

# Dickinson State University

DICKINSON, NORTH DAKOTA

## **Audit Report**

For the Year Ended  
June 30, 2018

**Joshua C. Gallion**  
State Auditor



Office of the State Auditor  
Division of State Audit



### Why We Conducted this Audit

The purpose of this audit was to determine that:

- Faculty were working under current contracts, receiving proper evaluations and being compensated as required by their contracts; and
- Financial transactions including expenses were made in accordance with law and appropriation requirements.

### Faculty Evaluations



#### Stated Practices

State Board of Higher Education policy requires significant student input in the evaluation of faculty.



#### What We Found

DSU requires adjunct faculty evaluations by their students each semester. However, these evaluations are not being consistently completed.

### Adjunct Faculty Evaluations

Student Evaluation



Evaluation Performed

No Evaluation Performed

Source: Personnel Records from Dickinson State University

### Bookstore

In fiscal year 2018, DSU entered into an 8-year contract for the operation of the bookstore. The wording of the initial proposal and the final contract do not match regarding compensation to DSU and there is no documentation for this change. As the contract is written, at best, the university may collect \$10,000 in revenue where in prior years, under its own management, they reported revenues of \$260-\$350,000 annually.

<b>Initial Proposal</b>	8-year financial proposal of 5% commission on sales over \$750K.
<b>Final Contract</b>	DSU would receive an annual amount of 5% of sales over \$750K.

In the first year of the contract, DSU received **ZERO** commission due to bookstore sales not exceeding \$750,000.

Under DSU management, revenues ranged from \$260,000 - \$350,000.

There are six additional findings in this report starting on page 4.

## **KEY PERSONNEL**

### **State Auditor's Office Staff**

Robyn Hoffmann, CPA, Audit Manager  
Krista Lambrecht, CPA, Lead Auditor  
Elizabeth Rogers  
Breck Hendrickson

### **Client Staff Contacts**

Dr. Thomas Mitzel, President  
Laura Nelson, Interim VP of Finance & Administration  
Mikka Maher, CPA, Interim Controller

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

## *Transmittal Letter*

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July 11, 2019

State Board of Higher Education Audit Committee  
Dr. Thomas Mitzel, President, Dickinson State University

We are pleased to submit this audit of Dickinson State University for the year ended June 30, 2018. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase responsiveness and effectiveness of state government.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Dr. Mitzel and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

cc: Legislative Audit and Fiscal Review Committee  
Chris Kadrmas, Legislative Council Fiscal Analyst

# Audit Results

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## Faculty Contracts, Evaluations, and Compensation

The audit of the faculty contracts was designed and conducted to answer the following objective:

Are faculty working under current contracts, receiving proper evaluations, and being compensated as required by their contracts?

### Conclusion

Dickinson State University faculty are working under current contracts and being compensated as required by their contracts. However, not all adjunct faculty are receiving the required student evaluations.

### Background Information and Results

Dickinson State University had approximately 189 regular full and part time employees under North Dakota University System 'academic' Broadband job classification (2000) with contract earnings for the period of July 1, 2017 to June 30, 2018. North Dakota State Board of Higher Education Policy 605.1 section 4 defines faculty as all members of the academic staff, excluding coaches and administrators in their capacities as coaches or administrators.

The Dickinson State University Adjunct Faculty Handbook requires adjunct faculty to be evaluated by their students each semester. For adjunct faculty who have had at least six consecutive years of employment with Dickinson State University, the handbook allows for the student evaluations to occur in alternating semesters rather than every consecutive semester. We found that student evaluations of adjunct faculty were not consistently being performed.



#### Stated Practices

State Board of Higher Education policy requires significant student input in the evaluation of faculty.



#### What We Found

Dickinson State University has a policy that requires adjunct faculty to be evaluated by their students each semester. However, these evaluations are not being consistently completed.

### Adjunct Faculty Evaluations



Source: Personnel Records from Dickinson State University

### Student Evaluations Not Performed (Finding 18-01)

#### Condition:

We noted that 9 out of 15 (60%) adjunct faculty contracts tested did not have the required student evaluation of the instructors performed.

#### Criteria:

The Dickinson State University Adjunct Faculty Handbook requires adjunct faculty to be evaluated

by their students each semester. For adjunct faculty who have had at least six continuous years of employment with Dickinson State University, the handbook allows for the student evaluations to occur in alternating semesters rather than every consecutive semester.

**Cause:**

Students did not perform evaluations of their instructors.

**Effect or Potential Effect:**

Lack of student input on instructors' strengths and weaknesses becomes a missed opportunity to identify issues and potential areas for improvement.

**Recommendation:**

We recommend that Dickinson State University follow the policies in their Faculty and Adjunct Faculty Handbooks regarding the frequency of required student evaluations for adjunct faculty.

**Dickinson State University Response:**

*DSU agrees and is going to train departments on what needs to be collected before the semester is over for each class.*

**Internal Control**

Our audit did not identify any significant internal controls related to the audit objective.

**Scope**

Dickinson State University's main campus is in Dickinson and also offers courses at Bismarck State College. Both locations were included in our audit scope. is its Dickinson office which was included in the audit scope. Contracts, evaluations, and compensation for full-time and adjunct faculty under North Dakota University System Broadband job classification 2000 were reviewed for fiscal year 2018.

**Methodology**

To meet this objective, we:

- Identified State Board of Higher Education policies, North Dakota University procedures, and Dickinson State University policies and procedures for faculty contracts, evaluations, and compensation.
- Interviewed appropriate agency personnel.
- Tested compliance areas surrounding faculty contracts, evaluations, and compensation.

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

## **Statutory Audit Requirements**

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenses have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

### **Conclusions**

Except for the following findings, no exceptions relating to our statutorily required audit testing were identified.

#### **Edgewood Hawks Point**

Edgewood Hawks Point is a senior living community located on the Dickinson State University (DSU) campus. In 2004, the State of North Dakota and the State Board of Higher Education on behalf of Dickinson State University and Dickinson State University Foundation entered into a ground lease agreement to have a senior living community developed, constructed and operated on the Dickinson State University campus. The lease was to be for 99 years for \$1 per year. When the foundation was dissolved in 2015 due to insolvency, First International Bank took ownership of Hawks Point. In June 2017, Edgewood Real Estate Investment Trust acquired the Hawks Point building. Throughout this time DSU has continued to own the land the building was on.

In March 2018, an agreement was signed by DSU, DSU Heritage Foundation, and Edgewood Hawks Point effective January 1, 2018 until December 31, 2021. In this agreement it is stated that the parties intend to negotiate an agreement under which DSU will provide Edgewood Hawks Point residents with access to the following programs and services according to terms agreed to by the parties, and Edgewood will make payments to DSU, the DSU Heritage Foundation and/or contribute scholarship/unrestricted dollars to the DSU Heritage Foundation. The parties agree to negotiate an annual operating agreement setting forth the terms agreed to by the parties, effective beginning January 1, 2018 and subject to review and renewal. Programs initially identified were athletics, theatre, music, multicultural programming, and Stoxen Library Inter-Library Loan Program. See recommendation regarding the lack of annual operating agreement below.

#### **Lack of Annual Operating Agreement with Edgewood Hawks Point (Finding 18-02)**

##### **Condition:**

DSU entered into an agreement with the DSU Heritage Foundation, and Edgewood Hawks Point. Under this agreement, the parties intended to negotiate an additional agreement to provide Edgewood Hawks Point residents with access to DSU programs and services such as; athletics, theatre, music, multicultural programming and Stoxen Library inter-library loan program. In exchange, Edgewood was to make payments to DSU, the DSU Heritage Foundation and/or contribute scholarship dollars to the DSU Heritage Foundation. As of June 30, 2018, DSU has not received any payments. However, the Foundation annually meets with Edgewood to discuss



pledge amounts for the upcoming school year. All of this has occurred without a formalized agreement.

**Criteria:**

The agreement entered into by DSU, DSU Heritage Foundation, and Edgewood Hawks Point state that parties intend to negotiate agreement under the which DSU will provide Edgewood Hawks Point residents with access to the following programs and services according to terms agreed to by the parties, and Edgewood will make payments to DSU, the DSU Heritage Foundation and/or contribute scholarship/unrestricted dollars to the DSU Heritage Foundation. The parties agree to negotiate an annual operational agreement setting forth the terms agreed to by the parties, effective beginning January 1, 2018, and subject to annual review and renewal. Programs initially identified are:

- a. Athletics
- b. Theatre
- c. Music
- d. Multicultural Programming
- e. Stoxen Library Inter-Library Loan Program

**Cause:**

The parties involved in the agreement failed to negotiate an annual agreement setting forth the terms in which DSU would provide Edgewood Hawks Point residents with access to programs and services.

**Effect or Potential Effect:**

Without the additional agreement the terms of what programs and services DSU is to provide access to and the amount of payments DSU and DSU Heritage Foundation are to receive for providing this access is unclear.

**Recommendation:**

We recommend that DSU negotiate an annual agreement with Edgewood Hawks Point to set forth the terms under which DSU will provide Hawks Point residents with access to programs and services, and the payments that DSU and DSU Heritage Foundation are to receive for providing this access.

**Dickinson State University Response:**

*DSU agrees to work with Edgewood Hawks Point on making sure items in the contract are in place.*

**Bookstore**

In May of 2017, Dickinson State University put out a request for proposal (RFP) to contract out their bookstore and six companies responded. Four DSU employees were selected to evaluate and score the proposals. In the end, Follett Higher Education Group scored the highest and was awarded the contract effective October 25, 2017 until September 30, 2025.

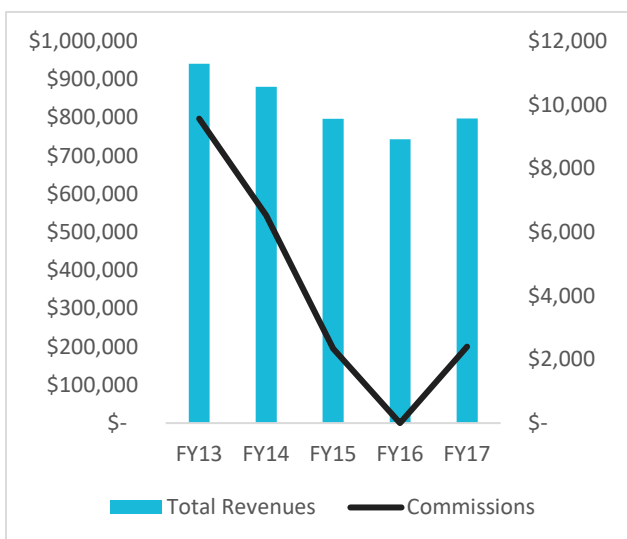
The contract states that Follett is to pay DSU commission in an **annual** amount equal to the sum of:

- 0% of all Commissionable Sales up to \$750,000; plus
- 5% of any part of Commissionable Sales over \$750,000, but less than \$1,000,000; plus
- 8% of any part of Commissionable Sales over \$1,000,000.

However, in Follett’s response to the RFP the commission that was to be paid to DSU was worded as follows: “Follett offers an **eight-year financial** proposal that includes the commission based on the store’s sales.”

- 0% of all Commissionable Sales up to \$750,000; plus
- 5% of any part of Commissionable Sales over \$750,000, but less than \$1,000,000; plus
- 8% of any part of Commissionable Sales over \$1,000,000.

Per discussion with members of the evaluating committee, there is a possibility they were misled by the wording in the response. They believed the commissionable sales over the eight-year period were cumulative not annual as stated in the final contract. To demonstrate the negative impact this contract will have to DSU, we have applied the funding principle to the past 5 years of revenues. The graph shows what the commissions would have been based on the prior five years audit revenue amounts and the current contract compensation language. In the first year under operation by Follett, commissionable sales were \$456,446 which resulted in no commissions for DSU.



DSU could potentially review and modify the contract as the North Dakota University System procedures require universities to perform a review of all contracts every two years, if the term of the contract exceeds three years. Specifically, NDUS procedures 803.1(3)(c) states “All commodity and service contracts for a term in excess of three years shall include a provision for review of contract performance at specified intervals, not less frequently than once every two years.” However, DSU failed to include this clause in their contract with Follett Higher Education Group. Therefore, DSU is not performing reviews on this contract, which could result in a possible renegotiation of commission. See recommendation regarding contract requirements below.

### Noncompliance with Contract Requirements (Finding 18-03)

#### Condition:

Dickinson State University failed to properly review an eight-year contract for their bookstore services. Elements of the contract that were missed included:

- A required provision which requires a performance review every two years on contracts that are longer than three years and;
- A change from the proposal to the contract in how commissions would be received.

**Criteria:**

NDUS procedure 803.1(3)(c) states, all commodity and service contracts for a term in excess of three years shall include a provision for review of contract performance at specified intervals, not less frequently than once every two years. Commodity and service contracts may not exceed a term of ten years.

**Cause:**

The contract was not properly reviewed to ensure all required provisions were included, and also to ensure the propositions in the response to the proposal were upheld in the contract.

**Effect or Potential Effect:**

Without the provision of a performance review, Dickinson State University may not have the opportunity to amend any misconceptions or dissatisfaction with the contract.

**Recommendation:**

We recommend that Dickinson State University properly review contracts to ensure all required provisions are included and there have been no significant changes from the proposal.

***Dickinson State University Response:***

*DSU agrees to work with the AG office on making sure all required provisions are included and the contract reflects the proposal.*

***Other Areas of Noncompliance***

**Lack of Blanket Bond Coverage (Finding 18-04)**

**Condition:**

Dickinson State University did not have blanket bond coverage effective January 1, 2018.

**Criteria:**

North Dakota Century Code section 26.1-21-10(1) states each state agency shall apply to be bonded in the fund no less often than on a biennial basis or when a change in coverage is requested, whichever occurs first.

**Cause:**

Dickinson State University was not aware of the coverage lapse.

**Effect or Potential Effect:**

Dickinson State University would not have had coverage if a claim was made during the time the coverage had lapsed.

**Recommendation:**

We recommend Dickinson State University obtain blanket bond coverage and ensure that coverage is renewed on a biennial basis.

**Dickinson State University Response:**

*DSU agrees and will obtain a blanket bond coverage and ensure that it is renewed on a biennial basis.*

**Improper Sharing of Purchase Cards (Finding 18-05)**

**Condition:**

We noted that 8 out of 30 (26.7%) purchase card transactions tested were made by someone other than the cardholder.

**Criteria:**

North Dakota University System procedure 803.4, paragraph 6, states that only the NDUS employee whose name appears on the p-card may use the p-card. The employee is accountable for all charges made with that p-card. A cardholder will not lend the p-card to anyone. If another employee in the department needs a p-card, the director or supervisor of the department should request one for that individual.

**Cause:**

There is practice of sharing purchase cards within departments at Dickinson State University.

**Effect or Potential Effect:**

By sharing purchase cards, the risk of unauthorized and/or inappropriate purchases increases and individual cardholders sharing their card are at an increased risk of being personally responsible for improper purchases made by others.

**Recommendation:**

We recommend that Dickinson State University follow North Dakota University System procedure and not allow the sharing of purchase cards.

**Dickinson State University Response:**

*DSU agrees. Starting in April 2018 DSU worked on changing their practice from having one purchase card for the whole department to determining which employees needed a purchase card for purchases. We no longer have one purchase card for a department and sharing of cards is no longer allowed.*

**Noncompliance with Procurement Requirements (Finding 18-06)**

**Condition:**

Dickinson State University did not properly procure commodities and services based on NDCC, NDUS procedures, and DSU policies.

- Four out of twelve applicable purchases were noted to not follow proper bidding requirements.
- One transaction did not fill out the required alternate procurement form for a service contract.
- Two purchases were made by individuals who did not have the required training to make purchases of that level.

**Criteria:**

NDCC section 15-10-17 part 5, states in part, that the SBHE may determine policy for purchasing by the University System in coordination with OMB as provided by NDCC chapter 54-44.4 and NDCC section 44-08-01 part 3.

NDUS procedure 803.1 parts 1 and 4, state in part that sole source purchases are unique and the vendor is the only vendor able to furnish the commodity or service. Sole source requests based on personal preference, cost or price are not permitted. These items may be considered in evaluating bids or proposals. Part 4 also states, in accordance with NDCC section 54-44.4-11(3), procurement requirements may not be artificially divided as to constitute a lesser purchase under these requirements.

NDUS procedure 803.1 part 6 states a procurement officer shall prepare and retain in the procurement file a justification for noncompetitive procurements, as documented on the Alternate Procurement Request form. The alternate procurement must be approved by the appropriate official prior to the purchase.

DSU's purchasing policy 803.1, requires single item purchases from \$2,500 - \$24,999 to have quotes from more than one vendor, when feasible. Purchases \$25,000 and above must be solicited by formal sealed bids.

**Cause:**

DSU was not familiar with all the required procurement policies and procedures.

**Effect or Potential Effect:**

Without properly procuring commodities and services, there was noncompliance with DSU's purchasing policy and NDUS procedures, and ultimately, noncompliance with NDCC chapter 54-44.4 and NDCC section 44-08-01 part 3.

**Recommendation:**

We recommend that Dickinson State University properly procure commodities and services in compliance with NDCC, NDUS procedures and DSU policies.

***Dickinson State University Response:***

*DSU agrees to train employees on the proper levels of procurement based on their purchasing needs. This way the employees understand what is required for different purchases.*

**Improper Recording of Retainage (Finding 18-07)**

**Condition:**

Dickinson State University has not been recording a retainage payable for capital projects in PeopleSoft.

**Criteria:**

NDCC section 48-01.2-13, states in part, a partial payment estimate must include a retainage of ten percent of each estimate until the project is fifty percent completed with no further retainage on estimates during the continuance of the contract unless unsatisfactory progress or performance is documented.

**Cause:**

Dickinson State University does not have proper controls in place to ensure a retainage payable is recorded in PeopleSoft.

**Effect or Potential Effect:**

If a retainage payable is not recorded in PeopleSoft, it will not roll up to the financial statements, therefore understating the liability.

**Recommendation:**

We recommend Dickinson State University properly record a retainage payable in PeopleSoft.

**Dickinson State University Response:**

*DSU agrees to book the 10% retainage as a liability during the capital project.*

**Inadequate Nepotism and Conflict of Interest Policies (Finding 18-08)**

**Condition:**

Dickinson State University lacks a policy for identifying, documenting, monitoring, and resolving conflicts of interest and nepotism issues.

**Criteria:**

SBHE policy 308.1 part 13 states in part, each NDUS institution shall adopt and implement a Code of Conduct consistent with this Code and Committee of Sponsoring Organization of the Treadway Commission (COSO) standards. Institution codes shall include how to identify and resolve conflicts of interest.

NDUS procedure 603.3 states in part, upon offer and acceptance of employment, promotion or transfer to a different department, or upon change in family status, an employee shall report, in writing, any actual or potential conflict to the employee's department of human resource officer.

**Cause:**

DSU developed and distributed forms on which nepotism and conflicts of interest concerns can be reported, however no policies were developed.

**Effect or Potential Effect:**

Without adequate policies in place, conflicts of interest or nepotism could exist.

**Recommendation:**

We recommend that Dickinson State University develop and implement policies surrounding nepotism and conflicts of interest.

***Dickinson State University Response:***

*DSU agrees to create a policy for nepotism and conflict of interest.*

***Internal Control***

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified a deficiency in internal control that was significant within the context of our audit objectives and based upon the audit work performed. The deficiency is identified in Finding 18-08.

***Scope***

This audit of Dickinson State University is for the year ended June 30, 2018.

Dickinson State University's sole location is its Dickinson campus which was included in the audit scope.

***Methodology***

To meet this objective, we:

- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Used non-statistical sampling, and the results were projected to the population.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed Dickinson State University's processes and procedures.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including expenses, purchase card transactions, travel expenses, and journal entries for further testing.
- Tested scholarship expenses for compliance with donor intent.
- Reviewed tuition waivers for compliance with NDCC, SBHE, and DSU policy.

- Performed an analysis of purchases subject to procurement law and policies and completed additional testing.
- Reviewed payments received for rent of university facilities.
- Reviewed contracted services of the bookstore and dining services.
- Reviewed operating agreement between DSU, DSU Heritage Foundation, and Edgewood Hawks Point.
- Reviewed capital expenses for proper capitalization and recording of retainage withheld.
- Examined the University's policies for existence of nepotism and conflict of interest policies.

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

### ***Authority and Standards***

This year end performance audit of Dickinson State University has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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



# Financial Statements

## Statement of Net Position

	<u>June 30, 2018</u>
<b>ASSETS:</b>	
Cash & cash equivalents	\$ 5,832,890
Investments	9,655,000
Accounts receivable, net	283,188
Due from component unit	217,308
Due from state general fund	375,000
Grants and contracts receivables, net	217,370
Notes receivable, net	1,102,462
Capital assets, net	<u>34,504,384</u>
<b>Total assets</b>	<b><u>\$ 52,187,602</u></b>
<b>Deferred outflows of resources</b>	<b>\$ 1,951,191</b>
<b>LIABILITIES:</b>	
Accounts payable	\$ 508,566
Due to other NDUS institutions	24,538
Accrued payroll	1,247,415
Unearned revenue	50,000
Deposits	104,185
Pension liability	3,894,265
OPEB liability	180,842
Other liabilities	377,888
Due to others	<u>8,124,374</u>
<b>Total liabilities</b>	<b><u>\$ 14,512,073</u></b>
<b>Deferred inflows of resources</b>	<b>\$ 339,601</b>
<b>NET POSITION:</b>	
Invested in capital assets	\$ 26,845,462
Restricted For:	
Expendable:	
Scholarships and fellowships	223,244
Institutional	(25,049)
Loans	1,215,733
Debt service	3,672,080
Unrestricted	<u>7,355,649</u>
<b>Total net position</b>	<b><u>\$ 39,287,119</u></b>

Source: North Dakota University System Annual Financial Report

## **Statement of Revenues, Expenses, and Change in Net Position**

	<b><u>June 30, 2018</u></b>
<b>REVENUES AND OTHER ADDITIONS:</b>	
Student tuition and fees	\$ 6,863,814
Federal grants and contracts	2,181,680
State and local grants and contracts	825,520
Sales and services of educational departments	1,037,246
Auxiliary enterprises	1,720,065
Other	82,130
State appropriations	14,324,670
Gifts	938,144
Endowment and investment income	168,686
Insurance Proceeds	9,725
State appropriations - capital assets	<u>3,000,961</u>
<b>Total revenues and other additions</b>	<b><u>\$ 31,152,641</u></b>
<b>EXPENSES AND OTHER DEDUCTIONS:</b>	
Salaries and wages	\$ 18,643,368
Operating expenses	7,581,601
Data processing	356,042
Depreciation	1,426,613
Scholarships and fellowships	804,190
Costs of sales and services	487,452
Interest on capital asset-related debt	1,276
Other	<u>19,142</u>
<b>Total expenses and other deductions</b>	<b><u>\$ 29,319,684</u></b>
<b>Revenue over expenses</b>	<b>\$ 1,832,957</b>
<b>NET POSITION:</b>	
Net position-beginning of the year, as restated	<u>\$ 37,454,162</u>
Net position-end of the year	<b><u>\$ 39,287,119</u></b>

Source: North Dakota University System Annual Financial Report

## Statement of Cash Flows

	<u>June 30, 2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Student tuition and fees	\$ 6,905,524
Grants and contracts	1,550,570
Payments to suppliers	(11,037,511)
Payments to employees	(18,256,389)
Payments for scholarships and fellowships	(804,190)
Loans issued to students	(187,912)
Collection of loans to students	142,592
Auxiliary enterprise charges	1,734,575
Sales and service of educational departments	1,472,631
Cash received (paid) on deposits	46,038
Other receipts	<u>(10,502)</u>
<b>Net cash used by operating activities</b>	<b><u>\$ (18,444,574)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
State appropriations	\$ 14,324,670
Grants and gifts for other than capital purposes	2,366,573
Direct Lending Receipts	4,318,002
Direct Lending Disbursements	(4,318,002)
Agency fund cash increase (decrease)	<u>(15,916)</u>
<b>Net cash flows provided by noncapital financing activities</b>	<b><u>\$ 16,675,327</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from issuance of debt	\$ 7,557,272
Capital appropriations	2,648,018
Capital grants and gifts received	50,000
Purchase of capital assets	(6,690,321)
Insurance proceeds	9,725
Principal paid on capital debt and lease	(16,430)
Interest paid on capital debt and lease	<u>(1,276)</u>
<b>Net cash used by capital and related financing activities</b>	<b><u>\$ 3,556,988</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>\$ 168,308</u>
<b>Net cash provided by investing activities</b>	<b><u>\$ 168,308</u></b>
<i>(Continued on next page)</i>	

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<b>Net increase in cash</b>	\$ 1,956,049
<b>Cash, Beginning of Year</b>	<u>\$ 3,876,841</u>
<b>Cash, End of Year</b>	<u>\$ 5,832,890</u>

**RECONCILIATION OF NET OPERATING EXPENSES TO  
NET CASH USED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (18,017,239)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	1,426,613
Other nonoperating expenses	(74,624)
Change in assets, deferred outflows, liabilities and deferred inflows	
Accounts receivable adjusted for interest receivable	440,769
Grant & contract receivables	(28,203)
Inventories	420,544
Notes receivable	(19,880)
Other assets	(18,008)
Accounts payable and accrued liabilities adjusted for interest payable	(3,007,565)
Pension liability	1,321,970
OPEB liability	29,117
Net change in deferred outflows	(1,075,212)
Net change in deferred inflows	78,682
Accrued payroll	116,592
Compensated absences	(84,168)
Deposits	<u>46,038</u>
<b>Net cash used by operating activities</b>	<u>\$ (18,444,574)</u>

**SUPPLEMENTAL DISCLOSURE ON NON CASH  
TRANSACTIONS**

Expenses paid by capital lease/special assessments	<u>\$ 19,190</u>
<b>Total non-cash transactions</b>	<u>\$ 19,190</u>

Source: North Dakota University System Annual Financial Report

## Statement of Appropriations

For the Year Ended June 30, 2018

<b>Expenses by Line Item:</b>	<b>Original Appropriation</b>	<b>Appropriation Adjustments</b>	<b>Final Appropriation</b>	<b>Expenses</b>	<b>Unexpended Appropriation</b>
Operating Expenses	\$ 48,010,592	\$ 949,547	\$ 48,960,139	\$ 22,759,623	\$ 26,200,516
One-Time Operations & Debt	7,409,626		7,409,626	5,571,410	1,838,216
Capital Assets	409,078		409,078	409,078	
Capital Assets - Carryover		1,259,974	1,259,974	975,000	284,974
Cap Proj-Off System- Carryover		1,800,000	1,800,000	1,245,962	554,038
TR Presidential Library		11,355,295	11,355,295	1,633,566	9,721,729
<b>Totals</b>	<u>\$ 55,829,296</u>	<u>\$ 15,364,816</u>	<u>\$ 71,194,112</u>	<u>\$ 32,594,639</u>	<u>\$ 38,599,473</u>
<b>Expense by Source:</b>					
General Fund	\$ 26,091,469	\$ 13,564,816	\$ 39,656,285	\$ 17,254,098	\$ 22,402,187
Special Fund	<u>29,737,827</u>	<u>1,800,000</u>	<u>31,537,827</u>	<u>15,340,541</u>	<u>16,197,286</u>
<b>Totals</b>	<u>\$ 55,829,296</u>	<u>\$ 15,364,816</u>	<u>\$ 71,194,112</u>	<u>\$ 32,594,639</u>	<u>\$ 38,599,473</u>

Source: ConnectND Financials

## *Status of Prior Recommendations*

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Prior recommendations have been implemented except for the following:

### **Inadequate Nepotism and Conflicts of Interest Policies (Finding 17-2)**

**Recommendation:**

We recommend that DSU develop and implement policies surrounding nepotism and conflicts of interest.

**Status:** Not implemented. See Finding 18-08.

### **Noncompliance Over Procurement (Finding 17-3)**

**Recommendation:**

We recommend that DSU procure commodities and services in compliance with NDCC, NDUS procedures, and DSU policies.

**Status:** Not implemented. See Finding 18-06.

### **Inadequate Controls Over Capital Improvements (Finding 17-4)**

**Recommendation:** We recommend that DSU ensure the proper retainage is maintained for each capital project contract and expenses that increase the useful life of a building are capitalized.

**Status:** Partially Implemented. DSU is now properly capitalizing expenses that increase the useful life of a building. However, they are still not properly recording retainage. See Finding 18-07.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor](http://www.nd.gov/auditor)

or by contacting the Office of the State Auditor at:

**Email:** [ndsao@nd.gov](mailto:ndsao@nd.gov)

**Phone:** (701) 328-2241

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