSC Foundation Payroll, and the problem appears to stem from WSC recording accounts receivable and then not eliminating it when monies on account were received; instead it was just entered in as a deposit, probably against a revenue account. The total accounts receivable in that fund is \$368,041, and there is also an amount listed as receivable from the WSC Foundation (134001-due from Component Unit) for \$187,704.

We noted no policy in the NDUS Accounting Manual to address deficit spending in agency funds.

Effect:

Misstatement of agency fund cash & liability as well as misstatement of receivables collectible for WSC Foundation payroll fund.

Cause:

In our opinion and thru discussion with clients we found:

- DCB was not recording federal revenue for direct loans in an agency fund, not using cash and deposits for the receipt and disbursement of funds, and being unable to reconcile during our last federal audit.
- CTS claims there was an error in booking this expense to an agency fund. In our opinion, CTS was trying to include these expenses in a subsequent fiscal year.
- For UND, in May 2014 ELS increased the housing they used on campus significantly. Two journal entries in June 2014 brought their cash balance to a negative balance much greater than past years. The charges are paid within 30 days but with the journal entries being backdated with two months of charges were posted with no accounts receivable being posted.
- WSC-For the State Grant program, the monies were received during FY14, and the Financial Aid office was notified of the receipt, but accounting was not notified so the revenue didn't get recognized until FY 15. For the WSC Foundation Payroll Accounts Receivable, what we believe happened was initially billings were being run thru the account receivable system (124001), but when the monies were reimbursed it was being recorded against revenue instead of being applied against the receivable balance. It is unknown how much of that

amount is actually receivable and collectible. When we inquired about the accounts receivable in this fund, WSC responded they believe the foundation does owe them for payroll but until a full reconciliation is done they won't know for certain. As for the other funds, we are unsure why they have a deficit cash balance.

Criteria:

GASB No. 34, paragraph 111 states: "Sometimes an agency fund is used as a clearing account to distribute financial resources to other funds of the government, as well as other entities. For example, county property tax collectors customarily collect and distribute property taxes to the county's funds as well as to other governments within the county. When this occurs, the portion of the clearing account balance that pertains to other funds of the county should not be reported in agency funds. Rather, it should be reported as assets in the appropriate funds."

Audit and Accounting Guide for State and Local Governments paragraph 6.68 states: "Agency funds involve accounting for amounts held as an agent for only individuals, private organizations, or other governments. Agency funds should not be used to report resources that support the government's own programs. If an agency fund is being used as a clearing account to distribute financial resources to other funds (a well as other entities), then, the portion that pertains to other funds of the government should be reported as assets in the appropriate funds, not agency funds (GASB Statement No. 34 paragraph 111)"

Additionally, deficit spending in an Agency fund represents a borrowing by the school to the agent. Deficit spending should be expressly prohibited in the BHE policy manual and all campuses should adhere.

Finally, there was no documentation to support the receivable in the WSC Foundation Payroll fund. Receivables should be traceable to adequate supporting documentation in the form of a subsidiary or memo from the debtor.

Recommendation:

We recommend:

- DCB identify and correct the cause of the negative cash & receivable balances in its Direct Loan fund;
- CTS not record expenses in agency funds unless authorized by the party for which it is acting in a fiduciary capacity;
- UND not allow negative cash balances in agency funds;
- WSC:
 - Determine what is collectible on the Foundation receivable payroll and write the remainder off;
 - Record revenue in the correct fiscal years and not allow deficit cash balances in agency funds;
- The NDUS create a policy and incorporate to its Accounting Manual a prohibition against deficit spending in agency funds.

University System Response/Planned Corrective Actions:

DCB: Agree. The Direct Loans fund was balanced as of December 31, 2014. The cash account is currently carrying a negative balance in the amount of \$1,113 and we are in the process of identifying the error and will make the necessary corrections by June 30, 2015. Going forward, DCB will monitor and balance these funds monthly. We will also make draws in a timely manner.

UND: Agree. In FY15, UND will begin transitioning agency funds that could have negative cash balances to our accounts receivable system. Going forward, an invoice will be generated for these funds through the accounts receivable system. The agency will pay the invoice.

WSC: Agree. The deficit balances will be thoroughly investigated and resolved by June 30, 2015. The foundation payroll receivable is now reconciled monthly. We are in the process of preparing correcting adjustments which will be made by June 30, 2015.

CTS: Agree. There was, and is no intent, to record expense transactions in the agency fund. A transaction was erroneously recorded against the agency fund instead of against the appropriation fund. Going forward, the agency fund will be checked to ensure that if future expense transactions are charged to it, that those transactions are corrected.

NDUSO: Agree. NDUS, in collaboration with the Campus Controllers, will research more extensively the issue of negative cash balances in agency funds by June 30, 2015. If, as a result of this research, additional policies and/or changes to the Accounting Manual are warranted, they will be made by December 31, 2015.

13. LRSC/MISU/NDSCS - Commingling of Cash Between Institutions and Foundations

Condition:

Three NDUS institutions are allowing legally separate component units the use of campus bank accounts. Specifically North Dakota State College of Science, Lake Region State College, and Minot State University share bank accounts with their foundations. The commingling of cash in the same bank accounts, by these separate legal entities, places the institutions cash and possibly the separate status of the entities at risk.

Effect:

A combined bank account with the foundation increases the risk of misappropriating cash as well as possible liability for foundation bad debts and expenses.

Cause:

Institutions perform accounting duties for the foundations and keep the same bank accounts for ease of depositing.

Criteria:

Funds that are owned and controlled by a related foundation or Alumni Association should be recorded in bank accounts under the foundation or Alumni Association's Employer Identification Number (EIN).

SBHE Policy 340.2 (3) states: A foundation is a private legal entity separate from the institution and must be governed accordingly to protect the foundation's private, independent status.

Recommendation:

We recommend all NDUS Institutions keep separate bank accounts from their Foundations.

University System Response/Planned Corrective Actions:

LRSC: Agree. LRSC will open a new clearing account to separate the Foundation deposits from LRSC deposits by March 31, 2015.

MiSU: Agree. MiSU will create separate accounts for the Alumni Association by June 30, 2015 and for the Beaver Boosters by December 31, 2015.

NDSCS: Agree. NDSCS will begin the process of developing procedures to facilitate this transition. This review and implementation will be completed prior to June 30, 2015.

14. LRSC/MISU/NDSCS/VCSU/WSC - Improper Recording of Institution Endowments/Investments

Condition:

Various NDUS institutions have failed to hold, document donor intent, or record donations, gifts, and endowments that were donated directly to the institutions on their financial statements. Instead the institutions are giving or potentially giving, where no documentation of donor intent exists or is retained, these dollars to the foundations; specifically these institutions are: Lake Region State College (inadequate documentation), Minot State University, North Dakota State College of Science, Valley City State University, and Williston State College.

Effect:

By failing to record and document donor intent for endowments it causes or may cause the Statement of Net Position to be understated and could result in the violation of NDCC and ND State Constitution.

Cause:

There is a lack of compliance and unfamiliarity with GAAP, NDCC, SBHE Policy, and ND State Constitution.

Criteria:

A basic concept of governmental financial reporting is to assist in fulfilling government's duty to be publicly accountable and demonstrating compliance with legal and contractual requirements.

SBHE Policy 810 (6) - Donations or gift funds and endowment funds shall be invested according to the intent of the donor, if such intent is expressed in a gift instrument and provided such intent is consistent with applicable laws. Absent terms expressing donor intent in a gift instrument, NDUS institution officers initially shall deposit the funds in institution accounts at the Bank of North Dakota as required by law.

NDCC 15-10-12 – states in part that the state board of higher education may, subject to the limitations of section 15-10-12.1, receive donations, gifts, grants, and bequests offered or tendered to or for the benefit of any institution of higher education under its control or subject to its administration, and all moneys coming into the hands of the board as donations, gifts, grants, and bequests must be used for the specific purpose for which they are donated or given.

NDCC 59-21-05 - states in part that the donor can consent to a change in the restrictions, or can be modified by the court upon application by the institution.

North Dakota Constitution Article X section 18 - states in part that the state nor any political subdivision thereof shall otherwise loan or give its credit or make donations to or in aid of any individual, association or corporation except for reasonable support of the poor.

Recommendation:

We recommend the NDUS record and retain adequate donor documentation for all donations, gifts, and endowments given to the institutions on their financial statements.

University System Response/Planned Corrective Actions:

Agree. LRSC, NDSCS, VCSU and WSC will review by June 30, 2015 and MiSU will review by December 31, 2015, donations, gifts, and endowments held with the Foundation to ensure they are reported correctly, and make changes as necessary.

Appendix A – NDCC, Constitution and SBHE Policy

Finding	NDCC / SBHE P&P / Accounting Manual	Description
Prior Formal #6	NDCC 15-10-12.1	<p>Acceptance of buildings and campus improvements – Legislative Approval states that the state board of higher education may authorize campus improvements and building maintenance on land under the control of the board which are financed by donations, gifts, grants, and bequests if the cost of the improvement or building maintenance is not more than three hundred eighty-five thousand dollars. The consent of the legislative assembly is required for construction of any building financed by donations, gifts, grants, and bequests and for campus improvements or building maintenance financed by donations, gifts, grants, and bequests if the cost of the improvements or maintenance is more than three hundred eighty-five thousand dollars. During the time the legislative assembly is not in session, except for the six months preceding the convening of a regular session and the three months following the close of a regular session, and unless otherwise restricted by previous legislative action or other law, the state board of higher education, with the approval of the budget section of the legislative management, may authorize the use of land under the control of the board and construct buildings financed by donations, gifts, grants, and bequests and campus improvements and building maintenance financed by donations, gifts, grants, and bequests and if the cost of the improvement or maintenance is more than three hundred eighty-five thousand dollars. The budget section approval must include a specific dollar limit for each building, campus improvement project, or maintenance project. The state board of higher education may authorize the sale of any real property or buildings which an institution of higher learning has received by gift or bequest. The board shall prescribe such conditions for the sale of the property as it determines necessary. The conditions must include requiring an appraisal and public auction or advertisement for bids, unless the gift instrument requires a different process. If the state board of higher education submits a request for campus improvements, building maintenance, or to construct buildings under this section to the budget section for approval, the legislative council shall notify each member of the legislative assembly of the date of the budget section meeting at which the request will be considered and provide a copy of the meeting agenda to each member of the legislative assembly. The chairman of the budget section shall allow any member of the legislative assembly an opportunity to present testimony to the budget section regarding any such request.</p>
Prior Formal #6	NDCC 15-10-12.3	<p>If any institution under the control of the state board of higher education undertakes a capital construction project, including any renovation or expansion, with the approval of the legislative assembly, all local funds to be used for the project must be derived from sources that have been presented to and approved by the legislative assembly or the budget section pursuant to section 15-10-12.1. The source of any local matching funds required for state-funded or bonded projects must be funds raised and designated for the project and may not include funding from the state general</p>

		<p>fund, state and federal grant and contract funds, tuition or fees, endowment or investment income, institutional sales and services income including indirect and administrative costs, or transfers or loans from other institutions' funds or agency funds unless the institution has received prior approval from the legislative assembly or from the budget section pursuant to section 15-10-12.1. Each institution undertaking a capital construction project that was approved by the legislative assembly and for which local funds are to be used shall present a biennial report to the budget section of the legislative management detailing the source of all funds used in the capital construction project, including local funds. This section applies to projects approved after July 1, 2001.</p>
Prior Formal #6	NDCC 15-55-10	<p>No building or other campus improvement may be erected or constructed under this chapter, and no bonds may be issued for the payment of the cost of any building or other campus improvement under this chapter, unless authorized by legislative act, nor may any building or other campus improvement be erected at a cost exceeding the amount fixed by the legislative assembly as the maximum to be expended for the building or other campus improvement undertaken under this chapter. The legislative authorization may be aggregated and the appropriation of the proceeds of the bonds for the construction of the buildings or improvements are not subject to cancellation under section 54-44.1-11. Authorization for the issuance of bonds by the legislative assembly expires four years after the effective date of the authorization unless bonds have been issued for the construction of buildings or improvements in the amounts so authorized or a contract for the design of the building has been signed by the state board of higher education before the expiration date or the authorization specifies a different expiration date. Refunding bonds may be issued by the state board of higher education under this chapter without legislative act to refund, at or before the maturity of or pursuant to any privilege of prepayment reserved in or granted with respect to, any bonds issued to pay the cost of buildings or other campus improvements designated and authorized by legislative act.</p>
Prior Formal #6	NDCC 54-27-12	<p>The administrative department, office, or board of any penal or charitable state institution, or the state board of higher education, or any person thereof, in the transaction of the business of any state institution under its direction or control, may not make nor authorize knowingly any expenditure in the matter of the erection or improvement of any public building or structure, or the purchase of any real property, in excess of any appropriation made by the legislative assembly for such purpose. The president, superintendent, or managing officer of any state institution conducted under the direction or control of any department, office, or board, or the state board of higher education may not connive nor conspire knowingly with such departments, offices, or boards, nor with any member thereof, to procure to be expended in the matter of the erection or improvement of any public building or structure, or the purchase of any real property at the state institution of which the person is president, superintendent, or managing officer, any sum in excess of the appropriation therefor as made by the legislative assembly.</p>

Prior Formal #6	NDCC 54-44.1-10	No payment may be made and no obligation may be incurred against any appropriation unless such payment or obligation has been authorized as provided by law. Every official authorizing payments in violation of this chapter is subject to the penalties and provisions of chapter 12.1-23.
Prior Formal #6	The Constitution of North Dakota Article X, Section 12.1	<p>All public moneys, from whatever source derived, shall be paid over monthly by the public official, employee, agent, director, manager, board, bureau, or institution of the state receiving the same, to the state treasurer, and deposited by him to the credit of the state, and shall be paid out and disbursed only pursuant to appropriation first made by the legislature; provided, however, that there is hereby appropriated the necessary funds required in the financial transactions of the Bank of North Dakota, and required for the payment of losses, duly approved, payable from the state hail insurance fund, state bonding fund, and state fire and tornado fund, and required for the payment of compensation to injured employees or death claims, duly approved, payable from the workmen's compensation fund, and required for authorized investments made by the board of university and school lands, and required for the financial operations of the state mill and elevator association, and required for the payment of interest and principal of bonds and other fixed obligations of the state, and required for payments required by law to be paid to beneficiaries of the teachers' insurance and retirement fund, and required for refunds made under the provisions of the Retail Sales Tax Act, and the State Income Tax Law, and the State Gasoline Tax Law, and the Estate and Succession Tax Law, and the income of any state institution derived from permanent trust funds, and the funds allocated under the law to the state highway department and the various counties for the construction, reconstruction, and maintenance of public roads.</p> <p>This constitutional amendment shall not be construed to apply to fees and moneys received in connection with the licensing and organization of physicians and surgeons, pharmacists, dentists, osteopaths, optometrists, embalmers, barbers, lawyers, veterinarians, nurses, chiropractors, accountants, architects, hairdressers, chiropodists, and other similarly organized, licensed trades and professions; and this constitutional amendment shall not be construed to amend or repeal existing laws or Acts amendatory thereof concerning such fees and moneys.</p>
Informal #2	SBHE Policy 611.10	<ol style="list-style-type: none"> 1. Each employee, as a basic condition of employment, assumes responsibility for safeguarding and preserving the assets and resources of the state and university system and its institutions, particularly those for which the employee is responsible. 2. Each institution and the system office shall develop and implement controls designed to minimize opportunities for theft, fraud, abuse, waste or unlawful or improper use of public resources, including funds, supplies, data, technology, property or position. <ol style="list-style-type: none"> a. Theft means knowingly taking, exercising unauthorized control over, or making an unauthorized transfer of interest in, or receiving or disposing of property of another, including institution or state property or funds, with the

		<p>intent to deprive the owner, including, but not limited to, embezzlement, obtaining money by false pretenses, fraudulent conversion or misappropriation of public funds or authorizing or receiving compensation for goods not received or services not performed.</p> <p>b. Fraud means any intentional act or omission designed to deceive others that results in a loss or other disadvantage to resources or achieving a gain or advantage to which an employee or other person would not normally be entitled, including, but not limited to, making false statements or creating or reporting false information.</p> <p>c. Abuse means intentional or willful destruction, diversion, manipulation, misapplication or misuse of resources, including, but not limited to, destruction, damaging or removal of records or property.</p> <p>d. Waste means intentional or willful expenditure, consumption, mismanagement, squandering or use of resources, resulting in unnecessary costs.</p> <p>3. The controls must include a process for reporting of suspected theft, fraud or unlawful or improper use of public resources, designation of an officer with responsibility for receiving and investigating such reports, a process for investigation, audit or referral to law enforcement officials if there is reasonable basis to suspect theft, fraud, or unlawful or improper use of public resources and a report summarizing findings, disposition and, if appropriate, recommendations for additional controls to prevent recurrence. Each institution and the system office must subscribe to a fraud hotline service enabling anonymous reports. All reports regarding institutions must be submitted simultaneously to a designated institution officer and the NDUS Director of Internal Audit. An investigation and disposition must include:</p> <p>a. Review and inquiry regarding allegations and documentation of fact-finding steps completed;</p> <p>b. Documentation regarding when the report or complaint was made and when the review or investigation was started and completed;</p> <p>c. Conclusion regarding the results of the review or investigation; and</p> <p>d. Documentation of any internal control or process changes recommended in order to mitigate concerns.</p> <p>4. Each employee is expected to report suspected theft, fraud or unlawful or improper use of public resources to a supervisor, department head, chief fiscal officer or other institution or system officer designated with responsibility for receiving and investigating such reports.</p> <p>5. An employee found to have engaged in theft, fraud or unlawful or improper use of public resources, or an employee with knowledge of such acts by another who unreasonably fails to report such information as required by this policy, is subject to discipline, up to and including dismissal.</p> <p>6. Each institution and the system office shall require that each benefited employee annually complete fraud awareness training. The training requirement may be satisfied by classroom instruction, a seminar or online training, provided it is approved by the NDUS Director of Internal Audit. The</p>
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		training must include review of this policy and the required Code of Conduct. Each employee must agree to comply with the policy and Code of Conduct and each institution and the system office shall enforce this policy and document annual training.
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You may obtain reports by contacting the
Division of State Audit
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Bismarck, ND 58505-0060
(701) 328-2241

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