

UNIVERSITY OF  
NORTH DAKOTA  
GRAND FORKS, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2015

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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**OFFICE OF THE STATE AUDITOR**  
FARGO BRANCH OFFICE  
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FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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March 24, 2016

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
State Board of Higher Education  
Mr. Edward Schafer, Interim President, University of North Dakota

We are pleased to submit this audit of the University of North Dakota for the year ended June 30, 2015. 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 and audit manager for this audit was Robyn Hoffmann, CPA. 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 Schafer and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "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 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 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?*

No.

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

Yes, all recommendations included in the prior audit report were implemented.

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

No.

## **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 management conflicts of interest or significant unusual transactions, however in fiscal year 2015, the University of North Dakota changed accounting policies related to pensions by adopting GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

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 they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

In fiscal year 2014, the University of North Dakota had a significant posted audit adjustment of \$31.6 million to reclassify recharge center expense between cost of goods sold and other supplies. In fiscal year 2015, significant audit adjustments were not necessary.

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, 2015 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, 2015. 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 University of North Dakota's sole location is its Grand Forks campus which was included in the audit scope.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2015 and 2014 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 internal control and 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 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.

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. 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).

For the biennium ended June 30, 2015, operations of the University of North Dakota were primarily supported by appropriations from the state's general fund, student tuition and fees, federal grants and contracts, sales and services of educational departments, and auxiliary enterprises.

### *Financial Summary*

Total assets increased \$75 million in fiscal year 2015 due to various factors:

- Cash and cash equivalents decreased \$24 million due to spending \$15 million bond proceeds for Wilkerson Hall and the reinvestment of \$10 million from cash to investments.
- Due from state general fund increased \$11 million for an appropriation receivable for the School of Medicine Health Science facility project.
- Capital assets increased \$86 million primarily due to the construction of the School of Medicine Health Science facility project for \$55 million, the Law School addition for \$10 million, the Indoor Practice facility for \$11 million, and the Wilkerson Hall addition for \$16 million.

Deferred Outflows of Resources and Deferred Inflows of Resources each increased \$5.7 million due to the implementation of GASB 68, relating to pensions.

Total liabilities increased \$27 million in fiscal year 2015 because the University of North Dakota recorded a \$29 million pension liability due to the implementation of GASB 68, relating to the recognizing of pensions liabilities and expense.

Total revenues were \$519,399,276 for the year ended June 30, 2015 compared to \$462,818,910 for the year ended June 30, 2014. The \$57 million increase is primarily due to \$49 million state appropriations for capital assets and \$9 million for capital grants and gifts. State appropriations for capital assets included \$8.8 million for the Law School renovation and \$41 million for the School of Medicine Health Sciences facilities project. Capital grants and gifts included \$5.3 million for the Indoor Practice facility and \$1.7 million for the Law School renovation. Capital grants and gifts revenue was from the UND Alumni Association and Foundation.

Total expenses for the University of North Dakota were \$442,486,781 for the year ended June 30, 2015 as compared to \$431,347,506 for the prior year. The \$11 million increase in total expenses for the audited period is primarily due to operating expenses which includes:

- \$2.4 million increase in recharge fees for the Memorial Union, McCannel Hall, and Upson II Lab renovations; and
- \$10.5 million adjustment to correct interdepartmental revenue.



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

There were no significant changes in operations.

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

There were no significant variances between budgeted and actual expenditures.

# Financial Statements

## Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 40,242,565	\$ 63,899,706
Investments	112,634,222	103,490,307
Accounts receivable, net	8,937,610	11,998,220
Due from component units	7,810,349	4,540,289
Due from other NDUS	645,074	3,901,576
Due from state general fund	16,843,312	5,507,535
Grants & contracts receivables, net	10,213,502	12,980,701
Inventories	4,043,804	4,075,287
Notes receivable, net	20,321,989	21,599,467
Other assets	1,625,399	2,110,273
Unamortized bond discount	210,207	219,807
Capital assets, net	473,841,485	387,930,688
<b>Total assets</b>	<u>\$ 697,369,518</u>	<u>\$ 622,253,856</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources	\$ 6,627,004	\$ 976,937
<b>Total deferred outflows of resources</b>	<u>\$ 6,627,004</u>	<u>\$ 976,937</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 17,013,754	\$ 15,388,841
Due to component units	9,860,136	10,251,839
Accrued payroll	13,723,426	12,319,141
Unearned revenue	10,510,768	9,258,009
Deposits	2,811,543	2,623,195
Pension liability	29,432,374	
Other liabilities	3,115,961	3,232,447
Due to others	119,591,922	125,488,851
<b>Total liabilities</b>	<u>\$ 206,059,884</u>	<u>\$ 178,562,323</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources	\$ 5,745,319	
<b>Total deferred inflows of resources</b>	<u>\$ 5,745,319</u>	
<b>NET POSITION</b>		
Invested in capital assets	\$ 360,883,304	\$ 285,648,784
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	14,251,497	14,570,498
Expendable:		
Scholarships and fellowships	1,633,731	1,586,876
Research	3,541,958	4,106,918
Institutional	16,863,988	14,875,688
Loans	27,566,024	27,069,767
Debt service	3,690,276	3,670,690
Unrestricted	63,760,541	93,139,249
<b>Total net position</b>	<u>\$ 492,191,319</u>	<u>\$ 444,668,470</u>

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

	June 30, 2015	June 30, 2014
<b>REVENUES AND OTHER ADDITIONS</b>		
Student tuition and fees	\$ 130,819,271	\$ 128,806,561
State appropriations	108,236,618	101,623,783
State appropriations-capital assets	68,460,994	19,139,744
Federal grants and contracts	64,193,331	68,041,904
Sales and services of educational departments	50,898,669	47,831,285
Auxiliary enterprises	34,524,589	34,243,346
Nongovernmental grants and contracts	18,398,847	23,964,338
Capital grants and gifts	15,762,881	6,883,081
State and local grants and contracts	10,426,034	10,888,226
Gifts	9,283,529	9,079,004
Tax revenues	3,576,588	2,895,497
Investment income	1,822,333	4,443,080
Other nonoperating revenues	1,498,613	
Gain on capital assets	1,031,103	
Other	745,787	697,245
Insurance proceeds	20,089	196,211
Inter-institutional transfers		4,085,605
<b>Total revenues and other additions</b>	<b>\$ 519,699,276</b>	<b>\$ 462,818,910</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 296,888,737	\$ 289,172,631
Operating expenses	100,350,958	87,222,682
Depreciation	21,189,980	21,384,633
Scholarships and fellowships	6,655,723	6,511,334
Cost of sales and services	6,583,010	16,015,799
Interest on capital asset-related debt	5,283,410	4,893,760
Data processing	5,108,082	4,566,386
Inter-institutional transfers	426,881	
Loss on capital assets		625,962
Other nonoperating expenses		954,319
<b>Total operating expenses</b>	<b>\$ 442,486,781</b>	<b>\$ 431,347,506</b>
<b>Revenue over expenses</b>	<b>\$ 77,212,495</b>	<b>\$ 31,471,404</b>
<b>NET POSITION</b>		
Net Position-beginning of the year, as restated	\$ 414,978,824	\$ 413,197,066
Net Position-end of the year	<u>\$ 492,191,319</u>	<u>\$ 444,668,470</u>

## Statement of Cash Flows

	June 30, 2015	June 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 131,332,886	\$ 129,571,969
Grants and contracts	87,426,946	91,795,488
Payments to suppliers	(107,641,896)	(102,670,732)
Payments to employees	(295,627,688)	(288,794,256)
Payments for scholarships and fellowships	(6,655,723)	(6,511,334)
Loans issued to students	(3,522,794)	(3,408,373)
Collection of loans to students	4,704,405	3,488,942
Auxiliary enterprise charges	34,450,924	34,326,870
Sales and service of educational departments	53,919,163	48,757,165
Cash received (paid) on deposits	(69,105)	145,550
Other receipts (payments)	(6,682,322)	2,943,516
<b>Net cash used by operating activities</b>	<b>\$ (108,365,204)</b>	<b>\$ (90,355,195)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 108,236,618	\$ 101,623,783
Grants and gifts received for other than capital purposes	18,728,446	20,303,901
Direct lending receipts	94,816,298	69,245,831
Direct lending disbursements	(94,627,231)	(69,226,230)
Agency fund cash decrease	45,179	(891,275)
Tax revenues	3,576,588	2,895,497
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 130,775,898</b>	<b>\$ 123,951,507</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt		\$ 45,235,000
Capital appropriations	\$ 57,125,217	15,500,604
Capital grants and gifts received	15,520,411	3,571,902
Proceeds from sale of capital assets	2,171,351	655,800
Purchases of capital assets	(100,077,892)	(46,245,982)
Insurance proceeds	135,766	8,995
Principal paid on capital debt and lease	(8,358,417)	(15,786,532)
Deferred gain on refunding of debt		1,746
Interest paid on capital debt and lease	(5,268,923)	(3,302,984)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (38,752,487)</b>	<b>\$ (361,451)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 152,250,000	\$ 87,250,000
Interest on investments	2,684,657	2,650,215
Purchase of investments	(162,250,005)	(72,250,006)
<b>Net cash provided (used) by investing activities</b>	<b>\$ (7,315,348)</b>	<b>\$ 17,650,209</b>
<b>Net increase (decrease) in cash</b>	<b>\$ (23,657,141)</b>	<b>\$ 50,885,070</b>
CASH - BEGINNING OF YEAR	\$ 63,899,706	\$ 13,014,636
CASH - END OF YEAR	<b>\$ 40,242,565</b>	<b>\$ 63,899,706</b>

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<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Operating loss	\$ (136,511,330)	\$ (121,770,104)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	21,189,980	21,384,633
Other nonoperating revenues	1,067,785	2,591,602
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	2,875,949	770,966
Grant & contract receivables	2,650,102	270,563
Inventories	31,482	(54,629)
Notes receivable	1,277,478	610,559
Other assets	(8,495,894)	(345,330)
Accounts payable and accrued liabilities adjusted for interest payable	5,104,541	4,708,259
Pension liability	4,533,805	
Net change in deferred outflows	(4,704,669)	
Net change in deferred inflows		
Accrued payroll	1,429,632	214,703
Compensated absences	2,280	163,673
Deferred revenue	1,252,759	954,361
Deposits	(69,105)	145,550
Net cash used by operating activities	<u>\$ (108,365,205)</u>	<u>\$ (90,355,194)</u>

**SUPPLEMENTAL DISCLOSURE ON NON-CASH  
TRANSACTIONS**

Assets acquired through capital lease	\$ 1,750,809	\$ 56,227
Expenses paid by capital lease/special assessment	83,800	298,290
Gifts of capital assets	690,000	14,100
Total non-cash transactions	<u>\$ 2,524,609</u>	<u>\$ 368,617</u>

## Statement of Appropriations

For The Biennium Ended June 30, 2015

### UNIVERSITY OF NORTH DAKOTA

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating expenses	\$ 153,354,767	\$ (3,671,762)	\$ 149,683,005	\$ 149,683,005	
Capital assets	173,688,828	(84,207,683)	89,481,145	84,939,738	\$ 4,541,407
Capital assets - carryover		2,661,000	2,661,000	2,661,000	
Capital improve-off system					
Purchase resident apt bldg		8,300,000	8,300,000	8,130,000	170,000
Student housing facility		19,187,262	19,187,262		19,187,262
Wilkerson renovation		15,000,000	15,000,000	5,325,980	9,674,020
College of Business reno		20,500,000	20,500,000		20,500,000
Indoor track football project		19,398,229	19,398,229	15,838,396	3,559,833
Law school renovation		2,507,448	2,507,448	1,665,907	841,541
SMHS skywalk		750,000	750,000		750,000
Collaborative energy project		15,500,000	15,500,000	461,977	15,038,023
Cap proj-off system-carryover					
NDUS IT facility		4,334,030	4,334,030	3,811,943	522,087
Energy improve projects		191,482	191,482	191,482	
Wilkerson hall project		13,809,867	13,809,867	13,809,867	
Totals	<u>\$ 327,043,595</u>	<u>\$ 34,259,873</u>	<u>\$ 361,303,468</u>	<u>\$ 286,519,295</u>	<u>\$ 74,784,173</u>

### Expenses by source:

General fund	\$ 230,556,333	\$ 11,268,817	\$ 241,825,150	\$ 237,283,743	\$ 4,541,407
Special fund	96,487,262	22,991,056	119,478,318	49,235,552	70,242,766
Totals	<u>\$ 327,043,595</u>	<u>\$ 34,259,873</u>	<u>\$ 361,303,468</u>	<u>\$ 286,519,295</u>	<u>\$ 74,784,173</u>

### Appropriation Adjustments:

#### Operating expenses

The (\$3,671,762) adjustment reflects a transfer to the University of North Dakota School of Medicine pursuant to 2013 SB 2003, section 33.

#### Capital assets

The (\$84,207,683) adjustment includes:

- (\$82,387,262) transfer to the capital improvement off system line for:
  - Purchase resident apartment building - \$8,300,000
  - Student housing facility revenue bond- \$19,187,262
  - Wilkerson Hall revenue bond - \$15,000,000
  - College of Business – \$20,500,000
  - Indoor track football project - \$19,500,000
- (\$14,000,000) transfer to the capital project off system carryover line for Wilkerson Hall revenue bond.
- \$2,667,599 transfer from the NDUS for deferred maintenance allocation pursuant to SB 2003, section 21.

- \$7,798,196 increased special fund authority for phase II of the University of North Dakota School of Medicine facility project pursuant to SB 2003, section 28.
- \$1,813,785 transfer from the NDUS for the capital projects contingency pool. These funds were designated for the Law School renovation and addition (\$505,828) and the University of North Dakota School of Medicine facility project (\$1,307,957).

#### Capital assets carryover

This adjustment reflects the unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11. These funds were designated for extraordinary repairs (\$2,367,871) and the NDUS joint info. tech. building project (\$293,129).

#### Capital assets off system

These adjustments include:

- Transfers from the capital asset line for special fund authorization for the following:
  - Purchase resident apartment building - \$8,300,000
  - Student housing facility revenue bond- \$19,187,262
  - Wilkerson Hall revenue bond - \$15,000,000
  - College of Business – \$20,500,000
  - Indoor track football project - \$19,500,000 less \$101,771 prior biennium expenses.
- \$2,507,448 increase special fund authority for the Law School renovation approved by the budget section June 25, 2014.
- \$750,000 increase special fund authority for the School of Medicine skywalk project pursuant to SB 2003, section 27.
- \$15,500,000 increase special fund authority for a Collaborative Energy Center project approved by the budget section December 11, 2013.

#### Capital off system carryover

These adjustments include special fund authority from the prior biennium carried over pursuant to NDCC 54-44.1-11 for the NDUS IT facility (\$4,334,030) and energy improvement projects (\$191,482).

\$14,000,000 transfer from the capital assets line for the Wilkerson Hall reauthorization less \$190,133 prior biennium expenses.

**MEDICAL SCHOOL**

<b>Expenses by line item</b>	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 56,505,634	\$ 3,671,762	\$ 60,177,396	\$ 60,177,396	
<b>Totals</b>	<u>\$ 56,505,634</u>	<u>\$ 3,671,762</u>	<u>\$ 60,177,396</u>	<u>\$ 60,177,396</u>	

**Expenses by source**

General Fund	\$ 56,505,634	\$ 3,671,762	\$ 60,177,396	\$ 60,177,396	
<b>Totals</b>	<u>\$ 56,505,634</u>	<u>\$ 3,671,762</u>	<u>\$ 60,177,396</u>	<u>\$ 60,177,396</u>	

**Appropriation Adjustments:**

The \$3,671,762 transfer was from the University of North Dakota pursuant to 2013 SB 2003, section 33.



## ***Internal Control***

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In our audit for the biennium ended June 30, 2015, 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 the surrounding capital construction and improvements.

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, 2015, 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 ending June 30, 2015 (2013 SB 2003, chapter 34, section 2).
- The University of North Dakota transferred to the University of North Dakota School of Medicine and Health Sciences a minimum of 25% of the funding allocation from the higher education per student credit-hour funding formula (2013 SB 2003, chapter 34, section 33).
- The University of North Dakota placed any unexpended balances in a sinking fund to be used for the retirement of indebtedness from the proceeds of bond issues for Wilkerson Hall and the resident apartment building (2013 SB 2003, chapter 34, section 37).
- 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).
- Gifts, grants, and scholarship expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC 1-08-02, 15-10-12).
- 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 North Dakota 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, and 54-06-09).
- Purchasing, including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 07, 09, 10, 13, 18, 19, 20, 21, 22, 25, 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* 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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In our audit for the biennium ended June 30, 2015, we identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding capital improvement projects greater than \$250,000:

- Are capital construction and improvement contracts authorized and awarded in compliance with applicable rules and regulations?
- Are project expenses within the approved amounts and are revisions properly supported and approved?
- Are payments to the contractor properly approved and in accordance with the contract?
- Are construction in progress and capital assets properly reported and managed by qualified personnel?

We concluded that the operational objectives for capital improvement projects greater than \$250,000 was operating efficiently and effectively.

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