

UNIVERSITY OF  
NORTH DAKOTA  
GRAND FORKS, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2013

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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April 23, 2014

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
North Dakota State Board of Higher Education  
Dr. Robert Kelley, President, University of North Dakota

We are pleased to submit this audit of the University of North Dakota for the biennium ended June 30, 2013. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

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

The in-charge auditor for this audit was Robyn Hoffmann, CPA. John Grettum, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Kelley and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

The 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's work depends also on federal, private, and corporate sources. With other research universities, the University 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 contributes to the public well-being. The University 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 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 included in the Annual Financial Report of the North Dakota University System; 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?*

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?*

Yes, there were indications of a lack of efficiency in financial operations and management of the University of North Dakota including "Inadequate Controls Surrounding Student Residency Determinations" (page 15), "Inadequate Controls Surrounding Student Enrollment Reporting" (page 16), and "Inadequate Controls for Credit Adjustments to Student Accounts" (page 18).

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

Yes.

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

Yes, a management letter was issued with a recommendation relative to improved controls over tuition waivers and is included on page 20 of this report, along with management's positive 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.*

None noted.

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 and allowance for uncollectible receivables. 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. We evaluated the key factors and assumptions used to develop the estimated useful lives and allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

All significant audit adjustments we proposed for the University of North Dakota were recorded during the fiscal years 2013 and 2012 North Dakota University System audits. These adjustments can be seen in the fiscal years 2013 and 2012 NDUS audit reports.

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

None.

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

None.

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

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

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

None.

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

ConnectND Finance, Human Resource Management System (HRMS) and 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***

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## ***Audit Objectives***

The objectives of this audit of the University of North Dakota for the biennium ended June 30, 2013 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 adequately designed 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, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 University of North Dakota has operations in the following locations. Each location was included in the audit scope:

- The main campus in Grand Forks.
- Center for Family Medicine in Bismarck.
- Center for Family Medicine in Minot.
- Southeast Campus of UND School of Medicine & Health Sciences in Fargo.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2013 and 2012 annual financial reports of the North Dakota University System 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 compliance with laws and regulations which included selecting representative samples 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 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.
- Performed walk-throughs in all program areas documenting client procedures.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.

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 University of North Dakota's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. The accompanying financial statements do not include notes to the financial statement and are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

### ***Financial Summary***

Assets increased \$14 million in fiscal year 2013 primarily due to the purchase of investments from cash on hand and construction in progress for the IT Facility building.

Revenues for the University of North Dakota increased by approximately \$18 million in fiscal year 2013. Student tuition and fees (which comprise 28% of total revenues) increased \$9.7 million and state appropriations (which comprise 24% of total revenues) increased \$9 million. The increase in student tuition and fees is due to an approved 2.5% tuition rate increase, an increase in fees of 1%, and an increase in enrollment. The increase in state appropriations is primarily due to general fund appropriations received for the construction of the joint NDUS/UND IT Facility.

Expenses for the University of North Dakota increased by approximately \$13.6 million in fiscal year 2013. Salaries and wages increased by \$8.3 million which is due to a 3% approved salary increase in fiscal year 2013. Data processing increased by \$3.8 million, which is due to a prior period adjustment for EERC equipment capitalized.

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

The University of North new programs included:

- Advanced Public Health Post Master's Certificate
- B.S. with major in Public Health Education
- PhD in Aerospace Science
- M.S.in Nutrition
- Doctor of Nursing Practice
- Higher Education Program (PhD, Ed.D., and M.S.)
- ESSP Minor in Sustainability Studies

The North Dakota Simulation, Teaching and Research Center for Healthcare Education and the Department of Petroleum Engineering were established.

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

The University of North Dakota did not have any significant variances for the general fund expenses as reflected on the statement of appropriations.

# Financial Statements

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## Statement of Net Position

	June 30, 2013	June 30, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,014,636	\$ 25,076,750
Investments	116,675,530	96,686,912
Accounts receivable, net	11,408,851	10,678,110
Due from component units	5,532,731	4,492,109
Due from other NDUS	796,955	
Due from state general fund	1,868,395	759,742
Grants & contracts receivables, net	13,134,167	15,027,412
Inventories	4,020,658	3,664,498
Notes receivable, net	22,210,026	23,515,322
Other assets	1,764,943	1,410,201
Unamortized bond discount	428,252	521,835
Capital assets, net	362,532,369	356,822,971
<b>Total Assets</b>	<b>\$ 553,387,513</b>	<b>\$ 538,655,862</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 8,568,102	\$ 8,313,541
Due to component units	10,986,709	10,913,279
Accrued payroll	12,188,247	11,552,423
Unearned revenue	8,303,648	7,851,324
Deposits	3,291,863	3,345,471
Other liabilities	2,079,578	874,500
Due to others	93,932,665	101,597,238
<b>Total Liabilities</b>	<b>\$ 139,350,812</b>	<b>\$ 144,447,776</b>
<b>NET POSITION</b>		
Invested in capital assets	\$ 266,490,000	\$ 254,311,998
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	13,505,465	12,955,825
Expendable:		
Scholarships and fellowships	1,352,964	1,913,515
Research	3,600,376	3,969,949
Institutional	10,047,823	10,564,725
Loans	27,019,795	27,255,641
Debt service	3,660,441	2,622,902
Unrestricted	88,359,837	80,613,531
<b>Total Net Position</b>	<b>\$ 414,036,701</b>	<b>\$ 394,208,086</b>

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

	June 30, 2013	June 30, 2012
<b>REVENUES AND OTHER ADDITIONS</b>		
Student tuition and fees	\$ 126,584,059	\$ 116,843,762
State appropriations	108,955,601	99,957,594
Federal grants and contracts	70,526,280	81,654,487
Sales and services of educational departments	44,716,461	39,729,771
Auxiliary enterprises	41,303,921	39,510,599
Nongovernmental grants and contracts	24,642,412	21,535,344
Gifts	9,079,588	7,868,966
State and local grants and contracts	8,212,207	8,830,110
Capital grants and gifts	5,553,639	8,527,720
Investments income	3,385,986	1,809,895
Tax revenues	2,797,100	2,479,705
Inter-institutional transfers	1,395,596	
Other	645,695	634,265
Gain on capital assets	508,899	611,215
Insurance proceeds	248,542	56,760
Other nonoperating revenues		70,314
<b>Total Revenues and Other Additions</b>	\$ 448,555,986	\$ 430,120,507
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Salaries and wages	\$ 279,024,002	\$ 270,738,599
Operating expenses	85,430,148	84,909,832
Cost of sales and services	25,675,834	23,820,984
Depreciation	21,226,366	20,572,488
Scholarships and fellowships	7,102,249	7,891,089
Data processing	5,336,331	1,486,593
Interest on capital asset-related debt	4,832,886	5,674,891
Other nonoperating expenses	99,555	
<b>Total Expenses and Other Deductions</b>	\$ 428,727,371	\$ 415,094,476
<b>Revenue over expenses</b>	\$ 19,828,615	\$ 15,026,031
<b>NET POSTION</b>		
Net Position-beginning of the year	394,208,086	379,182,055
Net Position-end of the year	\$ 414,036,701	\$ 394,208,086

## Statement of Appropriations

For The Biennium Ended June 30, 2013

### UNIVERSITY OF NORTH DAKOTA

Expenses by line item	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	\$ 136,593,792	\$ 6,048,442	\$ 142,642,234	\$ 142,642,234	
Capital Assets	47,458,712	(30,450,000)	17,008,712	14,347,712	\$ 2,661,000
Capital Assets-Carryover		4,075,278	4,075,278	4,075,278	
Capital Assets - Off System					
EERC Slurry Building		2,700,000	2,700,000		2,700,000
University Townhome Apartments		5,000,000	5,000,000		5,000,000
Wilkerson Hall Renovation Addition		14,000,000	14,000,000	190,133	13,809,867
Flight Operation Center Renovation		750,000	750,000	576,364	173,636
Education Building Renovation		10,000	10,000	8,863	1,137
NDUS UND IT Facility		4,348,523	4,348,523	451,646	3,896,877
Capital Project Off System - Carryover					
Energy Improvement project		1,210,554	1,210,554	1,019,071	191,483
Airport Hangar Renovation		34,395	34,395	32,709	1,686
Education Building Project		1,333,010	1,333,010	232,743	1,100,267
Northern Plains		69,480	69,480	2,458	67,022
EERC Hydrogen Tech Addition		3,604,146	3,604,146	3,593,379	10,767
Scale Up Classroom O'Kelly/Ireland		923,170	923,170	915,314	7,856
College of Business Renovation		20,500,000	20,500,000		20,500,000
Indoor Track & Practice Facility		19,500,000	19,500,000	101,771	19,398,229
Alumni Center		2,000,000	2,000,000	1,483,167	516,833
ARRA Nursing Ed Consortium		389	389	(124)	513
ARRA Energy Efficiency		1,779,252	1,779,252	1,716,157	63,095
ARRA UND for Ed Building Reno		1,564,108	1,564,108	1,555,091	9,017
<b>Totals</b>	<b>\$ 184,052,504</b>	<b>\$ 59,000,747</b>	<b>\$ 243,053,251</b>	<b>\$ 172,943,966</b>	<b>\$ 70,109,285</b>
<b>Expenses by source</b>					
General Fund	\$ 153,602,504	\$ 10,123,720	\$ 163,726,224	\$ 161,065,224	\$ 2,661,000
Federal Fund		3,343,749	3,343,749	3,271,124	72,625
Special Fund	30,450,000	45,533,278	75,983,278	8,607,618	67,375,660
<b>Totals</b>	<b>\$ 184,052,504</b>	<b>\$ 59,000,747</b>	<b>\$ 243,053,251</b>	<b>\$ 172,943,966</b>	<b>\$ 70,109,285</b>

### Appropriation Adjustments:

#### Operating Expenses

The \$6,048,442 increase includes:

- \$2,184,750 transfer from the NDUS for system information technology services pursuant to 2011 HB1003, section 9.
- \$75,000 transfer from the NDUS for educational leadership programs pursuant to 2011 SB2015, section 20.
- \$3,788,692 transfer from the NDUS for equity and student affordability funding pursuant to 2011 HB1003, section 6.

### Capital Assets

The \$30,450,000 decrease is a transfer of special fund authority to the Capital Assets-Off System line for various projects that are not funded with state general funds but from other sources and are reported separately to OMB. For a detail listing of these projects see Capital Assets-Off System below.

### Capital Assets-Carryover

The \$4,075,278 is unspent general fund carried over from the prior biennium pursuant to NDCC 54-44.1-11.

### Capital Assets-Off System

The total adjustment of \$26,808,523 includes:

\$30,450,000 special fund authority, transferred from capital assets above, for various projects originally appropriated in 2011 HB 1003:

- \$2,700,000 for the EERC Slurry Building Expansion
- \$5,000,000 bond issuance for the University Townhome Apartments
- \$14,000,000 bond issuance for the Wilkerson Hall renovation and addition
- \$750,000 for the Flight Operations Center renovation
- \$8,000,000 for the Joint Information Technology project

\$10,000 increase for the Education Building Addition and Renovation to be paid by donations. The increase was approved by the Budget Section December 13, 2011.

(-\$8,000,000) decrease of special funds for the Joint Information Technology project because a federal grant would not be available. The reduction in scope was approved by the Budget Section March 13, 2012.

\$4,348,523 increase in the Joint Information Technology project from additional funding authorized pursuant to 11 HB1003, section 7.

### Capital Project-Off System-Carryover

The special fund projects listed under this line item were appropriated in prior bienniums by the legislature or Budget Section except for the Scale-Up Classroom which was approved by the BHE. The projects listed were carried over pursuant to NDCC 54-44.1-11.

**MEDICAL SCHOOL**

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 46,783,021	\$ 1,064,950	\$ 47,847,971	\$ 47,847,971	
<b>Totals</b>	<b>\$ 46,783,021</b>	<b>\$ 1,064,950</b>	<b>\$ 47,847,971</b>	<b>\$ 47,847,971</b>	<b>\$ -</b>
<b>Expenses by source</b>					
General Fund	\$ 46,783,021	\$ 1,064,950	\$ 47,847,971	\$ 47,847,971	
<b>Totals</b>	<b>\$ 46,783,021</b>	<b>\$ 1,064,950</b>	<b>\$ 47,847,971</b>	<b>\$ 47,847,971</b>	<b>\$ -</b>

**Appropriation Adjustments:**

Operating Expenses

The \$1,064,950 increase is a transfer from the NDUS for equity and student affordability funding pursuant to 2011 HB1003, section 6.

## *Internal Control*

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In our audit for the biennium ended June 30, 2013, we identified the following areas of the University of North Dakota's internal control as being the highest risk:

***Internal Controls Subjected to Review or Testing:***

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

The criteria used to evaluate internal control 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.



## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2013, 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-third legislative assembly on the use of one-time funding for the biennium beginning July 1, 2011, and ending June 30, 2013 (11 HB 1003, chapter 3, section 2).
- A committee was appointed by the legislative management committee to study of the ability of the University of North Dakota School of Medicine and Health Science to meet the health care needs of the state. The findings should be reported to the sixty-third legislative assembly (11 HB 1003, chapter 3, section 23).
- 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).
- Being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Conflict of interest (NDCC 12.1-13-03, 48-01.2-08 and 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- 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* 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.

## *Operations*

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Our audit of the University of North Dakota identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding non-cash adjustments, residency determinations, and enrollment reporting:

We also noted a certain matter involving tuition and fee waiver operations that we have reported to management of the University of North Dakota in a management letter dated April 23, 2014.

### ***Inadequate Controls Surrounding Student Residency Determinations (Finding 13-1)***

#### **Condition:**

Proper controls have not been established for student residency determinations and subsequent changes to student residency status. Consequently, initial student residency determinations could be inaccurate or unauthorized changes could be recorded without detection. Specifically, we noted the following conditions:

- Proper proof of residency status is not required for older than average students and students that obtained a general equivalency diploma.
- Proper proof of re-determination of student residency status is not obtained for all redeterminations.
- Changes to residency status are not approved by an individual independent of recording changes in residency status.
- Residency reports are not reviewed by an independent individual to identify data errors and other anomalies such as in-state residency with out-of-state addresses.

#### **Criteria:**

The criteria for determination of residency for tuition purposes is governed by State Board of Higher Education policy 504 and NDCC 15-10-19.1.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring and verification methods are necessary to ensure management objectives are effectively achieved.

#### **Cause:**

The University of North Dakota has not properly developed policies and procedures surrounding student residency status including documentation requirements, independent approval procedures, and verification methods for both initial and redeterminations of student residency status.

#### **Effect or Potential Effect:**

Accurate student residency status determinations are critical because of difference between in-state and out-of-state tuition rates. For the 2012-2013 academic year, the University of North Dakota tuition and fees totaled \$7,254 for ND residents compared to tuition and fees up to \$17,170 for non-residents. Eight of the twenty students tested did not appear to have met residency requirements.

The student residency status is reported on for IPEDS and to the State Board of Higher Education. Improper recording of student residency status could cause both state and federal data to be incorrect.

#### **Operational Improvement:**

We recommend the University of North Dakota strengthen student residency controls to:

- Require, obtain, and compare proof of residency status for older than average students and students that obtained a general equivalency diploma;
- Ensure that proper proof of residency is received when re-determining a student's residency status;
- Ensure review and approval of student residency changes by an independent individual; and,
- Review of residency reports by an independent individual to identify data errors or other anomalies.

#### **University of North Dakota's Response:**

*Disagree. Currently, NDUS recommends that we not collect proof of residency as the Common Application is certified by the applicant to be true and correct representation at the time of the signature.*

*Disagree. The application is a true and accurate signed legal document. UND asks all applications, excluding Military, to submit a copy of their ND driver's license to demonstrate intent.*

*Agree. One individual will approve the residency application and another individual will update the system with the residency change.*

*Agree. UND will ask Core Technology Services (CTS) to identify common residency procedures so everyone understands the data being extracted for reports and to ensure that the data in the residency fields in the system are being used according to established procedures.*

*[See Appendix A for the supplemental response to the operational improvement]*

#### **Auditor Concluding Remarks:**

*We conclude that the NDUS procedure (504) does not meet the minimum requirements set forth by NDCC 15-10-19.1. Thus, UND does not require adequate supporting documentation for older than average students, students with a general equivalency diploma, or students who are re-determining their residency status. A driver license is not adequate proof of intent. There is a high risk that non-resident's could erroneously receive the resident rate which would result in forgone revenue and improper reporting to external parties including the SBHE, legislature and the federal government.*

### **Inadequate Controls Surrounding Student Enrollment Reporting (Finding 13-2)**

#### **Condition:**

Proper controls have not been developed surrounding student enrollment. Specifically, we noted the following conditions:

- Policies and procedures have not been developed and documented to include course exclusions, and enrollment reporting;
- Matriculation criteria have not been developed to ensure required enrollment documents such as immunization records are received prior to allowing the student to register for classes;
- Segregation of duties have not been developed to ensure the enrollment reports are reviewed and verified by an individual independent of preparation.

**Criteria:**

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure management objectives are effectively achieved.

**Cause:**

The University of North Dakota has not adequately reviewed the student enrollment reporting process and developed proper policies and procedures.

**Effect or Potential Effect:**

There is an increased risk of possible inaccurate or inconsistent enrollment reporting to the State Board of Higher Education (SBHE) and Integrated Postsecondary Education Data System (IPEDS) and potential health risk to the student population.

**Operational Improvement:**

We recommend the University of North Dakota strengthen its controls surrounding student enrollment reporting to:

- Develop documented policies and procedures including course exclusions, student admissions, and enrollment reporting.
- Develop matriculation criteria to ensure all enrollment documents are received prior to allowing the student to register for classes.
- Segregate duties to ensure enrollment reporting to the SBHE and IPEDS is reviewed by an individual independent of preparation.

**University of North Dakota's Response:**

*Disagree. UND complies with NDUS policy 440 which is our documented policy.*

*Disagree. UND Student Health Services (SHS) Policy #400-51 and Corresponding SHS Form #170 includes Instruction Sheet, providing early indicator to student "incomplete information may result in your form being returned to you and your registration being delayed or blocked". UND Student Health Services has a tracking system to facilitate identification of students who are immunized and those who are not.*

*Disagree. The Manager of Academic Reporting runs, edits, and confirms enrollment reporting. The Registrar uses this report for IPEDS reporting. The enrollment report is input into IPEDS with no manipulation, the enrollment and IPEDS report match.*

*[See Appendix A for the supplemental response to the operational improvement]*

**Auditor Concluding Remarks:**

*We conclude that UND allows students to be matriculated, register and attend classes, for an entire semester before placing a hold on the students' account - restricting the student from registering for classes the following semester. By circumventing NDUS policy 506.1, UND potentially jeopardizes the health of thousands of students' due to exposure to vaccine-preventable diseases.*

*We conclude that there is inadequate segregation of duties surrounding the review of information entered into the IPEDS reporting system, as the Registrar enters, reviews, and submits the information to the IPEDS reporting system with no independent review as is clearly noted in the client's response above.*

**Inadequate Controls for Credit Adjustments to Student Accounts (Finding 13-3)**

**Condition:**

Controls surrounding non-cash credit adjustments and student refunds are inadequate. Specifically we noted the following conditions:

- Processing and monitoring policies for aviation simulator/instructor credits are not documented
- No documented authorization process for parking fee credit adjustments.
- Insufficient supporting documentation for parking fee credit adjustments.

**Criteria:**

State Board of Higher Education Policy 830.2, Refund Policy, directs each institution to adopt written procedures for institutional charges to comply with requirements of federal law and implementing regulations and the refund policy concerning refunds to students. Institutional charges is defined in the refund policy as tuition, fees, room, board and other education-related charges assessed the student by the institution.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

**Cause:**

The University of North Dakota has not adequately developed and implemented policies and procedures for non-cash adjustments to student accounts.

**Effect or Potential Effect:**

University of North Dakota lacks assurance regarding the propriety of credit adjustments recorded to student accounts and erroneous adjustments could be recorded without detection. Furthermore, unauthorized and improper refund payments could be processed without detection. During fiscal year 2012 through March 2013, non-cash credit adjustments recorded to student accounts totaled approximately \$8.1 million.

**Operational Improvement:**

We recommend the University of North Dakota strengthen controls surrounding non-cash credit adjustments posted to student accounts to:

- Develop documented processing and monitoring policies for aviation simulator/instructor credits.
- Provide adequate authorization for all parking fee credit adjustments.
- Ensure adequate supporting documentation is maintained for parking fee credit adjustments.

***University of North Dakota's Response:***

*Agree. While the process does exist for the processing and monitoring of these credits, they are not fully documented. We will update our procedures manual to include the process.*

*Agree. UND implemented this improvement prior to the fieldwork for this audit. The audit sampled two transactions from August and November 2011. Parking reorganized with 100% new staff starting in late 2011 and 2012. Adequate authorization and documentation now exist for parking credits.*

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

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April 23, 2014

Ms. Alice Brekke, CPA  
Vice President for Finance and Operations  
University of North Dakota  
264 Centennial Drive, Stop 8378  
Grand Forks, ND 58202-8378

Dear Ms. Brekke:

We have performed an audit of the University of North Dakota for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the University of North Dakota'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 recommendation.

### **INADEQUATE CONTROLS FOR WAIVER ADJUSTMENTS TO STUDENT ACCOUNTS**

#### **Condition:**

The University of North Dakota grants various waivers including waivers for Employees, Veteran Spouse Dependents, and Cultural Diversity. Control procedures surrounding the awarding of these waivers are not adequate. Specifically the following conditions were noted:

- Policies for Graduate School and Law School Cultural Diversity waivers are insufficient.
- Lack of an independent verification to ensure that the approved waivers were posted properly to the student account.
- Inadequate supporting documentation for Law School Cultural Diversity waivers.

**Criteria:**

State Board of Higher Education Policy 820 – Tuition Waivers, directs each institution may adopt procedures providing for waiver of tuition and fees.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control – Integrated Framework: Proper design and implementation of internal control policies and procedures for verification methods are necessary to ensure objectives are effectively achieved.

**Cause:**

The University of North Dakota has not developed proper policies for awarding the Graduate School and Law School Cultural Diversity waivers.

**Effect or Potential Effect:**

There is an increased risk of possible improper waivers granted to students. Tuition waivers granted to students for the Fall 2011 term through March 2013 totaled approximately \$18.2 million.

**Informal Recommendation 13-1:**

We recommend the University of North Dakota strengthen the controls surrounding tuition waivers including developing:

- Documented policies for awarding the Graduate School and Law School Cultural Diversity waivers;
- An independent verification to ensure the approved waivers were posted properly to the student accounts;
- Maintain adequate supporting documentation for Law School Cultural Diversity waivers.

**University of North Dakota's Response:**

*Agree. The School of Law will document policies/procedures on awarding and maintaining documentation for waivers.*

*Agree. The School of Graduate Studies will take existing information posted on their website and expand it to create a clear and comprehensive policy regarding cultural diversity waivers and how they are awarded. We will post this policy on our website once completed. This process will be completed by the start of the Fall 2014 term.*

*Agree. A procedure for verification was finalized 10/23/2013, prior to this audit field work.*

I encourage you to call me at 701-239-7291 or an audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Robyn Hoffmann, CPA  
Auditor in-charge



## ***Appendix A – Supplemental Responses***

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### ***Inadequate Controls Surrounding Student Residency Determinations (Finding 13-1)***

#### ***University of North Dakota's Response:***

*Disagree. Residency status is not determined by the age of an applicant or by the type of degree earned. Currently, North Dakota University System recommends that we not collect proof of residency upon initial application as the Common Application is certified by the applicant to be true and correct representation of the information collected at the time of the signature.*

*Disagree. The application is a true and accurate signed legal document. UND asks all applications, excluding Military, to submit a copy of their North Dakota driver's license to demonstrate intent. To request more documentation for all applications as auditors suggest instead of our current process of sampling 1 out of 7 applications is not efficient and offers little benefit.*

*Agree. One individual will approve the residency application and another individual will update the system with the residency change.*

*Agree. UND will ask Core Technology Services (CTS) to identify common residency procedures so everyone understands the data being extracted for reports and to ensure that the data in the residency fields in the system are being used according to established procedures.*

### ***Inadequate Controls Surrounding Student Enrollment Reporting (Finding 13-2)***

#### ***University of North Dakota's Response:***

*Disagree. UND complies with NDUS policy 440 which is our documented policy. The Registrar's Office procedures for enrollment reporting are attached as an appendix.*

*Disagree. Criteria developed as identified in UND Student Health Services (SHS) Policy #400-51 Version Dated 06/15/2012 entitled Immunization & TB Compliance. Revision issued 03/24/2014. Corresponding SHS Form #170 (updated 01/19/2013), includes Instruction Sheet, providing early indicator to student "incomplete information may result in your form being returned to you and your registration being delayed or blocked". UND Student Health Services broadly utilizes effective strategies to pro-actively inform students/families of policy, provides access for immunization at various outreach locations on campus in addition to the clinic, and has a tracking system to facilitate identification of students who are immunized and those who are not.*

*Disagree. The segregation of duties includes CTS (Core Technology Services), a division of the North Dakota University System running reports off of tables within the Campus Solutions module. The reports are sent to the Registrar's office. The reports are course listings and include listings of course exclusions. The Registrar reviews these reports and communicates with CTS on any courses included or not included. This review does not include enrollments,*

*just course listing. Once the Registrar has approved the course listing the Manager of Academic Reporting runs, edits and confirms enrollment reporting. This enrollment report is then distributed to Institutional Research, the Registrar, and the campus community. The report is also run by CTS for NDUS enrollment reporting. In addition, the Registrar uses this report for IPEDS reporting. The enrollment report is input into IPEDS with no manipulation, the enrollment and IPEDS report match.*

You may obtain audit reports on the internet at:

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

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241