

UNIVERSITY OF
NORTH DAKOTA
GRAND FORKS, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor

Office of the State Auditor
Division of State Audit

Office of the State Auditor

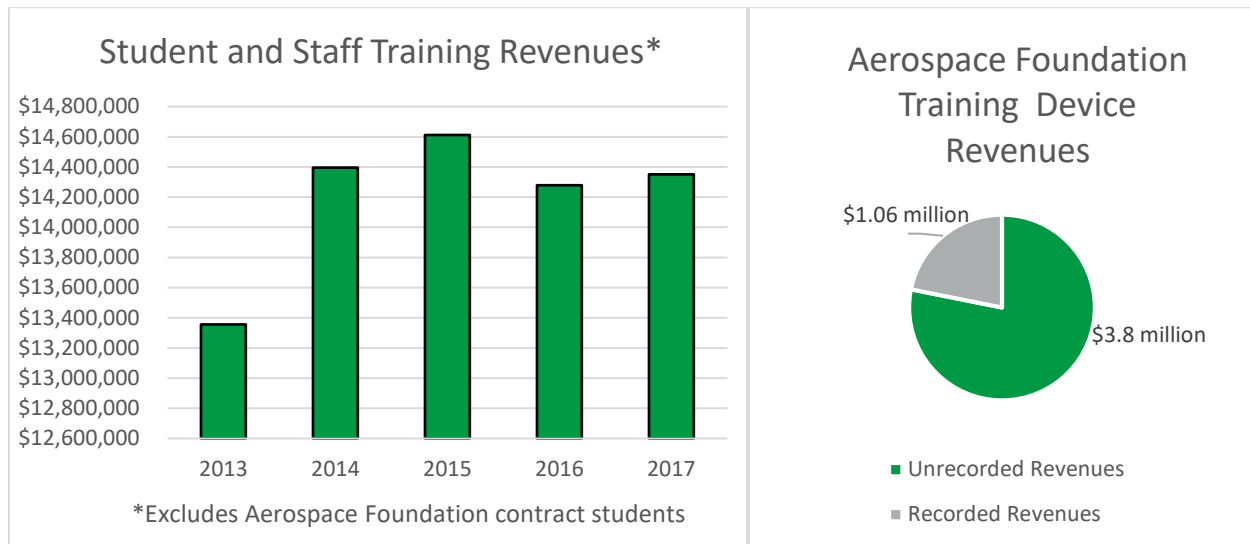
University of North Dakota Report Highlights

Internal Control: We evaluated and tested high risk areas including: refunds, purchase card transactions and safeguarding of assets. We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

Legislative Intent: We evaluated and tested high risk areas including: one-time funding, deferred maintenance funding, scholarship expenses and procurement including the construction project for the Collaborative Energy Complex. We found one area that needed improvement:

- For the Collaborative Energy Complex project, the construction management at-risk (CMAR) selection committee did not establish and communicate all required content in the request for qualifications. The audit also found that the selection committee improperly evaluated the CMARs which could have resulted in incorrectly awarding the guaranteed maximum price contract of \$12,592,000.

Operations: Our audit found that the training rates for Aerospace Foundation contract students were not current and were based on an outdated operating agreement between the Aerospace Foundation and the University of North Dakota. We also found that the charges for Aerospace Foundation contract students were not being properly recorded on the general ledger. The revenues and expenses should have been reported as a gross amount but instead were being netted together leaving the financial statements misstated for both revenues and expenses.



Source: ConnectND Trial Balances

Source: UND Department of Aviation Billings

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**Robyn Hoffmann, CPA, Audit Manager
Mary Feltman, CPA, Auditor
Travis Klinkhammer, CPA, Auditor
Mikka Maher, CPA Auditor
Alex Mehring, CPA, Auditor
Cory Wigdahl, CFE, Auditor**

Primary University Contacts

**Mark Kennedy, President
Jed Shivers, VP for Finance and Operations
Sharon Loiland, Controller**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

September 10, 2018

Members of the North Dakota Legislative Assembly
State Board of Higher Education
Mr. Mark Kennedy, President, University of North Dakota

We are pleased to submit this audit of the University of North Dakota for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

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

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 President Kennedy and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

The University of North Dakota was founded in 1883 and is a member of the North Dakota University System. It serves the state, the country, and the world community through teaching, research, creative activities, and service. State assisted, the University of North Dakota's work depends also on federal, private, and corporate sources. With other research universities, the University of North Dakota shares a distinctive responsibility for the discovery, development, preservation, and dissemination of knowledge. Through its sponsorship and encouragement of basic and applied research, scholarship, and creative endeavor, the University of North Dakota contributes to the public well-being. The University of North Dakota maintains its original mission in liberal arts, business, education, law, medicine, engineering, and mines; and has also developed special missions in nursing, fine arts, aerospace, energy, human resources, and international studies.

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

Responses to LAFRC Audit Questions

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

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

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

Other than our finding addressing "Construction Management at-Risk for the Collaborative Energy Complex" (page 14), there was compliance with statutes, laws, rules and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Yes.

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

Other than our findings addressing "Improper Training Rates with the Aerospace Foundation" (page 16) and "Netting Transactions with the Aerospace Foundation" (page 17), there was efficiency in financial operations and management of the University of North Dakota.

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

There were no recommendations included in the prior audit report.

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

No, a management letter was not issued.

LAFRC Audit Communications

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

In fiscal year 2016, the University of North Dakota changed accounting policies related to investments by adopting GASB Statement No. 72, Fair Value Measurement and Applications. There were no other significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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

The most significant accounting estimates used by the University of North Dakota include useful lives of capital assets, allowance for uncollectible receivables and net pension liability. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories and past history. The net pension liability is based on the actuary's calculation based on plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives, allowances, and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

In fiscal year 2016, the University of North Dakota had an audit adjustment to increase direct lending receipts by \$31.3 million and to increase direct lending payments by \$31.3 million on the Statement of Cash Flows. The net effect on the Statement of Cash Flows was \$0.

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

None.

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

None.

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

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

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

None.

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

ConnectND Finance, Human Resource Management System (HRMS), and Campus Solutions are high-risk information technology systems critical to the University of North Dakota. No exceptions related to the operations of an information technology system were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the University of North Dakota for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the University of North Dakota is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The University of North Dakota's sole location is its Grand Forks campus office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2017 and 2016 annual financial reports of the North Dakota University System.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.

- Observed the University of North Dakota's processes and procedures.
- Tested internal controls and compliance with training rates at the UND Aviation Department.

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

Financial Statements

Statement of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
ASSETS:		
Cash & cash equivalents	\$ 36,845,391	\$ 46,735,393
Investments	116,789,737	86,789,737
Accounts receivable, net	10,070,028	8,338,579
Due from other NDUS institutions	435,977	44,382
Due from component unit	26,193,136	29,796,770
Due from state general fund	1,683,740	10,877,935
Grants and contracts receivables, net	13,706,822	14,311,386
Inventories	3,579,403	4,370,700
Notes receivable, net	18,881,822	18,928,911
Other assets	1,490,507	337,996
Capital assets, net	536,028,929	531,081,529
Total assets	<u>\$ 765,705,492</u>	<u>\$ 751,613,318</u>
Deferred outflows of resources	\$ 14,169,374	\$ 7,249,486
LIABILITIES:		
Accounts payable	\$ 9,079,877	\$ 13,624,089
Due to other NDUS institutions	374,528	36,424
Due to component units	8,677,192	9,183,616
Accrued payroll	18,471,881	18,075,984
Unearned revenue	6,668,640	9,564,725
Deposits	2,366,549	1,791,857
Pension liability	39,065,532	30,651,857
Due to others	116,357,491	118,717,918
Total liabilities	<u>\$ 201,061,690</u>	<u>\$ 201,646,470</u>
Deferred inflows of resources	\$ 5,907,854	\$ 4,208,155
NET POSITION:		
Invested in capital assets	\$ 422,960,679	\$ 415,663,265
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	13,973,917	13,071,982
Expendable:		
Scholarships and fellowships	1,797,924	1,669,958
Research	527,159	2,042,606
Institutional	12,893,278	12,562,704
Loans	28,332,160	26,926,902
Debt service	3,795,494	3,768,611
Unrestricted	88,624,711	77,302,151
Total net position	<u>\$ 572,905,322</u>	<u>\$ 553,008,179</u>

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2017	June 30, 2016
REVENUES AND OTHER ADDITIONS:		
Student tuition and fees	\$ 139,642,046	\$ 137,960,927
Federal grants and contracts	68,288,470	68,926,678
State and local grants and contracts	13,217,391	8,369,653
Nongovernmental grants and contracts	14,048,251	14,859,146
Sales and services of educational departments	54,781,023	55,026,630
Auxiliary enterprises	35,688,943	35,584,777
Other	2,396,305	1,146,680
State appropriations	105,159,665	113,103,164
Gifts	12,370,102	10,562,889
Endowment and investment income	4,419,281	785,280
Insurance proceeds	766,281	459,983
Gain on disposal of capital assets	451,710	924,580
Tax revenues	4,437,502	3,947,650
State appropriations - capital assets	16,431,229	51,640,509
Capital grants and gifts	4,275,558	13,430,916
Total revenues and other additions	\$ 476,373,757	\$ 516,729,462
 EXPENSES AND OTHER DEDUCTIONS:		
Salaries and wages	\$ 309,832,677	\$ 309,566,206
Operating expenses	92,249,813	101,889,716
Data processing	6,012,566	5,729,892
Depreciation	24,621,475	24,345,572
Scholarships and fellowships	9,449,010	6,272,203
Costs of sales and services	9,915,997	7,593,616
Interest on capital asset-related debt	4,395,080	3,964,797
Inter-institutional transfers		90,338
Total expenses and other deductions	\$ 456,476,618	\$ 459,452,340
Revenue over expenses	\$ 19,897,139	\$ 57,277,122
 NET POSITION:		
Net position-beginning of the year, as restated	\$ 553,008,183	\$ 495,731,057
Net position-end of the year	\$ 572,905,322	\$ 553,008,179

Statement of Cash Flows

	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 137,823,989	\$ 138,921,860
Grants and contracts	86,283,548	78,251,454
Payments to suppliers	(108,720,723)	(124,373,459)
Payments to employees	(306,639,324)	(305,726,113)
Payments for scholarships and fellowships	(9,449,009)	(6,272,204)
Loans issued to students	(2,914,783)	(3,171,923)
Collection of loans to students	4,073,052	4,405,969
Auxiliary enterprise charges	35,517,366	35,453,878
Sales and service of educational departments	53,902,389	55,800,428
Cash received (paid) on deposits	552,868	(589,882)
Other receipts (payments)	(7,127)	11,433,950
Net cash used by operating activities	\$ (109,577,754)	\$ (115,866,042)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	\$ 105,156,958	\$ 113,103,164
Grants and gifts received for other than capital purposes	22,027,327	20,524,932
Direct Lending Receipts	93,212,599	94,607,325
Direct Lending Disbursements	(93,158,923)	(94,679,566)
Agency fund cash decrease	(42,302)	(380,434)
Tax revenues	4,437,502	3,947,650
Net cash flows provided by noncapital financing activities	\$ 131,633,161	\$ 137,123,071
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt		\$ 38,985,000
Capital appropriations	\$ 25,628,130	57,605,886
Capital grants and gifts received	6,808,869	10,497,239
Proceeds from sale of capital assets	2,370,900	1,591,815
Purchases of capital assets	(29,565,389)	(80,988,136)
Insurance proceeds	862,055	469,627
Principal paid on capital debt and lease	(6,525,601)	(8,361,901)
Deposits with capital debt payment trustees		(38,190,000)
Interest paid on capital debt and lease	(4,413,858)	(4,425,804)
Net cash used by capital and related financing activities	\$ (4,834,894)	\$ (22,816,274)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	\$ 73,249,899	\$ 137,260,025
Interest on investments	2,889,586	3,047,062
Purchase of investments	(103,250,000)	(132,255,014)
Net cash provided by investing activities	\$ (27,110,515)	\$ 8,052,073
Net increase (decrease) in cash	\$ (9,890,002)	\$ 6,492,828
CASH BEGINNING OF YEAR	\$ 46,735,393	\$ 40,242,565
CASH END OF YEAR	\$ 36,845,391	\$ 46,735,393

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	<u>June 30, 2017</u>	<u>June 30, 2016</u>
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (135,518,276)	\$ (143,961,101)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	24,621,475	24,345,572
Other nonoperating revenues	529,088	493,305
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(155,357)	2,803,115
Grant & contract receivables	448,594	(3,939,844)
Inventories	791,297	(326,896)
Notes receivable	1,298,009	1,393,078
Other assets	(1,152,511)	10,268,171
Accounts payable and accrued liabilities adjusted for interest payable	(1,446,180)	(9,087,570)
Pension liability	8,413,675	1,219,483
Net change in deferred outflows	(6,939,658)	(31,197)
Net change in deferred inflows	1,699,699	(1,537,164)
Accrued payroll	403,957	4,359,316
Compensated absences	(384,319)	(170,346)
Deferred revenue	(2,740,115)	(1,104,082)
Deposits	552,868	(589,882)
Net cash used by operating activities	<u>\$ (109,577,754)</u>	<u>\$ (115,866,042)</u>
 SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS:		
Assets acquired through capital lease	\$ 3,959,961	\$ 2,969,377
Expenses paid by capital lease/special assessment		109,436
Gifts of capital assets	600,000	1,473,652
Net increase (decrease) in value of investments	1,526,742	(2,272,893)
Total non-cash transactions	<u>\$ 6,086,703</u>	<u>\$ 2,279,572</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

UNIVERSITY OF NORTH DAKOTA

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 167,274,338	\$ (20,692,562)	\$ 146,581,776	\$ 146,581,776	
Capital Assets	79,171,566	(10,006,937)	69,164,629	64,047,827	\$ 5,116,802
Capital Assets Carryover		3,791,407	3,791,407	3,791,407	
Capital Improvements - Off System					
Student Engagement Projects		6,000,000	6,000,000		6,000,000
Capital Off System - Carryover					
Wilkerson Hall		9,674,020	9,674,020	7,432,961	2,241,059
COBPA renovation and addition		20,500,000	20,500,000	337,363	20,162,637
Indoor track and football field		3,559,833	3,559,833	2,981,200	578,633
Tech Building project		522,087	522,087	2,100	519,987
Law School renovation and addition		841,541	841,541	811,452	30,089
Student Housing facility		19,187,262	19,187,262		19,187,262
Collaborative Energy project		15,038,023	15,038,023	14,936,245	101,778
Totals	\$ 246,445,904	\$ 48,414,674	\$ 294,860,578	\$ 240,922,331	\$ 53,938,247

Expenses by source

General fund	\$ 240,445,904	\$ (20,908,092)	\$ 219,537,812	\$ 214,421,010	\$ 5,116,802
Special fund	6,000,000	69,322,766	75,322,766	26,501,321	48,821,445
Totals	\$ 246,445,904	\$ 48,414,674	\$ 294,860,578	\$ 240,922,331	\$ 53,938,247

UNIVERSITY OF NORTH DAKOTA MEDICAL SCHOOL

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 71,437,396	\$ 243,657	\$ 71,681,053	\$ 71,681,053	
Totals	\$ 71,437,396	\$ 243,657	\$ 71,681,053	\$ 71,681,053	

Expenses by source

General fund	\$ 71,437,396	\$ 243,657	\$ 71,681,053	\$ 71,681,053	
Totals	\$ 71,437,396	\$ 243,657	\$ 71,681,053	\$ 71,681,053	

Expenditures without Appropriations of Specific Amounts:

All funds, in addition to those above are appropriated pursuant to 2015 HB 1003 section 31.

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the University of North Dakota's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding training rates at the University of North Dakota Department of Aviation.

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: misstatements in financial or performance information, violations of laws and regulations or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested the University of North Dakota's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- North Dakota University System reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1003, chapter 3, section 2).
- The deferred maintenance funding pool was used for eligible projects that were identified in the campus master plan and space utilization studies (2015 HB 1003, chapter 3, section 25).
- Two dollars of matching funds were provided from operations or other sources for each one dollar of extraordinary repairs that were included in the capital asset line item (2015 HB 1003, chapter 3, section 38).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND Constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Scholarship expenses were proper (Article IX, Section 1 of the ND Constitution, NDCC 1-08-02, 15-10-12, 59-21).
- Fixed asset requirements were followed including surplus property, record keeping and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of ND Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 48-01.2, 44-08-01).
- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 54-44.7).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07.)

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

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

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above.

Construction Management At-Risk for the Collaborative Energy Complex (Finding 17-1)

Condition:

We noted the following while reviewing the Collaborative Energy Complex project:

- The construction management at-risk (CMAR) selection committee did not establish and communicate all required content in the request for qualifications, including key evaluating criteria and the relative weighting of each; and
- The CMAR selection committee improperly evaluated the CMARs, by omitting required key evaluating criteria and by weighting certain criteria heavier than what was allowed by N.D.C.C.

Criteria:

N.D.C.C. section 48-01.2-20, states in part, before issuing a notice of request for qualifications to enter a construction management at-risk services contract, the selection committee shall establish the content of the request for qualifications, which must include the qualifications evaluation criteria and the relative weighting of items. The selection committee shall determine the appropriate evaluation criteria for each request for qualifications, including the person's safety record and the person's compliance with state and federal law. No item being evaluated can be weighted more than twenty percent and no less than five percent.

Cause:

This was an oversight by UND.

Effect or Potential Effect:

There was noncompliance with N.D.C.C. surrounding the selection process of the CMAR, and in addition, the guaranteed maximum price contract of \$12,592,000 could have been awarded incorrectly increasing the risk of fraud, waste, and abuse.

Recommendation:

We recommend that UND review the CMAR selection process and work more closely with the NDUS Director of Facilities Planning, as necessary, to ensure compliance with N.D.C.C.

University of North Dakota Response and Corrective Action Plan:

Agree, the University of North Dakota Facilities Management has created a revised scoring criteria spreadsheet that is used by all members of the construction management at-risk (CMAR) selection committee. The CMAR scoring spreadsheet includes the ND Century Code required scoring criteria and assigned weight for each criteria. No scoring criteria item is assigned more than 20% weight or less than 5% weight of the final score. Members of the CMAR selection criteria receive the scoring criteria when they receive written proposals for review. Attached is the UND CMAR scoring criteria. Also, UND Procurement now provides oversight to procurement process.

Operations

Our audit of the University of North Dakota included a review of the flight operations of the University of North Dakota Aviation Department.

Background:

The University of North Dakota Department of Aviation provides a comprehensive aviation education to students through flight training in simulators and aircrafts. The program provides training to the University of North Dakota students looking for a degree in aviation as well as contract students looking for specific training required by their industry or employer.

Flight training rates are set each year for each simulator and aircraft to recover the cost of the aircraft, fuel, insurance, overhead and maintenance. The rates are based on estimated utilization, past actual costs, estimated future costs and market rates. Students and staff are charged the applicable training rates and the University of North Dakota Aerospace Foundation contract students are charged rates based on the operating agreement between the University of North Dakota and the University of North Dakota Aerospace Foundation.

The Aviation Information Management System (AIMS) is the software utilized for all aspects of the training process including reservations, instructors, aircraft used and meter hours. The training rates are also in the AIMS system and the system applies the applicable training rate based on the aircraft used and the meter hours. This AIMS data is then uploaded to PeopleSoft to apply the billings to student and staff accounts.

Our audit of the University of North Dakota identified the following areas of potential improvements to operations, as expressed by our operational objectives:

- Are flight training rates being properly applied for all students?
- How does the University of North Dakota ensure that the Aviation Information Management System (AIMS) data transfers to PeopleSoft accurately and completely?

The criteria used for each of the above were the approved flight training rates and AIMS data. We reviewed and determined the key controls to test. We also reviewed policies and procedures and operating agreements.

We conclude on the operational objectives for the flight operations in the Aviation Department:

- Flight training rates are being properly applied for students and staff, but the training rates charged for the Aerospace Foundation contract students were not proper and were based on an outdated operating agreement (Finding 17-2) and;
- The AIMS billings for students and staff were accurate and complete; however, we noted the Aerospace Foundation contract students' charges were being netted and the proper amounts were not reported in PeopleSoft (Finding 17-3).

Improper Training Rates with the Aerospace Foundation (Finding 17-2)

Condition:

The training rates between the UND Department of Aviation and the UND Aerospace Foundation were established based on an outdated operating agreement from 2000. The Department of Aviation has been and is currently operating under the outdated operating agreement from 2000 with the UND Aerospace Foundation, while the Division of Finance and Operations at UND has been operating under the current operating agreement, dated 2014. Also, there was no documented rate for a training device between the Department of Aviation and the UND Aerospace Foundation for 4 months during FY17.

Criteria:

SBHE Policy 340.2, section 3, states that each institution and each nonprofit affiliate shall negotiate and maintain a written operating agreement with all the required elements present.

The 2014 operating agreement between UND and the UND Aerospace Foundation, section 21.5, states in part, that this agreement shall supersede and replace the prior master agreement and addendums between UND and UND Aerospace Foundation.

Cause:

Not all fiscal personnel in the Department of Aviation knew that a more current operating agreement existed and the training rate sheet was not updated to include the new device rate in FY17, as it was obtained late in the year.

Effect or Potential Effect:

The outdated operating agreement, annual training rate supplements, and the undocumented training device rate are not in compliance with SBHE policy 340.2, section 3, as all required elements are not in existence.

Operational Improvement:

We recommend the Department of Aviation work with the Division of Finance and Operations to review and become familiar with the current existing operating agreement between UND and the UND Aerospace Foundation. Also, if changes are made to the existing operating agreement, or if a new operating agreement is put in place, we recommend it contain all the required elements, per SBHE Policy 340.2, and adequate clauses for establishing and documenting training rates.

University of North Dakota Response and Corrective Action Plan:

Agree, the Division of Finance and Operations, the Department of Aviation, and the UND Aerospace Foundation will work to ensure that both areas are familiar with and aware of any and all agreements and that all agreements are in compliance with SBHE policy. We will also ensure that as new devices/aircraft are obtained that proper documents are updated to ensure that all required elements are included in any addendums.

Netting Transactions with the Aerospace Foundation (Finding 17-3)

Condition:

The training device transactions between UND and the UND Aerospace Foundation were not all being recorded and accounted for in UND's financial statements. The UND Department of Aviation nets revenues against expenses for certain training devices between UND and the UND Aerospace Foundation, thus decreasing UND's recorded revenues and expenses for FY17 and FY16 by \$1.93 million and \$1.87 million, respectively.

Criteria:

The basis of accounting for the financial statements of the University System is the economic resources measurement focus and the accrual basis of accounting, where all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Cause:

This has been the Department of Aviation's accounting practice for many years.

Effect or Potential Effect:

There is a lack of adhering to basic Generally Accepted Accounting Principles (GAAP).

Operational Improvement:

We recommend the Department of Aviation discontinue the practice of netting revenues and expenses between UND and UND Aerospace Foundation and properly record each transaction.

University of North Dakota Response and Corrective Action Plan:

Agree, in FY19 we will discontinue the netting process and post all transactions to the UND general ledger.

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www.nd.gov/auditor/

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