

NORTH DAKOTA  
UNIVERSITY SYSTEM  
OFFICE

BISMARCK, NORTH DAKOTA

**Audit Report**

For the Two-year Period 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***

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May 21, 2015

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
North Dakota State Board of Higher Education  
Dr. Larry C. Skogen, Chancellor, North Dakota University System

We are pleased to submit this audit of the North Dakota University System Office for the two-year period ended June 30, 2014. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

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

The in-charge auditor for this audit was Alex Mehring, CPA. 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. Skogen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

# ***Executive Summary***

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## ***Introduction***

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

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

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

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

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

## ***Responses to LAFRC Audit Questions***

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

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

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

Yes.

### ***3. Was internal control adequate and functioning effectively?***

Yes.

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

No.

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

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.*

Yes, a management letter was issued and is included on page 18 of this report, along with management's response.

### **LAFRC Audit Communications**

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

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

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

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

9. *Identify any significant audit adjustments.*

In our North Dakota University System audit report for fiscal year 2013, all of the material audit adjustments we proposed for the North Dakota University System Office were recorded. The adjustment included \$2,500,000 of revenues for Core Technology Services (CTS). There were no material fiscal year 2014 audit adjustments.

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

None.

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

None.

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

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

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

None.

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

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

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

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## ***Audit Objectives***

The objectives of this audit of the North Dakota University System Office for the two-year period ended June 30, 2014 were to provide reliable, audited financial statements and to answer the following questions:

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

## ***Audit Scope***

This audit of the North Dakota University System Office is for the two-year period ended June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- The central office in the Capital Building.
- The State Approving Agency in Bismarck.
- Core Technology Services in Grand Forks and Fargo.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the data used in the fiscal year 2014 and fiscal year 2013 North Dakota University System Annual Financial Reports and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately



- represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
  - Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
  - Observed the North Dakota University System Office's processes and procedures.

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

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared in a condensed form to present the North Dakota University System Office's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. Also, the related note disclosures have not been included in this report. Accordingly, the accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

### ***Financial Summary***

Assets at June 30, 2014 were \$23,463,353 compared to \$24,618,458 at June 30, 2013. The decrease was mainly due to large expenses that Core Technology Services made in fiscal year 2014 to ITD and for software licenses.

Total liabilities at June 30, 2014 were \$11,026,713 compared to \$10,913,170 at June 30, 2013. The increase is mainly due to Accounts Payable recorded for Challenge Grants awarded but not funded at June 30, 2014.

For the two-year period ended June 30, 2014, operations of the North Dakota University System Office were primarily supported by appropriations from the state's general fund (84%). Other revenue consisted primarily of ConnectND tuition and fees collected at various campuses and used to partially fund Core Technology Services at the system-wide level (9%). Total revenues were \$76,289,578 for the year ended June 30, 2014 as compared to \$62,051,548 for the year ended June 30, 2013. The increase in revenue is mainly due to an increase of state appropriations for the new biennium 2014-2015 and draw-downs for the Challenge grant.

Total expenses for the North Dakota University System Office were \$77,858,224 for the year ended June 30, 2014 as compared to \$62,051,548 for the prior year. This includes transfers to the Building Authority of \$5,614,449 and \$5,881,188 for June 30, 2014 and 2013, respectively. The increase in total expenses for June 30, 2014 was primarily due to approved raises, new positions, and increase in benefit costs for salaries and wages, payments for the system-wide master plan, and Challenge grant awards.

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

No significant changes noted.

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

For the fiscal years ended June 30, 2014 and 2013, there were no significant variances between the original and final budgeted amounts or between the final budgeted and actual expenses except for a \$17,873,122 adjustment for technology funding and a \$15,240,565 adjustment for security and emergency preparedness during the biennium ended June 30, 2013, a \$10,000,000 adjustment for the deferred maintenance pool, and a \$4,158,262 adjustment for Academic and Technical Education Scholarships for the year ended June 30, 2014.

# Financial Statements

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## Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,682,385	\$ 12,153,464
Accounts receivable, net		2,133,918
Due from other NDUS institutions	3,637,697	
Due from state General Fund	5,997,364	2,027,082
Other assets	6,318	4,827
Capital assets, net	8,139,589	8,299,167
<b>Total Assets</b>	<u>\$ 23,463,353</u>	<u>\$ 24,618,458</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 8,957,272	\$ 3,812,871
Accrued payroll	1,242,170	1,024,177
Deposits	(843,723)	2,123,826
Other noncurrent liabilities	43,307	554,426
Due to others	1,627,687	3,397,870
<b>Total Liabilities</b>	<u>\$ 11,026,713</u>	<u>\$ 10,913,170</u>
<b>NET POSITION</b>		
Invested in capital assets	\$ 8,202,001	\$ 6,396,971
Restricted for:		
Expendable:		
Debt service	(14,028)	
Other	102,229	128,253
Unrestricted	4,146,438	7,180,064
<b>Total Net Position</b>	<u>\$ 12,436,640</u>	<u>\$ 13,705,288</u>

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 6,400,121	\$ 5,953,785
Federal grants and contracts	499,112	614,669
State and local grants and contracts		202,288
Nongovernmental grants and contracts	15,800	31,408
Sales and services of educational departments	3,750,083	3,427,874
<b>Total Operating Revenues</b>	<u>\$ 10,665,116</u>	<u>\$ 10,230,024</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 17,253,972	\$ 14,138,966
Operating expenses	9,797,323	8,360,851
Data processing	5,402,129	5,466,374
Depreciation	1,427,797	1,389,540
Scholarships and fellowships	20,248,778	20,066,499
<b>Total Operating Expenses</b>	<u>\$ 54,129,999</u>	<u>\$ 49,422,230</u>
<b>Operating Loss</b>	<u>\$ (43,464,883)</u>	<u>\$ (39,192,206)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 64,765,947	\$ 51,273,330
Investments income		23
Interest on capital asset-related debt		(66,458)
General and special grant expenses	(13,703,425)	(4,367,105)
Other nonoperating revenues	858,515	548,171
<b>Net Nonoperating Revenues</b>	<u>\$ 51,921,037</u>	<u>\$ 47,387,961</u>
<b>Income before Transfers</b>	\$ 8,456,154	\$ 8,195,755
Transfer to Building Authority	\$ (5,614,449)	\$ (5,881,188)
Inter-institutional transfers	(4,110,351)	(1,310,872)
<b>Total transfers</b>	<u>\$ (9,724,800)</u>	<u>\$ (7,192,060)</u>
<b>Increase (decrease) in net position</b>	<u>\$ (1,268,646)</u>	<u>\$ 1,003,695</u>
<b>NET POSITION</b>		
Net Position-beginning of the year	\$ 13,705,286	\$ 12,701,593
Net Position-end of the year	<u>\$ 12,436,640</u>	<u>\$ 13,705,286</u>

## Statement of Cash Flows

	June 30, 2014	June 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 6,408,769	\$ 5,945,137
Grants and contracts	514,912	869,010
Payments to suppliers	(11,077,001)	(12,372,563)
Payments to employees	(16,890,442)	(13,008,357)
Payments for scholarships and fellowships	(20,248,778)	(20,066,499)
Sales and service of educational departments	2,237,656	1,702,929
Cash paid on deposits	(1,058,237)	(243,446)
Other payments	(3,764,447)	(209,633)
<b>Net cash used by operating activities</b>	<b>\$ (43,877,568)</b>	<b>\$ (37,383,422)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 60,795,666	\$ 51,155,381
Grants and gifts given for other than capital purposes	(13,703,425)	(4,367,105)
Agency fund cash (decrease) increase	(852,502)	8,658
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 46,239,739</b>	<b>\$ 46,796,934</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Transfers to Building Authority	\$ (5,614,449)	\$ (5,881,188)
Proceeds from sale of capital assets		1
Purchases of capital assets	(1,268,220)	(627,028)
Principal paid on capital debt and lease	(1,915,719)	(1,927,646)
Interest paid on capital debt and lease	(34,861)	(80,519)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (8,833,249)</b>	<b>\$ (8,516,380)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments		\$ 24
<b>Net cash provided by investing activities</b>		<b>\$ 24</b>
<b>Net increase (decrease) in cash</b>	<b>\$ (6,471,078)</b>	<b>\$ 897,156</b>
<b>CASH - BEGINNING OF YEAR</b>	<b>\$ 12,153,464</b>	<b>\$ 11,256,308</b>
<b>CASH - END OF YEAR</b>	<b>\$ 5,682,386</b>	<b>\$ 12,153,464</b>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (43,464,883)	\$ (39,192,206)
Adjustments to reconcile net loss to net cash provided (used by operating activities		
Depreciation expense	1,427,797	1,389,540
Other nonoperating expenses	(3,762,956)	(208,278)
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(1,503,779)	(1,732,857)
Grant & contract receivables		20,645
Other assets	(1,491)	(1,354)
Accounts payable and accrued liabilities adjusted for interest payable	4,122,451	397,115
Accrued payroll	217,993	652,904
Compensated absences	145,536	477,705
Deposits	(1,058,237)	813,364
<b>Net cash used by operating activities</b>	<b>\$ (43,877,568)</b>	<b>\$ (37,383,422)</b>

## Statement of Appropriations

### For The Biennium Ended June 30, 2013

OBJECT	2012-2013		FY12 Expense	FY13 Expense	Balance 6-30-13
	Original Appropriation	Appropriation Adjustments			
21550 Capital Assets	\$ 12,204,769		\$ 5,855,984	\$ 5,881,188	\$ 467,597
21560 Student Fin. Assistance Grants	19,374,022	\$ 1,872,124	9,419,726	10,615,516	1,210,904
21562 Scholars Program	2,113,584	395,836	1,124,262	1,158,360	226,798
21563 Title II Grant	695,600	310,872	525,122	435,132	46,218
21565 Native American Scholarships	574,267	217	283,200	272,600	18,684
21568 Technology	36,006,667	(17,873,122)	150,768	16,257,289	1,725,488
21570 Education Incentive Program	3,176,344	396,996	1,945,836	1,589,501	38,003
21571 Tribal Community College Grants	1,000,000		500,000	500,000	
21572 Academic & Tech Ed Scholar.	10,000,000	1,129,104	2,889,972	4,079,370	4,159,762
21573 Student Exchange	3,321,438	442,754	1,759,934	1,858,039	146,219
21574 Professional Liability Insurance	800,000		400,000	400,000	
21575 Two-Year Campus Marketing	800,000		370,257	396,472	33,271
21576 Security & Emergency Prepare.	15,240,565	(15,240,565)			
21578 Competitive Research Program	7,050,000		3,525,000	3,525,000	
21579 Biennium Carryover		297,848	44,463	253,385	
21580 Grants	150,000	(150,000)			
21581 System Governance	6,877,272	586,110	3,651,002	3,758,441	53,939
TOTALS	\$ 119,384,528	\$ (28,078,869)	\$ 32,445,526	\$ 50,980,293	\$ 8,126,883
General Fund Authority	\$ 116,629,810	\$ (28,110,662)	\$ 30,758,636	\$ 50,320,598	\$ 7,439,914
Federal Fund Authority	1,332,724	548,554	1,228,556	652,722	
Special Fund Authority	1,421,994	(269,718)	458,334	6,973	686,969
TOTALS	\$ 119,384,528	\$ (28,078,869)	\$ 32,445,526	\$ 50,980,293	\$ 8,126,883

**Appropriation Adjustments:**

<b>Line Item</b>	<b>Amount</b>	<b>Reason</b>
Student Financial Assistance Grt	\$ 2,220,552	2009-11 carryover
	(348,428)	Did not receive federal funding
Scholars Program	395,836	2009-11 carryover
Title II Grant	310,872	Increase in federal awards
Native American Scholarships	217	2009-11 carryover
Technology	(17,884,658)	Transfer to NDSU & UND for technology funding
	11,536	2009-11 carryover
Education Incentive Program	396,996	2009-11 carryover
Academic & Tech Ed Scholarship	1,129,104	2009-11 carryover
Student Exchange	442,754	2009-11 carryover
Security & Emergency Prepared	(15,240,565)	Transfer to NDUS institutions
Biennium Carryover	297,848	2009-11 carryover
Grants	(150,000)	Transfer to UND and NDSU
System Governance	131,000	Increase ND Partners in Prevention Grant
	208,067	Increase College Access Challenge Grant
Total Appropriation Adjustments	<u>\$ (28,078,869)</u>	

# For The Year Ended June 30, 2014

OBJECT	2014-2015		FY14 Expense	Balance 6-30-14
	Original Appropriation	Appropriation Adjustments		
21550 Capital Assets	\$ 10,436,045		\$ 5,614,449	\$ 4,821,596
21552 Deferred Maintenance Pool	10,000,000	\$ (10,000,000)		
21553 Master Plan & Space Study	1,000,000		956,486	43,514
21554 Capital Projects Contingency	5,483,413	(3,138,331)		2,345,082
21560 Student Fin. Assistance Grants	21,245,679	1,148,621	9,630,809	12,763,491
21561 Veterans Assistance Programs	325,000		325,000	
21562 Scholars Program	2,113,584	226,840	1,114,371	1,226,053
21563 Title II Grant	1,006,472		386,284	620,188
21565 Native American Scholarships	649,267	18,084	310,200	357,151
21568 Technology	38,662,551	159,559	18,858,391	19,963,719
21569 Education Challenge Fund	29,000,000		4,987,236	24,012,764
21570 Education Incentive Program	3,349,000	18,055	1,779,500	1,587,555
21571 Tribal Community College Grnts	1,000,000		500,000	500,000
21572 Academic & Tech Ed Scholar.	10,000,000	4,158,262	5,407,750	8,750,512
21573 Student Exchange	4,275,015	186,533	1,923,093	2,538,455
21575 Two-Year Campus Marketing	800,000	33,271	383,269	450,002
21576 Performance Funding Pool	5,000,000			5,000,000
21577 Student Mental Health	282,520		40,989	241,531
21578 Competitive Research Program	7,050,000		3,525,000	3,525,000
21579 Biennium Carryover		212,351	146,124	66,227
21581 System Governance	12,666,502		5,748,476	6,918,026
TOTALS	\$ 164,345,048	\$ (6,976,755)	\$ 61,637,427	\$ 95,730,866
General Fund Authority	\$ 162,045,136	\$ (6,976,755)	\$ 60,218,211	\$ 94,850,170
Federal Fund Authority	1,295,168		506,107	789,061
Special Fund Authority	1,004,744		913,109	91,635
TOTALS	\$ 164,345,048	\$ (6,976,755)	\$ 61,637,427	\$ 95,730,866



**Appropriation Adjustments:**

<b>Line Item</b>	<b>Amount</b>	<b>Reason</b>
Deferred Maintenance Pool	\$ (10,000,000)	Transfer to NDUS institutions
Capital Projects Contingency	(3,138,331)	Transfer to NDUS institutions
Student Financial Assistance Grt	1,148,621	2011-13 carryover
Scholars Program	226,840	2011-13 carryover
Native American Scholarships	18,084	2011-13 carryover
Technology	159,559	2011-13 carryover
Education Incentive Program	18,055	2011-13 carryover
Academic & Tech Ed Scholarship	4,158,262	2011-13 carryover
Student Exchange	186,533	2011-13 carryover
Two-Year Campus Marketing	33,271	2011-13 carryover
Biennium Carryover	212,351	2011-13 carryover
Total Appropriation Adjustments	<u>\$ (6,976,755)</u>	

## ***Internal Control***

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In our audit for the two-year period ended June 30, 2014, we identified the following areas of the North Dakota University System Office's internal control as being the highest risk:

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

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

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota University System Office in a management letter dated May 21, 2015.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2014, we identified and tested the North Dakota University System Office's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- State Board of Higher Education provided a report to the legislative management regarding distribution of funds from the performance funding pool (2013 SB 2003, chapter 34, section 21).
- The University System provided a report to the appropriations committee regarding the consolidation of the information technology services and provided a comprehensive report of the budget for all information technology services (2013 SB 2003, chapter 34, section 22).
- State Board of Higher Education properly transferred funds from the capital projects contingency pool to institutions (2013 SB 2003, chapter 34, section 24).
- \$1,004,744, or so much of the sum as may be necessary included in subdivision 1 of section 1, from the student loan trust fund of which \$465,307 was used for the Professional Student Exchange program and \$539,437 was used for the ConnectND Campus Solutions positions (2013 SB 2003, chapter 34, section 32).
- The University System reported full-time position adjustments to the Office of Management and Budget before the submission of the 2015-2017 biennium budget request (2013 SB 2003, chapter 34, section 36).
- State Board of Higher Education provided a report to the legislative management regarding matching grants (2013 SB 2003, chapter 34, section 38).
- \$325,000 was provided to assist veterans enrolling at an institution of higher education (2013 HB 1289, chapter 29, section 1).
- Challenge grant moneys were spent in accordance with the North Dakota Century Code (2013 SB 2003, chapter 34, sections 5-10).
- Travel-related expenditures are made in accordance with state statute (NDCC 44-08-03).
- Compliance with payroll-related laws including statutory salaries for applicable appointed positions and certification of payroll.
- Proper use of the State Treasurer (State Constitution, Article X, section 12).
- Compliance with appropriations and related transfers (2011 and 2013 North Dakota Session Laws chapters 3 and 34 respectively).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping.

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

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

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota University System Office in a management letter dated May 21, 2015.

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

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May 21, 2015

Dr. Larry C. Skogen, Chancellor  
North Dakota University System Office  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Dr. Skogen:

We have performed an audit of the North Dakota University System Office for the two-year period ended June 30, 2014, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota University System Office's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

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

The following present our informal recommendations.

### **NDUSO - IMPROPER CHALLENGE GRANT FUNDING (INFORMAL #1)**

#### Condition:

Challenge grant matching funds were provided to NDSU for an activity that is in noncompliance with NDCC 15-10-53 and outside the criteria established by the Grant Review Committee. The NDSU University Mentoring Award was awarded a challenge grant to provide funding to faculty members who mentor students.

#### Criteria:

NDCC 15-10-53 states awards can be made for projects that are dedicated to the advancement of enhanced academics including investments in research, scholarships, technology, endowed chairs, and investments in educational infrastructure, including new capital construction projects that conform with the University System campus master plan and space utilization study.

Effect:

State funds are being utilized for a challenge grant that does not meet the requirements for funding.

Cause:

The definition of educational infrastructure do not clearly indicate what the funds can be used for once a grant is awarded.

Recommendation:

We recommend:

- The NDUS and the Grant Review Committee comply with NDCC and/or committee policy when awarding challenge grant dollars; and
- Define the term educational infrastructure in committee policy.

North Dakota University System Office Response/Planned Corrective Actions:

*Agree. The NDUS award, including program details, was reviewed and approved by the Challenge Grant Committee. The ND Governor's Office, who administers the program and serves on the Challenge Grant Committee, along with legislators and SBHE members indicates The Challenge Fund committee will better define "educational infrastructure" in its guidelines prior to June 30, 2015.*

**NDUSO - TIMELY SUBMISSION OF TRAVEL VOUCHERS (INFORMAL #2)**

Condition:

We noted two travel vouchers out of ten, which were not submitted timely during the fiscal year; requiring them to be paid in a different fiscal year.

Criteria:

GASB Codification of Governmental Accounting and Financial Reporting Standards section 1100.101 states, *A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.*

GASB Codification of Governmental Accounting and Financial Reporting Standards section 1600.116 states, *The measurement focus of a governmental fund financial statements is on expenditures - decreases in net financial resources - rather than expenses. Most expenditures and transfers out are measurable and should be reported when the related liability is incurred.*

Effect:

The items noted as being paid in the wrong fiscal year totaled \$1,048. Recording expenditures in the wrong fiscal year does not allow the governing board to adequately monitor the budget nor is it proper accounting and reporting practice.

Cause:

The travel vouchers were not timely submitted, thus requiring them to be paid in the next fiscal year.

Recommendation:

We recommend the North Dakota University System Office improve its controls surrounding travel vouchers to ensure they are timely submitted and properly recorded in the correct fiscal year.

North Dakota University System Office Response/Planned Corrective Actions:

*Agree. The NDUS Office will continue to educate and remind SBHE members about the importance of submitting travel expense vouchers on a timely basis.*

**CTS - CONTROLS OVER PURCHASE CARDS (INFORMAL #3)**

Condition:

The purchase card administrator for Core Technology Services (CTS) ran an agency statement from JP Morgan but did not reconcile it to the individual statements.

Criteria:

OMB's Policy regarding the reconciliation process for purchasing cards states, "card administrators should run an agency statement with the state's current card provider and reconcile it to the individual statements. They should sign the agency statement denoting reconciliation."

Effect:

CTS is not in compliance with OMB's policy and proper internal controls are not in place to ensure the validity of purchase card expenditures.

Cause:

When CTS became their own business unit and managed the purchase cards, they did not start this reconciliation process.

Recommendation:

We recommend CTS comply with OMB's purchasing card policy by ensuring the individual statements are reconciled to the agency statement and signing the agency statement signaling that the reconciliation was completed.

North Dakota University System Office Response/Planned Corrective Actions:

*Agree. Corrective action has been implemented. CTS purchasing cards are now administered by UND's Purchasing Department. UND Accounting Services audits and completes the voucher payment.*

**CTS - PROPER ACCOUNT CODING (INFORMAL #4)**

Condition:

We noted that Core Technology Services (CTS) was not properly coding expenses to North Dakota State University in the amount of \$334,044. They coded them as IT Services - account 462075, which is a refund account and nets against revenue on the financial statements, instead of recording it as an expense.

Criteria:

Good internal controls require proper coding to ensure the financial statements are accurate.

Effect:

The Sales and Services of Educational Departments revenue on the Statement of Revenues, Expenses and Change in Net Position is understated by \$334,044.

Cause:

It was an oversight by CTS when the voucher was entered into PeopleSoft.

Recommendation:

We recommend CTS ensure transactions are properly coded in the future.

North Dakota University System Office Response/Planned Corrective Actions:

*Agree. CTS has implemented corrective action to comply with the recommendation. CTS AP and AR items are coded by CTS staff and are then audited by UND Accounting Services staff.*

**NDUSO - INADEQUATE RETENTION OF SUPPORTING DOCUMENTATION (INFORMAL #5)**

Condition:

The North Dakota University System Office does not have adequate controls in place to ensure that supporting documentation for transactions is kept for the required records retention period. We noted three journal entries out of 40 tested (8%) that did not have supporting documentation.

Criteria:

NDCC 54-46-05 part 2 states the head of each agency shall "make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and persons directly affected by the agency's activities."

SBHE Policy 1912 part 7 states in part that the University System office shall maintain a continuing program for the management of records as required by NDCC 54-46 using the North Dakota Colleges/Universities general records retention schedule maintained and updated by ND Information Technology Department.

The Committee of Sponsoring Organizations of the Treadway Commission's document Internal Control - Integrated Framework states in part that effective documentation assists in capturing the design of internal control and communicating the who, what, when, where, and why of internal control execution.

Effect:

Without proper support, there is no way to determine if the transaction is appropriate and proper, as well as noncompliance with ND Record Retention Laws.

Cause:

Management is not following the records retention policy.

Recommendation:

We recommend the North Dakota University System Office implement controls to ensure supporting documentation is retained for the required amount of time under the records retention policy.

North Dakota University System Office Response/Planned Corrective Actions:

*Agree. While the NDUS Office is currently very diligent in its documentation, more care will be taken in the future.*

I encourage you to call me at (701) 239-7285 if you have any questions about the implementation of recommendations included in this letter.

Sincerely,



Alex Mehring, CPA  
Auditor in-charge



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