



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## North Dakota State University

Audit Report for the Biennium Ended June 30, 2021

Client Code 235





## WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenses are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

We also looked at potential overpayments by international students. After noticing this has been an issue nationwide, it became important to review, as a preventative measure.

We also reviewed special project payroll to ensure it was properly processed and awarded. This money distributes federal funding to faculty and staff for tasks related to COVID-19 such as transitioning courses to an online format and any other tasks that went beyond one's normal job duties.

## WHAT WE FOUND

This audit did not identify any areas of concern.

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## HAVE QUESTIONS? ASK US.

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# Introduction

## North Dakota State University

May 19, 2022

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We are pleased to submit this audit of the North Dakota State University for the biennium ended June 30, 2021. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

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

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

Respectfully submitted,

/s/

**JOSHUA C. GALLION**  
**NORTH DAKOTA STATE AUDITOR**

## TERMS USED IN REPORT

**Appropriation:** An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

**Capital Flight Restrictions:** Restrictions in the amount of capital that can be moved out of an economy and/or country.

**ConnectND:** The accounting system for North Dakota.

**Internal Control:** Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

**Money Laundering:** Financial transactions with illegal funds and disguising the ownership, source, and nature of those funds to appear legal and legitimate.

**Overpayments:** Payments that surpass what is actually due.

**Noncompliance:** Failure to act in accordance with a wish or command.

**North Dakota Century Code (N.D.C.C.):** Collection of all the statutes passed by the North Dakota Legislative Assembly.

**Performance Audit:** Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

**Session Laws:** Published after each regular and special legislative session and contain the laws enacted during that session.



# Audit Results

## INTERNATIONAL STUDENT OVERPAYMENTS OBJECTIVE

Are overpayments by international students causing excessive refunds?

### CONCLUSION

No areas of concern were identified.

### BACKGROUND

North Dakota State University bills international students' accounts for tuition, fees, housing, and meal plans. In addition, international students have the option to have other institutional charges billed to their student account, such as books, technology products, supplies, and more. Overpayments made by international students to cover the items listed above can be reasonable and legitimate; however, excessive overpayments by international students could potentially be a red flag for criminal activity or fraud.

These activities could include, but are not limited to, money laundering and capital flight restrictions. Money laundering could happen by enrolling at North Dakota State University, overpaying the institution with illegal funds, and receiving an overpayment refund. A student could then take the refund and deposit it into a United States bank. Capital flight restrictions could be another reason for an international student to overpay. Education payments may have a higher threshold or an exception that would allow much larger amounts of capital to be moved out of their economy and/or country.



# Audit Procedures

## International Student Overpayments Objective

### INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

There was no specific internal control testing completed for this audit objective.

### SCOPE

North Dakota State University has operations in Fargo. All locations were included in the audit scope:

- Main campus
- Downtown campus

### METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and projected the results to the population.
- Analyzed financial data in ConnectND to determine areas of risk.
- Interviewed appropriate agency personnel.
- Inspected documentary evidence.

- Reviewed State Board of Higher Education policies, North Dakota University System procedures, and North Dakota State University policies surrounding refunds.
- Reviewed the National Association of College and University Business Officers (NACUBO) Advisory 18-04 – Frequently Asked Questions Regarding Overpayments by International Students.
- Judgmentally selected a sample to determine if the refund was calculated and disbursed correctly (State Board of Higher Education policy 830.2 and North Dakota University System procedure 830.2).





# Audit Results

## ▼ SPECIAL PROJECT PAYROLL OBJECTIVE

Has special project payroll been properly awarded and processed?

### CONCLUSION

No areas of concern were identified.

### CONCLUSION

North Dakota State University utilized special project payroll earning code to distribute federal monies to employees, faculty, and staff based on time spent on tasks related to COVID-19, such as time spent on transitioning courses to an online format, time spent facilitating and coordinating with nonprofits, and any other time spent on COVID-19 related tasks that go beyond one's normal job duties. Salaried personnel tracked their time on a template developed by the institution, and hourly personnel entered their time on their timesheets.

The funding for special project payroll came from federal funds (Assistance Listing 21.019 Coronavirus Relief Fund). As federal assistance, these relief funds were not associated with a grant agreement and had limited applicability of the Uniform Guidance (2 CFR Part 200). As such, and in accordance with 2 CFR Part 200, these relief funds were allocated as stipends.





# Audit Procedures

## Special Project Payroll Objective

### INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Verified special project earnings were properly approved.

There were no deficiencies identified.

### SCOPE

North Dakota State University has operations in Fargo. All locations were included in the audit scope:

- Main campus
- Downtown campus

### METHODOLOGY

To meet this objective, we:

- Stratified populations when applicable, to ensure an appropriate sample was obtained.
- Analyzed financial data in ConnectND to determine areas of risk.
- Interviewed appropriate agency personnel.

- Inspected documentary evidence.
- Reviewed requirements in the Assistance Listing 21.019 Coronavirus Relief Fund.
- Randomly selected a sample to determine if special project earnings were an allowable expense and if earnings were properly entered into ConnectND (Assistance Listing 21.019).



# Audit Results

## ▼ PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency?

## CONCLUSION

No areas of concern were identified.



# Audit Procedures

## Primary Objective

### INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Verified proper approvals of expenses.
- Reviewed reconciliations over purchase card transactions were properly performed.
- Verified proper approvals of purchase card reconciliations.
- Ensured faculty contracts were valid.
- Verified faculty evaluations were being performed.
- Verified that faculty personnel files contained all relevant information.
- Reviewed trademark payments received to ensure agreement to receipts.

There were no deficiencies identified.

### SCOPE

North Dakota State University has operations in Fargo. All

locations were included in the audit scope:

- Main campus
- Downtown campus

### METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population. Where applicable, populations were stratified to ensure that an appropriate sample was obtained.
- Analyzed financial data in ConnectND to determine areas of risk.
- Interviewed appropriate agency personnel.
- Inspected documentary evidence.
- Reviewed North Dakota State University's policies and procedures.
- Tested compliance with appropriate laws and regulations (2019 House Bill 1003, Chapter 3, Sections 2, 8, 18, 25, 29, and 30).
- Selected a random sample of expense vouchers and purchase card transactions to ensure they were made for lawful and official purposes (N.D.C.C. 44-08-03, 44-08-04, 44-08-05.1, and 54-06-09).
- Selected a judgmental sample of gifts for proper classification and coding.
- Selected a judgmental sample of capital improvement expenses for compliance with the law (N.D.C.C. 48-01.2).

- Tested 100% of payroll raises and overtime for employees who had an unsatisfactory annual review (State Board of Higher Education Human Resource Policy Manual – Policy 5).
- Selected a random sample of faculty personnel files for compliance (N.D.C.C. 54-06-21, State Board of Higher Education policies 605.1, 607, and 701.4, and North Dakota State University policy 350.1).
- Tested 100% of trademark royalty receipts and quarterly reports for proper amounts, receipting, and distribution (North Dakota State University Trademark and Licensing Policies).

### **AUTHORITY AND STANDARDS**

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are published in the Committee of Sponsoring Organizations of the Treadway Commission's publication Internal Control – Integrated Framework.



# Responses to LAFRC Audit Questions

## **1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?**

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

## **2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?**

Yes. We did not identify any areas of non-compliance that were significant withing the context of our audit objectives.

## **3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?**

Yes. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

## **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?**

The North Dakota State University has implemented all recommendations in the prior audit report.

## **6. WAS A MANAGEMENT LETTER ISSUED? IF SO, PROVIDE A SUMMARY BELOW, INCLUDING ANY RECOMMENDATIONS AND THE MANAGEMENT RESPONSES.**

No, a management letter was not issued.



# LAFRC Audit Communications

## **7. IDENTIFY ANY SIGNIFICANT CHANGES IN ACCOUNTING POLICIES, ANY MANAGEMENT CONFLICTS OF INTEREST, ANY CONTINGENT LIABILITIES, OR ANY SIGNIFICANT UNUSUAL TRANSACTIONS.**

The most significant changes in accounting policies are related to the adoption of the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, in fiscal year 2021. There were no significant changes in management, conflicts of interest, contingent liabilities, or significant unusual transactions identified.

## **8. IDENTIFY ANY SIGNIFICANT ACCOUNTING ESTIMATES, THE PROCESS USED BY MANAGEMENT TO FORMULATE THE ACCOUNTING ESTIMATES, AND THE BASIS FOR THE AUDITOR'S CONCLUSIONS REGARDING THE REASONABLENESS OF THOSE ESTIMATES.**

The most significant accounting estimates for North Dakota State University include the useful lives of capital assets, allowance for doubtful accounts, scholarship allowance, fair value of investments, net pension liability, and other post-employment benefits liability. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories. The estimate for scholarship allowance is based on the difference between the tuition rates and charges and the amount actually paid by students and/or their parties making payments on behalf of students. The estimate for fair value of investments is based on quote prices in active markets and discounted cash flow models. The net pension liability and other post-employment benefits liability is based on the actuary's calculation based on plan provision and census data for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives, allowance for doubtful accounts, scholarship allowance, fair value of investments, net pension liability, and OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

## **9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.**

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.

*Continued on following page.*

**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 Capital Management (HCM) and Campus Solutions are high-risk information technology systems critical to the North Dakota State University. No exceptions were identified related to the operations of an information technology system.



# Financials

## Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2021	JUNE 30, 2020
State Appropriations	\$ 122,623,529	\$ 115,671,036
Student Tuition & Fees	118,092,337	115,717,389
Federal Grants & Contracts	58,457,805	48,385,288
Auxiliary Enterprises	39,402,162	38,883,018
State Appropriations - Capital Assets	34,604,723	4,724,168
Federal Grants & Contracts Stimulus	33,453,899	7,612,288
Services and Sales of Educational Departments	29,727,329	33,758,906
Gifts	23,985,263	16,882,844
State Grants & Contracts	9,292,672	8,957,843
Nongovernmental Grants & Contracts	8,732,815	8,718,683
Federal Appropriations	5,138,168	5,746,159
Endowment & Investment Income	5,119,061	4,700,002
Capital Grants and Gifts	4,398,647	8,304,027
Tax Revenues	555,796	500,000
Other	286,784	630,084
Insurance Proceeds	170,569	405,700
Transfers to North Dakota Industrial Commission	-	785,903
<b>Total Revenues and Other Additions</b>	<b>\$ 494,041,559</b>	<b>\$ 420,383,338</b>

Source: North Dakota University System Annual Financial Report

Continued on following page.

# Financials

## Revenues, Expenses, and Changes in Net Position

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2021	JUNE 30, 2020
Salaries & Wages	\$ 297,236,103	\$ 281,301,507
Operating Expenses	86,184,355	82,324,556
Depreciation Expense	26,853,839	26,345,039
Data Processing	8,541,673	4,676,284
Cost of Sales & Services	7,415,075	7,614,069
Scholarships & Fellowships	6,396,832	8,203,985
Other	6,189,890	1,634,799
Interest on Capital Asset - Related Debt	5,223,183	4,440,761
HEERF Act Aid to Students	3,912,585	3,802,373
Transfers to North Dakota Industrial Commission	242,045	-
Loss on Disposal of Capital Assets	229,054	124,626
<b>Total Expenses and Other Deductions</b>	<b>\$ 448,424,634</b>	<b>\$ 420,467,999</b>
<b>Revenue over (under) Expenses</b>	<b>\$ 45,616,925</b>	<b>\$ (84,661)</b>

NET POSITION	JUNE 30, 2021	JUNE 30, 2020
Net Position-beginning of the year, as restated	\$ 478,174,493	\$ 477,593,470
Net Position-end of the year	\$ 523,791,418	\$ 477,508,809

Source: North Dakota University System Annual Financial Report

# Financials

## Changes in Fiduciary Net Position

ADDITIONS		JUNE 30, 2021
Nongovernmental Grants & Contracts		\$ 2,407,998
Services and Sales of Educational Departments		282,952
Gifts		4,327
Auxiliary Enterprises		500
<b>Total Additions</b>		<b>\$ 2,695,777</b>

DEDUCTIONS		JUNE 30, 2021
Salaries & Wages		\$ 2,495,470
Operating Expenses		71,239
Data Processing		3,603
<b>Total Deductions</b>		<b>\$ 2,570,312</b>
<b>Operating Income</b>		<b>\$ 125,465</b>
<b>Increase in Net Position</b>		<b>\$ 125,465</b>

NET POSITION		JUNE 30, 2021
Net Position - Beginning of the Year, as Restated		\$ 244,671
Net Position - End of the Year		\$ 370,136

Source: North Dakota University System Annual Financial Report

# Appropriations

For the Biennium Ended June 30, 2021

EXPENSES BY LINE ITEM	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Operating Expenses	\$ 763,894,235	\$ 671,017,420	\$ 92,876,815
Capital Assets	87,599,104	11,136,275	76,462,829
Capital Assets - Carryover	28,338,735	3,544,208	24,794,527
Capital Improvements - Off System	96,037,293	34,678,548	61,358,745
Capital Projects - Off System - Carryover	204,284	37,404	166,880
Capital Building Fund	8,049,192	-	8,049,192
<b>Totals</b>	<b>\$ 984,122,843</b>	<b>\$ 720,413,855</b>	<b>\$ 263,708,988</b>

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
General	\$ 161,553,718	\$ 136,007,619	\$ 25,546,099
Federal	18,618,664	18,099,816	518,848
Special	803,949,461	566,306,420	237,643,041
<b>Totals</b>	<b>\$ 984,121,843</b>	<b>\$ 720,413,855</b>	<b>\$ 263,707,988</b>

Source: ConnectND Financials



# Status of Prior Recommendations

## Lack of Proper Documentation Surrounding Faculty Personnel Files (Finding 2019-01)

Implemented

**Recommendation:** We recommend that North Dakota State University properly administer contracts, maintain an official personnel file, and perform proper annual evaluations as required to ensure compliance with N.D.C.C., State Board of Higher Education policy, and North Dakota State University's policies surrounding faculty contracts.

**Status:** Implemented. Our testing of faculty personnel files has determined that North Dakota State University is properly administering faculty contracts, maintaining official personnel files, and performing annual evaluations.

## Inadequate Monitoring of the Trademark Licensing Program (Finding 2019-02)

Implemented

**Recommendation:** We recommend that North Dakota State University adequately monitor its trademark licensing program to ensure it is receiving accurate compensation from Learfield.

**Status:** Implemented. Our testing of the trademark licensing program has determined that North Dakota State University is adequately monitoring its trademark licensing program to ensure they're receiving the correct compensation from Learfield.

## Trademark Licensing Policy (Finding 2019-03)

Implemented

**Recommendation:** We recommend that North Dakota State University develop and document a policy on how to distribute royalty revenue earned from the sale of licensed merchandise.

**Status:** Implemented. Our testing of the trademark licensing program has determined that North Dakota State University has an adequate documented policy which they are adhering to for royalty revenue distribution.



# Status of Prior Recommendations

## Lack of Documentation Surrounding Capital Construction Projects (Finding 2019-04)

Implemented

**Recommendation:** We recommend that North Dakota State University properly retain Request for Qualifications documents to ensure compliance with N.D.C.C.

**Status:** Implemented. Our testing of capital projects has determined that North Dakota State University has retained adequate documentation to ensure compliance with N.D.C.C.




NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**


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