



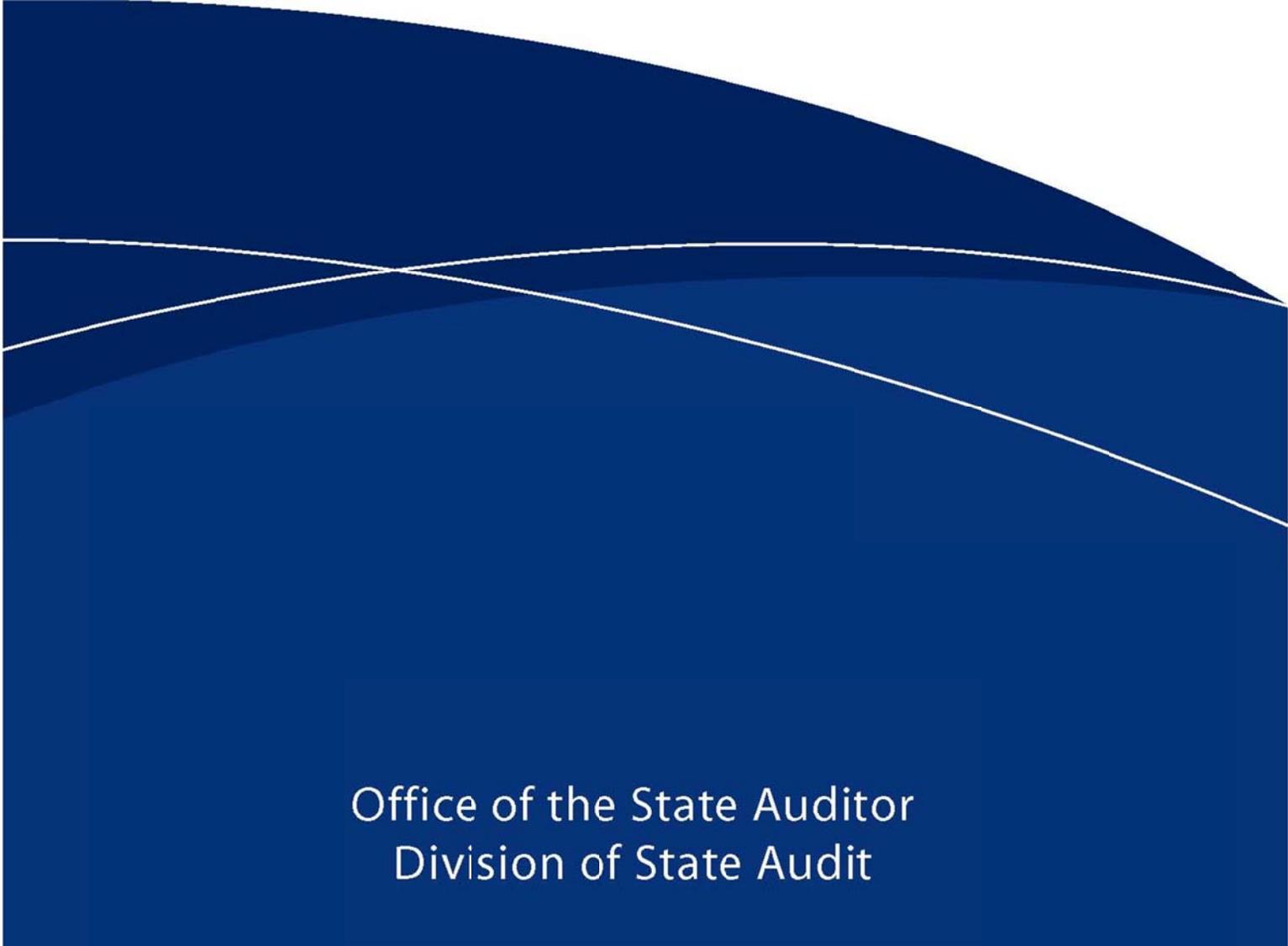
NORTH DAKOTA STATE
UNIVERSITY

FARGO, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

June 8, 2010

The Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

State Board of Higher Education

Dr. Dean Bresciani, President, North Dakota State University

We are pleased to submit this audit of North Dakota State University for the biennium ended June 30, 2009. 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 content of these audits.

In determining the content 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 Chris Brucks, 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 Bresciani 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

Introduction

Honoring the commitment of the Morrill Act of 1862, the land-grant universities were established to provide studies that were a blend of technical and academic subjects. Known as a "people's college," North Dakota State University was part of the bold experiment to provide access to a college education for the common person.

North Dakota State University is well positioned to prepare graduates for the global marketplace and technologically oriented economy. Through a statewide network of centers and electronic technology, NDSU provides a growing capability for delivering education, cultural activities, and information to schools and homes throughout North Dakota. North Dakota State University is a publicly supported comprehensive land-grant institution, with a strong agriculture and applied science tradition.

North Dakota State University is clearly an institution of choice. Having experienced a remarkable period of growth and with the development of expanded academic opportunities, NDSU is a national model of the contemporary land-grant institution.

An institution committed to progress, NDSU continues to advance in all areas because of the energy and dedication of faculty, staff, students, alumni, and friends.

Responses to LAFRC Audit Questions

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 response are noted below.

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

An unqualified opinion was issued on the fiscal year 2008 and fiscal year 2009 annual financial reports of the North Dakota University System. The financial statements for North Dakota State University were obtained from the Annual Financial Reports of the North Dakota University System.

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

Other than our findings addressing "Incomplete Equipment Inventory" (page 25), and "Limiting Competition through Bid Specifications" (page 26), North Dakota State University was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing "Inadequate Purchase Card Oversight and Monitoring Controls" (page 22), we determined internal control was adequate.

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

Other than our work addressing "Improvements Needed in Stewardship of Public Resources" (page 27), there were no indications of lack of efficiency in financial operations or the management of North Dakota State University.

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

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.*

Yes, a management letter was issued and is included on page 30 of this report, along with management's response.

LAFRC Audit Communications

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

In fiscal year 2009 NDSU began reporting Pell receipts as nonoperating rather than operating revenue in the financial statements. This was done to comply with GASB's Comprehensive Implementation Guide which states that Pell grant receipts should be reported as nonoperating revenues because they are nonexchange transactions. The total amount for fiscal year 2009 was \$6,681,010.

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

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

The most significant accounting estimates used by North Dakota State University include: useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

- 9. Identify any significant audit adjustments.*

All of the material adjustments we proposed for North Dakota State University in 2008 and 2009 were recorded. The material adjustments made during 2008 were a \$7.5 million adjustment to reclassify mutual funds from cash to investments and \$11.3 million to remove Barry & Klai Halls from the accounting records as the projects were not yet completed. In 2009 the material adjustments were \$5.6 million to reclassify a lease, \$3.7 million to correct classifications for promises to give and split interest agreements, and \$22.6 million to correct erroneous adjustments and reclassifications.

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 Student Administration are high-risk information technology systems critical to North Dakota State University.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of North Dakota State University for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of North Dakota State University is for the biennium ended June 30, 2009. 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.

North Dakota State University has operations in locations throughout the city and state. Each location was included in the audit scope:

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal year 2009 and fiscal year 2008 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 controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.

- Observed North Dakota State University'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

The accompanying financial statements have been prepared to present North Dakota State University's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2009, operations of North Dakota State University were primarily supported by appropriations from the state's general fund (28%), student tuition and fees (24%), federal grants and contracts (20%), and auxiliary enterprises (11%). This is supplemented by sales and services, gifts, state and local grants and contracts, federal appropriations, and investment income.

Financial Summary

Total net assets increased by \$13 million (6.6%) over the two-year period ending June 30, 2009. The increase is primarily attributable to work completed on the Living and Learning Center, Memorial Union expansion/renovation, and the Wellness Center expansion.

Operating revenues consisted primarily of student tuition and fees, federal grants and contracts, auxiliary enterprises, and sales and services. Nonoperating revenues were primarily from state appropriations; but also included gifts, federal appropriations, and federal grants and contracts. Total revenues for fiscal year 2009 were \$328,994,946 which is a \$24,192,522 (7.9%) increase over total revenues of \$304,802,424 in fiscal year 2008. This increase is primarily explained by a \$9.1 million increase in student tuition and fees, a \$5.2 million increase in auxiliary revenues, a \$3 increase in transfers from Building Authority, and a \$13.7 million increase in state appropriations. The student tuition and fees increased due to increased enrollment and an approximate 5% increase in tuition. Auxiliary revenues were higher due to increased enrollment, increased sales at the bookstore once construction was completed, the addition of new dorm rooms, and an approximate 5% increase in housing fees. The Building Authority transfer was for construction of the hazardous waste facility.

Total expenses for North Dakota State University were \$322,194,816 for fiscal year 2009 which is a \$23,575,905 (7.9%) increase over the \$298,618,911 in total expenses for fiscal year 2008. The increase in total expenditures is primarily from a \$17.5 million increase in salaries and wages and a \$3.1 million increase in depreciation. Salaries and wages increased due to average salary increases of approximately 6% and due to an approximate 20% increase in insurance premiums. The increase in depreciation was due to capital asset additions; especially the Living and Learning Center, Memorial Union expansion/renovation, and the Wellness Center expansion. All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

In fiscal year 2009 North Dakota State University began reporting Pell receipts as nonoperating rather than operating revenue in the financial statements in order to comply with current accounting standards. Pell revenue for fiscal year 2009 was approximately \$6.7 million.

***Analysis of Significant Variances Between Final Budgeted
and Actual Expenditures***

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

Financial Statements

Statement of Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS		
Cash and cash equivalents	\$ 17,013,730	\$ 14,539,536
Investments	55,097,200	53,372,746
Accounts receivable, net	4,645,479	4,106,210
Receivable from component units	1,466,172	1,128,971
Due from state general fund	4,812,091	12,464,773
Grants and contracts receivable, net	16,482,352	16,811,226
Notes receivable, net	6,706,620	6,754,483
Inventory	2,040,846	2,185,811
Other assets	718,641	482,286
Unamortized bond discount & cost of issuance	2,905,221	3,044,409
Capital assets, net	243,842,448	223,248,068
Total Assets	<u>\$ 355,730,800</u>	<u>\$ 338,138,519</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 9,822,553	\$ 10,489,039
Payable to component units		29,428
Accrued payroll	8,330,777	7,425,520
Deferred revenue	2,965,493	2,710,531
Deposits	1,172,251	1,050,843
Other liabilities	85,334	77,866
Due to component units	44,003,334	40,777,434
Due to others	83,451,260	76,478,190
Total Liabilities	<u>\$ 149,831,002</u>	<u>\$ 139,038,851</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 132,176,542	\$ 124,296,760
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	359,183	369,753
Expendable:		
Scholarships and fellowships	39,157	181,269
Research	10,625,087	10,010,223
Instructional department uses	1,486,156	1,755,204
Loans	7,175,001	7,101,820
Capital projects	79,659	546,843
Debt service	4,999,654	4,921,486
Unrestricted	48,959,359	49,916,310
Total Net Assets	<u>\$ 205,899,798</u>	<u>\$ 199,099,668</u>

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2009	June 30, 2008
OPERATING REVENUES		
Student tuition and fees	\$ 81,073,247	\$ 71,990,835
Federal grants and contracts	53,091,774	64,208,796
State and local grants and contracts	6,873,277	5,357,838
Nongovernmental grants and contracts	6,331,448	5,517,994
Sales and services of educational departments	17,689,389	19,393,397
Auxiliary enterprises	37,277,495	32,042,747
Other	336,601	320,383
Total Operating Revenues	\$ 202,673,231	\$ 198,831,990
OPERATING EXPENSES		
Salaries and wages	\$ 202,120,136	\$ 184,531,201
Operating expenses	76,358,776	72,680,924
Data processing	4,810,624	8,314,698
Depreciation	16,532,360	13,416,863
Scholarships and fellowships	6,030,310	5,126,136
Cost of sales and services	10,425,697	8,795,229
Total Operating Expenses	\$ 316,277,903	\$ 292,865,051
Operating loss	\$ (113,604,672)	\$ (94,033,061)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 92,973,771	\$ 79,233,489
Federal appropriations	5,043,493	7,587,352
Federal grants and contracts	7,122,046	143,154
Gifts	8,811,486	8,797,122
Investment income	2,830,347	3,264,524
Interest on capital asset-related debt	(5,916,913)	(5,753,860)
Gain (loss) on capital assets	(401,158)	864,054
Tax revenues	235,541	259,118
Other nonoperating revenues	4,170	299
Net Nonoperating Revenues	\$ 110,702,783	\$ 94,395,252
Income (loss) before capital grants, gifts and transfers	\$ (2,901,889)	\$ 362,191
Federal appropriations - capital assets	\$ 500,000	
State appropriations - capital assets	4,896,931	\$ 3,743,328
Transfers from Building Authority	3,033,157	
Capital grants and gifts	1,271,931	2,077,994
Total other revenue	\$ 9,702,019	\$ 5,821,322
Increase in net assets	\$ 6,800,130	\$ 6,183,513
NET ASSETS		
Net assets-beginning of the year, as restated	199,099,668	192,916,155
Net assets-end of the year	\$ 205,899,798	\$ 199,099,668

Statement of Cash Flows

	June 30, 2009	June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 80,664,197	\$ 71,391,181
Grants and contracts	66,625,373	76,214,906
Payments to suppliers	(89,502,808)	(93,304,177)
Payments to employees	(199,890,712)	(183,210,499)
Payments for scholarships and fellowships	(6,030,310)	(5,126,136)
Loans issued to students	(1,032,094)	(1,302,211)
Collection of loans to students	983,443	1,048,327
Auxiliary enterprise charges	37,177,044	32,001,835
Sales and service of educational departments	17,172,531	22,037,421
Cash received (paid) on deposits	26,999	(25,249)
Other receipts	184,221	274,815
Net cash used by operating activities	\$ (93,622,116)	\$ (79,999,787)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 102,296,206	\$ 70,950,943
Federal appropriations	5,043,493	7,587,352
Grants received for other than capital purposes	15,933,532	10,131,581
Agency fund cash increase	303,121	178,781
Tax revenues	235,541	259,118
Other nonoperating revenues		39,403
Net cash flows provided by noncapital financing activities	\$ 123,811,893	\$ 89,147,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 500,000	\$ 12,000,000
Transfers to Building Authority	3,033,157	1,502,752
Capital appropriations	3,727,178	3,660,394
Capital grants and gifts received	145,471	
Proceeds from sale of capital assets	1,300	677,442
Purchases of capital assets	(26,327,127)	(31,312,515)
Insurance proceeds		150,000
Principal paid on capital debt and lease	(4,075,405)	(4,352,868)
Deposits with (withdrawals from) capital debt payment trustees	(540,893)	5,607,011
Interest paid on capital debt and lease	(5,854,289)	(5,552,206)
Net cash used by capital and related financing activities	\$ (29,390,608)	\$ (17,619,990)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 6,076,774	\$ 10,880,934
Interest on investments	3,598,251	3,387,278
Purchase of investments	(8,000,000)	(7,479,885)
Net cash provided (used) by investing activities	\$ 1,675,025	\$ 6,788,327
Net increase (decrease) in cash	\$ 2,474,194	\$ (1,684,272)
Cash - Beginning of year	14,539,536	19,454,954
Cash - End of year	\$ 17,013,730	\$ 17,770,682

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**RECONCILIATION OF ENDING CASH PER 2008 STATEMENT
OF CASH FLOWS TO CASH SHOWN ON STATEMENT OF NET ASSETS**

Ending cash per 2008 Statement of Cash Flows	\$ 17,770,682
Connect ND elimination entry	(1,786,520)
Correction to Connect ND elimination entry	(1,444,626)
Cash per Statement of Net Assets	<u>\$ 14,539,536</u>

**RECONCILIATION OF NET OPERATING REVENUES
(EXPENSES) TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Operating loss	\$ (113,604,672)	\$ (94,033,062)
Adjustment to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	16,532,360	13,416,863
Other nonoperating revenues	83,975	
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(1,148,295)	(544,732)
Grants and contracts receivable	328,874	1,130,278
Inventories	144,965	(373,587)
Notes receivable	47,863	(153,842)
Other assets	(166,762)	24,026
Accounts payable and accrued liabilities	1,648,191	(883,819)
Accrued payroll	788,149	622,992
Compensated absences	1,441,275	697,710
Deferred revenue	254,962	122,635
Deposits	26,999	(25,249)
Net cash used by operating activities	<u>\$ (93,622,116)</u>	<u>\$ (79,999,787)</u>

SUPPLEMENTAL DISCLOSURE ON NON-CASH TRANSACTIONS

Assets acquired through capital lease	\$ 12,260,767	\$ 11,571,273
Assets acquired through special assessment		801,077
Expenses paid by capital lease/special assessment	72,332	
Gifts of capital assets	1,268,672	145,869
Net increase/(decrease) in value of investments		(45,492)
Total non-cash transactions	<u>\$ 13,601,771</u>	<u>\$ 12,472,727</u>

Statement of Appropriations

For The Biennium Ended June 30, 2009

NORTH DAKOTA STATE UNIVERSITY

Expenses by line item	Original		Adjusted		Remaining
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating expenses	\$ 89,593,630	\$ 15,423,363	\$ 105,016,993	\$ 103,244,272	\$ 1,772,721
Capital assets	43,209,161	(34,500,000)	8,709,161	4,819,946	3,889,215
Capital improvements - off system					
Living Learning/Ceres Hall	12,000,000	(691,664)	11,308,336	10,925,853	382,483
Bison Sports Arena		25,496,741	25,496,741		25,496,741
Minard Hall		500,000	500,000		500,000
Dakota Coteau Research School		4,000,000	4,000,000	100,000	3,900,000
Ellig Softball Complex		4,500,000	4,500,000		4,500,000
Memorial Union Renovation		5,888,168	5,888,168	4,157,653	1,730,515
Hazard Material Facility		3,651,148	3,651,148	3,611,451	39,697
Wellness Center Addition		2,983,746	2,983,746	1,293,783	1,689,963
Flood Expenditures		575,142	575,142	575,142	
Totals	\$ 144,802,791	\$ 27,826,644	\$ 172,629,435	\$ 128,728,100	\$ 43,901,335
Expenses by source					
General fund	\$ 98,302,791	\$ 13,224,705	\$ 111,527,496	\$ 107,638,281	\$ 3,889,215
Special fund	46,500,000	14,601,939	61,101,939	21,089,819	40,012,120
Totals	\$ 144,802,791	\$ 27,826,644	\$ 172,629,435	\$ 128,728,100	\$ 43,901,335

Appropriation Adjustments:

Operating expenses

The \$15,423,363 adjustment is transfers from the NDUS technology fund pursuant to HB 1003 section 7, 2007 session laws.

Capital assets

The \$34,500,000 adjustment transferred authority for various capital improvement projects to the Capital improvement off system line because expenditures for these projects are not abstracted through the state. The projects and amounts transferred were as follows:

- \$25,500,000 Bison Sports Arena
- 500,000 Minard Hall
- 4,000,000 Dakota Coteau Research School
- 4,500,000 Ellig Softball Complex

Capital improvement – Off system

Adjustments are explained in detail below:

- The \$691,664 adjustment for the Living Learning/Ceres Hall project is comprised of a \$400,000 increase for additional authority approved by the Budget Section March 19, 2008 less \$1,091,664 for prior years expenses.
- The \$25,496,741 adjustment for the Bison Sports Arena includes \$25,500,000 transfer from the Capital asset line less \$3,259 prior year's expenses.
- The \$500,000 Minard Hall, \$4,000,000 Dakota Coteau, and \$4,500,000 Ellig Softball Complex are transfers from the capital asset line.

The following adjustments are projects that were approved in the prior biennium and their authority carried to this biennium:

- Memorial Union Renovation \$5,888,168
- The \$3,651,148 Hazard Material Facility adjustment is comprised of \$3,151,148 prior biennium authority plus \$500,000 additional authority approved by the Budget Section October 30, 2007.
- Wellness Center Addition \$2,983,746

Flood Expenditures:

The \$575,142 adjustment includes:

- A \$527,842 deficiency appropriation pursuant to HB 1023 section 1, 2009 session laws. This act was declared an emergency measure.
- \$47,300 from the prior biennium, unspent general fund.

UPPER GREAT PLAINS TRANSPORTATION INSTITUTE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Transportation Institute	\$ 27,571,521	\$ 7,291	\$ 27,578,812	\$ 14,680,634	\$ 12,898,178
Totals	\$ 27,571,521	\$ 7,291	\$ 27,578,812	\$ 14,680,634	\$ 12,898,178

Expenses by source:					
General fund	\$ 1,209,840	\$ 7,291	\$ 1,217,131	\$ 1,217,131	
Special fund	26,361,681		26,361,681	13,463,503	\$ 12,898,178
Totals	\$ 27,571,521	\$ 7,291	\$ 27,578,812	\$ 14,680,634	\$ 12,898,178

Appropriation Adjustments:

Transportation Institute

The \$7,291 adjustment is unspent general fund from the prior biennium carried over pursuant to SB 2020 section 7 of the 2005 session laws.

EXTENSION SERVICE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
NDSU - Extension Services	\$ 41,528,035	\$ 270,896	\$ 41,798,931	\$ 36,627,270	\$ 5,171,661
Soil Conservation Committee	737,800		737,800	737,800	
Totals	\$ 42,265,835	\$ 270,896	\$ 42,536,731	\$ 37,365,070	\$ 5,171,661

Expenses by source:					
General fund	\$ 18,402,113	\$ 110,077	\$ 18,512,190	\$ 18,512,190	
Special fund	23,863,722	160,819	24,024,541	18,852,880	\$ 5,171,661
Totals	\$ 42,265,835	\$ 270,896	\$ 42,536,731	\$ 37,365,070	\$ 5,171,661

Appropriation Adjustments:

NDSU Extension Services

The \$270,896 adjustment is a transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.

MAIN RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operations	\$ 73,336,348	\$ 6,267,516	\$ 79,603,864	\$ 74,876,293	\$ 4,727,571
Greenhouse Project	14,000,000		14,000,000	5,328,916	8,671,084
Totals	\$ 87,336,348	\$ 6,267,516	\$ 93,603,864	\$ 80,205,209	\$ 13,398,655

Expenses by source:					
General fund	\$ 44,235,584	\$ (83,887)	\$ 44,151,697	\$ 38,391,708	\$ 5,759,989
Special fund	43,100,764	6,351,403	49,452,167	41,813,501	7,638,666
Totals	\$ 87,336,348	\$ 6,267,516	\$ 93,603,864	\$ 80,205,209	\$ 13,398,655

Appropriation Adjustments:

Operations

The \$6,267,516 adjustment includes:

- A \$382,983 transfer to the branch research centers, Extension Service, Northern Crops Institute, and Agronomy Seed Farm for the additional 1% per year salary increase pursuant to SB 2189 of the 2007 session laws.
- Main Research received \$750,000 for Dickinson Research Center operating pool and transferred \$450,000 of that total. The \$750,000 is from the permanent oil tax trust fund and is a one-time funding item pursuant to HB 1020 section 11 of the 2007 session laws.
- \$7,000,000 special fund authority for the greenhouse project carried over from the prior biennium pursuant to SB 2020 section 7 of the 2005 session laws and HB 1020 section 14 of the 2007 session laws.
- A \$100,499 deficiency appropriation pursuant to HB 1023 section 1 of the 2009 session laws. This act was declared an emergency measure.

DICKINSON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Dickinson Research Center	\$ 6,076,366	\$ 474,578	\$ 6,550,944	\$ 4,687,438	\$ 1,863,506
Totals	\$ 6,076,366	\$ 474,578	\$ 6,550,944	\$ 4,687,438	\$ 1,863,506

Expenses by source:					
General fund	\$ 1,985,394	\$ 15,542	\$ 2,000,936	\$ 2,000,936	
Special fund	4,090,972	459,036	4,550,008	2,686,502	\$ 1,863,506
Totals	\$ 6,076,366	\$ 474,578	\$ 6,550,944	\$ 4,687,438	\$ 1,863,506

Appropriation Adjustments:

Dickinson Research Center

The \$474,578 adjustment includes

- A \$24,578 transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.
- A \$450,000 transfer from Main Research for the operating pool pursuant to HB 1020 section 11 of the 2007 session laws.

CENTRAL GRASSLANDS RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Central Grasslands Research	\$ 2,267,148	\$ 22,463	\$ 2,289,611	\$ 1,984,332	\$ 305,279
Totals	\$ 2,267,148	\$ 22,463	\$ 2,289,611	\$ 1,984,332	\$ 305,279

Expenses by source:

General fund	\$ 1,187,332	\$ 21,079	\$ 1,208,411	\$ 1,208,411	
Special fund	1,079,816	1,384	1,081,200	775,921	\$ 305,279
Totals	\$ 2,267,148	\$ 22,463	\$ 2,289,611	\$ 1,984,332	\$ 305,279

Appropriation Adjustments:

Central Grasslands Research

The \$22,463 adjustment includes

- An \$8,903 transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.
- A \$13,560 deficiency appropriation pursuant to HB 1023 section 1 of the 2009 session laws. This act was declared an emergency measure.

HETTINGER RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Hettinger Research Center	\$ 2,440,826	\$ 442,338	\$ 2,883,164	\$ 2,883,164	
Totals	\$ 2,440,826	\$ 442,338	\$ 2,883,164	\$ 2,883,164	\$ -

Expenses by source:

General fund	\$ 1,229,171	\$ 7,163	\$ 1,236,334	\$ 1,236,334	
Special fund	1,211,655	435,175	1,646,830	1,646,830	
Totals	\$ 2,440,826	\$ 442,338	\$ 2,883,164	\$ 2,883,164	\$ -

Appropriation Adjustments:

Hettinger Research Center

The \$442,338 adjustment includes

- An \$11,473 transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.
- \$430,865 in additional income authorized by 07 HB 1020 section 4 of the 2007 session laws, which appropriates all additional income received for the purpose designated in the act, grant, gift, or donation.

LANGDON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Langdon Research Center	\$ 1,696,963	\$ 342,330	\$ 2,039,293	\$ 2,039,293	
Totals	\$ 1,696,963	\$ 342,330	\$ 2,039,293	\$ 2,039,293	\$ -

Expenses by source:

General fund	\$ 1,203,817	\$ 7,184	\$ 1,211,001	\$ 1,211,001	
Special fund	493,146	335,146	828,292	828,292	
Totals	\$ 1,696,963	\$ 342,330	\$ 2,039,293	\$ 2,039,293	\$ -

Appropriation Adjustments:

Langdon Research Center:

The \$342,330 adjustment includes

- A \$9,340 transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.
- \$332,990 in additional income authorized by 07 HB 1020 section 4 of the 2007 session laws, which appropriates all additional income received for the purpose designated in the act, grant, gift, or donation.

NORTH CENTRAL RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
North Central Research	\$ 3,824,334	\$ 428,135	\$ 4,252,469	\$ 4,252,469	
Totals	\$ 3,824,334	\$ 428,135	\$ 4,252,469	\$ 4,252,469	\$ -

Expenses by source:

General fund	\$ 2,062,702	\$ 27,558	\$ 2,090,260	\$ 2,090,260	
Special fund	1,761,632	400,577	2,162,209	2,162,209	
Totals	\$ 3,824,334	\$ 428,135	\$ 4,252,469	\$ 4,252,469	\$ -

Appropriation Adjustments:

North Central Research

The \$428,135 adjustment includes:

- A \$12,808 transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.
- \$366,623 general fund authority for the lab/greenhouse project carried over from the prior biennium pursuant to SB 2020 section 7 of the 2005 session laws.
- A \$2,120 reduction pursuant to HB 1020 section 16 of the 2007 session laws.
- \$28,730 in additional income authorized by 07 HB 1020 section 4 of the 2007 session laws, which appropriates all additional income received for the purpose designated in the act, grant, gift, or donation.
- A \$22,094 deficiency appropriation pursuant to HB 1023 section 1 of the 2009 session laws. This act was declared an emergency measure.

WILLISTON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Williston Research Center	\$ 3,134,044	\$ 9,036	\$ 3,143,080	\$ 2,381,834	\$ 761,246
Totals	\$ 3,134,044	\$ 9,036	\$ 3,143,080	\$ 2,381,834	\$ 761,246

Expenses by source:

General fund	\$ 1,593,865	\$ 7,781	\$ 1,601,646	\$ 1,601,646	
Special fund	1,540,179	1,255	1,541,434	780,188	\$ 761,246
Totals	\$ 3,134,044	\$ 9,036	\$ 3,143,080	\$ 2,381,834	\$ 761,246

Appropriation Adjustments:

Williston Research Center

The \$9,036 adjustment is a transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.

CARRINGTON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Carrington Research Center	\$ 5,577,338	\$ 20,358	\$ 5,597,696	\$ 5,584,398	\$ 13,298
Totals	\$ 5,577,338	\$ 20,358	\$ 5,597,696	\$ 5,584,398	\$ 13,298

Expenses by source:

General fund	\$ 2,039,227	\$ 14,030	\$ 2,053,257	\$ 2,053,257	
Special fund	3,538,111	6,328	3,544,439	3,531,141	\$ 13,298
Totals	\$ 5,577,338	\$ 20,358	\$ 5,597,696	\$ 5,584,398	\$ 13,298

Appropriation Adjustments:

Carrington Research Center

The \$20,358 adjustment is a transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.

AGRONOMY SEED FARM

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Agronomy Seed Farm	\$ 1,230,162	\$ 3,414	\$ 1,233,576	\$ 1,135,202	\$ 98,374
Totals	\$ 1,230,162	\$ 3,414	\$ 1,233,576	\$ 1,135,202	\$ 98,374

Expenses by source:

General fund					
Special fund	\$ 1,230,162	\$ 3,414	\$ 1,233,576	\$ 1,135,202	\$ 98,374
Totals	\$ 1,230,162	\$ 3,414	\$ 1,233,576	\$ 1,135,202	\$ 98,374

Appropriation Adjustments:

Agronomy Seed Farm

The \$3,414 adjustment is a transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.

FOREST SERVICE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating expenses	\$ 3,352,828		\$ 3,352,828	\$ 3,057,462	\$ 295,366
Capital assets	180,204	\$ 70,000	250,204	217,087	33,117
Biennium carryover		73,988	73,988		73,988
Totals	\$ 3,533,032	\$ 143,988	\$ 3,677,020	\$ 3,274,549	\$ 402,471

Expenses by source:

General fund	\$ 2,535,546		\$ 2,535,546	\$ 2,535,546	
Special fund	997,486	\$ 143,988	1,141,474	739,003	\$ 402,471
Totals	\$ 3,533,032	\$ 143,988	\$ 3,677,020	\$ 3,274,549	\$ 402,471

Appropriation Adjustments:

Capital Assets

The \$70,000 adjustment was documented as biennium carryover.

Biennium Carryover

\$73,988 adjustment was documented as excess revenue from prior biennium.

NORTHERN CROPS INSTITUTE

Expenses by line item:	Original		Final		Unexpended Appropriation
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	
Northern Crops Institute	\$ 2,622,969	\$ 12,177	\$ 2,635,146	\$ 2,516,094	\$ 119,052
Totals	<u>\$ 2,622,969</u>	<u>\$ 12,177</u>	<u>\$ 2,635,146</u>	<u>\$ 2,516,094</u>	<u>\$ 119,052</u>

Expenses by source:

General fund	\$ 1,143,312	\$ 7,506	\$ 1,150,818	\$ 1,150,818	
Special fund	1,479,657	4,671	1,484,328	1,365,276	\$ 119,052
Totals	<u>\$ 2,622,969</u>	<u>\$ 12,177</u>	<u>\$ 2,635,146</u>	<u>\$ 2,516,094</u>	<u>\$ 119,052</u>

Appropriation Adjustments:

Northern Crops Institute

The \$12,177 adjustment is a transfer from Main Research for salary increases pursuant to SB 2189 of the 2007 session laws.

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of North Dakota State University'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.

The criterion used to evaluate internal control is published in *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 that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

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 identified the following findings as significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by North Dakota State University's internal control. We consider findings 09-1 and 09-4 to be material weaknesses.

We also noted other matters involving internal control that we have reported to management of North Dakota State University in a management letter dated June 8, 2010.

Inadequate Purchase Card Oversight and Monitoring Controls (Finding 09-1)

During our test of 46 purchase card items we noted the following:

- 22 of 46 test items exceeded the individual purchase card maximum of \$2,500.
- 22 of 46 test items had no approval by an authorized individual, and of these 22 items 18 had no purchase card record or cardholder signature.
- 16 of 46 test items had no credit card statement for supporting documentation.
- 11 of 46 items were travel expenses with no accompanying explanation of the purpose for the travel expense.
- 2 of 46 items included payment for sales tax.

One aspect of internal control is the establishment of a control structure to provide reasonable assurance regarding prevention of or prompt detection of deviations from established policies. All or substantially all of the deficiencies noted above violated institutional policy in one form or another. The system failed to prevent or detect the deficiencies.

Recommendation:

We recommend that NDSU management ensure that:

1. Appropriate policies and procedures are in place for the purchase card program.
2. Purchase card policies and procedures are communicated to all purchase card users.
3. Purchase card use complies with policies and procedures.

North Dakota State University's Response:

Agree. NDSU implemented tighter controls in January 2009, which was late in the audit testing period. A NDSU Procurement Card Manual was also released at that time. Additionally, each purchase card record is reviewed monthly. Management will review procurement card controls and make any necessary changes. All procurement card policies and procedures will be communicated to users on a periodic basis.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested North Dakota State University's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Determine if indebtedness issued during the biennium ending June 30, 2009 was used for the purpose of financing the Living and Learning Center West and Ceres Hall for \$12,000,000. Any unexpended balance resulting from the proceeds of the evidences of indebtedness was placed in a sinking fund to be used for the retirement of the indebtedness. [07 HB 1003, chapter 3, section 16]
- Determine that the Permanent Oil Tax funding of \$750,000, or the amount actual oil revenues are less than budgeted for the research center, is available only for operations of the Dickinson Research Center. [07 HB 1020, chapter 20, section 11]
- Determine that the Agricultural Experiment Station provided a report to the Sixty-first Legislative Assembly regarding the funding received during the 07-09 biennium from the National Cattlemen's Beef Association. [07 HB 1020, chapter 20, section 13]
- Determine that the Agricultural Experiment Station reports to the appropriations committee of the Sixty-first Legislative Assembly on use of the one-time funding (\$8,732,750 General fund and \$750,000 Permanent Oil Tax Trust fund) for the biennium ending 2009:
 1. North Central Research Center Laboratory and Greenhouse Project \$400,000;
 2. North Central Research Center Equipment Storage Facility \$300,000;
 3. Main Research Center Greenhouse Project \$7,000,000;
 4. Deferred Maintenance pool \$100,000;
 5. Carrington, Hettinger and North Central \$907,750;
 6. Operating pool from Permanent Oil Tax Trust fund \$750,000;
 7. Extraordinary repairs at Northern Crops Institute \$25,000.[07 HB 1020, chapter 20, section 15]
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 11 of the ND Constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Surplus property (NDCC 54-44-04.6).
- Lease and financing arrangements in budget requests and lease analysis requirements (NDCC 54-44.1-06 and 54-27-21.1).
- Fixed asset records and reporting (NDCC 44-04-07 and 54-27-21).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Article X, Section 12 of North Dakota Constitution and Attorney General's 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).
- 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).
- Unclaimed property laws (NDCC 47-30.1-04, 47-30.1-02.1, 47-30.1-03.1 and 47-30.1-05).
- Nepotism (NDCC 44-04-09).
- Bond revenue and reserves (NDCC 15-55-03 and 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* (NDCC) and the *North Dakota Session Laws*.

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

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than these findings, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of North Dakota State University in a management letter dated June 8, 2010.

Incomplete Equipment Inventory (Finding 09-2)

During our review of departmental inventory sheets we noted the following:

- **Annual departmental inventories not completed.**
 - In fiscal year 2008 eight departments (\$11.8 million in equipment) did not complete the departmental inventory, and in fiscal year 2009 seven departments (\$12.5 million in equipment) did not complete the departmental inventory. There were four departments that did not complete the inventory in either year of the biennium and they account for the majority of the equipment at \$11.3 million each year.
- **Equine Center equipment not properly recorded.**
 - Upon our inquiry, NDSU personnel were not able to determine whether equipment at the Equine Center (horse stalls, bleachers, fences, gates etc.) was wholly or partially owned by NDSU. All personnel we spoke with believed that NDSU owned at least part of the equipment, and yet none of it was included in NDSU's annual inventory and it is not included in NDSU's accounting records.

Recommendation:

We recommend that NDSU management ensure that:

1. A complete and accurate inventory of equipment is taken each year in compliance with the requirements of NDCC 44-04-07.
2. All equipment owned by NDSU is properly recorded.

North Dakota State University's Response:

Agree. NDSU will ensure that every department completes their required inventory in the future. If certain departments don't complete their physical inventory, upper management will be informed and required to comply.

A special review of the equipment at the Equine Science Center will be conducted to determine the ownership status of the items on hand.

Limiting Competition through Bid Specifications (Finding 09-3)

During a review of bid specifications for two construction projects we noted that the specification for one of the projects required mechanical equipment and mechanical controls of one manufacturer at the exclusion of all other manufacturers thereby limiting competition. On the other project, the bid specification named one specific manufacturer or 'approved equal' but no other manufacturers were approved, again effectively limiting competition to one manufacturer. The specification of one manufacturer over another was not properly supported.

Recommendation:

We recommend that NDSU management take appropriate action to ensure that proper competition is followed when specifying materials to be used for a public improvement as required by NDCC 48-01.2-03.

North Dakota State University's Response:

Agree. NDSU agrees on the importance of competition in vendor selection and will strive toward this as much as possible. In instances like noted in this finding, where one manufacturer is preferred, better documentation will be provided as justification or the manufacturer will not be given preference.

There may be some confusion regarding application of Policy 803.1 or lack of understanding regarding chapter 48-01.2 requirements. To address this concern, the NDUS will be looking at adding clarifying language or definitions to Policy 803.1 and adding a new policy in the 900 section of the SBHE Policy Manual referencing chapter 48-01.2 requirements.

Operations

One of our audit objectives was to answer the question, “Are there areas of North Dakota State University’s operations where we can help to improve efficiency or effectiveness?” Our audit of North Dakota State University identified the following areas of potential improvement to operations.

Improvements Needed in Stewardship of Public Resources (Finding 09-4)

Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States provide direction for management’s role in accountability by stating that, “Government officials entrusted with public resources are responsible for carrying out public functions legally, effectively, efficiently, economically, ethically, and equitably.” Supplemental guidance expands upon this guidance by explaining that, “Management is responsible for using government resources legally, effectively, efficiently, economically, ethically, and equitably to achieve the purposes for which the resources were furnished or the program was established.”

Throughout testing for this audit we noted the following instances that do not appear to conform to one or more of the principles of proper stewardship of public resources noted above:

- **Leasing the Equine Center to Horse Race North Dakota (HRND) at a loss, thereby indirectly contributing to the operations of the Horse Park.**
 - Since 2003, NDSU has subleased the Equine Center to HRND each summer during the horse racing season. In fiscal year 2008 NDSU charged HRND a rental price of \$4,000/month while the cost to NDSU was \$30,137/month (a \$25,833 lease payment and \$4,304 in operating costs). In fiscal year 2009 NDSU charged HRND a rental price of \$5,400/month while the cost to NDSU was \$32,962/month (a \$25,833 lease payment and \$7,129 in operating costs). According to NDSU personnel, costs to NDSU were not considered when the lease price was originally determined. At the time of this writing NDSU had not received payment from HRND for the fiscal year 2009 rent. Even if NDSU receives the payment, it is clear that NDSU is subsidizing HRND.
- **First or business class airfare for employee travel.**
 - We noted three separate trips where first or business class airfare was purchased for university employee travel, each trip was for one employee and the total cost of the airfare for the three trips was \$19,845. NDSU Policy 515 (5) and federal rules and regulations indicate that reimbursement will be allowed for the actual cost of tourist or coach fare, purchased at the lowest available rate. Normally, first or business class airfare is up to 3 or more times greater than tourist or coach fares.
- **Excessive fees for employee training.**
 - Two employees attended the Anthony Robbins motivational seminar *Unleash the Power Within* in Los Angeles. There were multiple price levels from basic (\$995/person) to premiere (\$2,595/person), and both employees who attended registered under the premiere price level. The benefits for paying the extra \$1,600/person included expedited registration, early entry into the event auditorium, and better seating close to the front. Therefore, the total registration cost for two employees was \$5,190. The registration cost appears

- o to have included some meals, but does not include any other travel related costs which would have been incurred and reimbursed separately.
- o One of the employees who attended *Unleash the Power Within* referred to above also attended the Anthony Robbins *Leadership Masters University* event with a registration cost of \$9,995. The registration cost appears to have included some meals, but does not include any other travel related costs which would have been incurred and reimbursed separately.
- **Payment for empty hotel rooms.**
 - o NDSU funded a conference which was held in Washington D.C. in January 2009. In preparation for the conference, NDSU had a large block of rooms set aside for guests of the conference. As part of the agreement with the hotel, NDSU would pay for 90% of any hotel rooms that did not get used by guests of the conference. The majority of the rooms were not used, so NDSU paid \$24,385 for the unused hotel rooms.
- **Alcohol purchased with public funds.**
 - o For a conference held in Denver in July 2007 NDSU paid \$746 for alcohol and bartender fees.

Operational Improvement:

We recommend that NDSU management take appropriate action to:

1. Create and maintain an organizational culture of accountability and stewardship of public resources.
2. Avoid unnecessary and/or unreasonable use of public funds to ensure funds are available for essential purposes.

North Dakota State University's Response:

Agree. NDSU's new President and administration recognize that setting an ethical tone at the top is of paramount importance in creating an ethical culture and a strong control environment throughout the university. Therefore, a new emphasis on good governance, accountability and service to our students, the people of North Dakota, and other stakeholders has been set in motion.

As a result of this new emphasis, NDSU has redefined the mission and role of the Audit and Advisory Services Office. Audit and Advisory Services Office is now known as the Office of Ethics, Compliance and Audit. In addition to the previous value added activities performed by the office, the Office of Ethics, Compliance and Audit now has an additional mandate to monitor for and promote proper stewardship and ethical business practices. The goal of the Office of Ethics, Compliance and Audit is to provide direction, guidance, and assessments to ensure NDSU, its people, and entities are compliant with applicable laws, rules, and regulations in an ethics-based environment. The Office of Ethics, Compliance and Audit will continue to report to the Budget, Audit and Finance Committee with administrative reporting to NDSU's President.

Specific activities taken to date include Presidential signing of an executive order adopting a Code of Conduct applicable to all employees; President's discussion of ethics and stewardship with the Cabinet; President's issuance of public statements to the campus and local media emphasizing the expectations for stewardship and ethical behavior; Office of Ethics, Compliance and Audit presentation on Stewardship and Ethics at new employee orientation. Other actions will be implemented as part of a comprehensive ethics program.

Management Letter (Informal Recommendations)

June 8, 2010

Mr. Bruce Bollinger, Vice President of Finance and Administration
North Dakota State University
Old Main 11
1340 Administration Avenue
Fargo, ND 58102

Dear Mr. Bollinger:

We have performed an audit of North Dakota State University for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of North Dakota State University's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

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

The following present our informal recommendations.

Inadequate Team Travel Support

During a review of two NDSU team travel support packets we noted that one of the support packets did not detail and document coaches, trainers, other employee's travel expenses as required by NDUS Human Resource Manual (HR) policy 31.

NDUS Human Resources Policy Manual Section 31.1 states "employees who are authorized to travel at institutional expense are required to submit a detailed record of travel expenses on a travel reimbursement voucher. However, coaches and other authorized employees may detail and document athletic team and other organized group travel expenses, including expenses of coaches, trainers, and other employees, on a team or group travel expense report. Employees are not required to submit separate individual travel reimbursement vouchers for expenses detailed and documented on a team or other organized group report."

Without adequate detail and documentation, it is not possible to determine if NDSU complied with the meal reimbursement limits established by North Dakota Century Code (NDCC) section 44-08-04. NDSU claims that coaches, trainers, and other employees traveling with a team or group are not subject to the meal reimbursement limits established by NDCC section 44-08-04. They believe that the language in subpart 1 of NDCC 44-08-04 which states "Claims may also be made for a registration fee for a conference, seminar, or other meeting and for meals attended at the request of and on behalf of the state or any of its subdivisions, agencies, bureaus, boards, or commissions..." provides the exemption. We do not believe this was the intent of the legislature.

Informal Recommendation 09-1: We recommend that NDSU:

1. Properly detail and document coaches, trainers, and other employee travel expenses on a team or group travel expense report as required by NDUS HR policy 31 or coaches, trainers, and other employees submit separate individual travel reimbursement vouchers for expenses.
2. Seek a formal opinion from the Attorney General related to their interpretation of subpart 1 of NDCC 44-08-04.

North Dakota State University's Response:

Disagree. NDUS Human Resources Policy Manual Section 31.1, states "employees who are authorized to travel at institutional expense are required to submit a detailed record of travel expenses on a travel reimbursement voucher. However, coaches and other authorized employees may detail and document athletic team and other organized group travel expenses, including expenses of coaches, trainers and other employees, on a team or group travel expense report. Employees are not required to submit separate individual travel reimbursement vouchers for expenses detailed and documented on a team or other organized group report." Policy permits submission of a team or group travel expense report which is attached to the reimbursement documentation and additional documentation and detail is not required per SBHE policy.

In addition NDCC 44-08-04 (1) states: "claims may also be made for meals that are included as part of a registration fee for a conference, seminar, or other meeting and for meals attended at the request of and on behalf of the state." Since these meals were part of a function that was attended at the request of the institution, actual costs, which may exceed per diem rates, are permissible.

The NDUS will not seek an AG's opinion at this time, as recommended by the Auditor's Office.

Auditor's Concluding Remarks:

We understood the requirement to detail and document as stated in the policy to mean that each employee's portion of the total or other organized group report must be adequately detailed and documented in such a way as to determine the amount expended on behalf of each employee. If that is not the intent of the policy then we believe the policy to be inadequate for the reasons stated above in relation to support needing to be adequately detailed and documented in order to demonstrate compliance with NDCC meal reimbursement limits.

Maintain all Necessary Conflict of Interest Forms

During our review of conflict of interest disclosure statements we noted two employees with contractual authority had not completed the form.

Informal Recommendation 09-2: We recommend that NDSU management take appropriate action to ensure that:

1. All NDSU employees are notified of the NDSU conflict of interest policy at least annually.
2. All employees with contractual authority complete the NDSU Conflict of Interest Disclosure Statement.
3. All other employees who have known or potential conflicts of interest complete the NDSU Conflict of Interest Disclosure Statement.

North Dakota State University's Response:

Agree. The Director of Purchasing now verifies that all of the employees listed on the contractual authority flowchart have signed a conflict of interest form. The Director of Purchasing also sends out an annual notice to all NDSU Staff and Faculty.

No Petty/Till Fund Cash Counts

We noted that no surprise counts of petty cash were performed during fiscal year 2009 and no other compensating controls were in place to ensure the proper use of petty or till fund cash.

Informal Recommendation 09-3: We recommend that NDSU management take appropriate action to ensure that:

1. Petty and till fund cash is used properly and safeguarded from loss by misuse or theft.
2. Surprise counts of petty and till fund cash are performed by an employee other than the fund custodian.

North Dakota State University's Response:

Agree. Surprise counts were done in FY08, but not FY09. NDSU will work to improve controls and ensure someone other than the custodian does a surprise count of each petty/till fund periodically.

Monitoring Related Employees

We noted that although a list of related employees is maintained in Human Resources, there does not appear to be any policies/procedures in place related to how the list is used for monitoring related employees or for keeping the list up to date.

Informal Recommendation 09-4: We recommend that NDSU management take appropriate action to monitor related employees and ensure that nepotism, as defined by NDCC 44-04-09 and NDSU policy 110, does not occur.

North Dakota State University's Response:

Agree. Since there is not an automated way to obtain this information, the Office of Human Resources/Payroll will annually request from all departments "situations where relatives are working within the same department" to include benefitted, non-benefitted, and student employees. When that information is received, any needed changes will be made in reporting relationships to ensure that NDSU is in compliance with NDCC 44-04-09 and NDSU Policy 110. This request will be made in October after the new faculty hiring process has been completed.

Surplus Property Policies and Procedures

During our review of surplus property procedures and a review of the surplus property fund we noted:

1. \$20,000 from the sale of surplus property was used to purchase furniture for the Human Resources office.
2. Purchasing is not informing State Surplus of all surplus property.

Informal Recommendation 09-5: We recommend that NDSU management:

1. Create and implement appropriate policies and procedures governing the use of funds received from the sale of surplus property.
2. Comply with NDCC 54-44-04.6 (1) and NDSU Policy 406 (3) by informing appropriate OMB personnel of all excess and surplus property.

North Dakota State University's Response:

Agree. NDSU will implement the appropriate policies and procedures governing the use of funds received from the sale of surplus property. Beginning immediately, NDSU Purchasing will send a list of all surplus items to OMB on a monthly basis.

Failure to Properly Report Carryover Funds

NDSU carried over \$47,300 of general funds and \$11,987,924 of special funds from the 2005-07 biennium to the 2007-09 biennium. However, NDSU did not present a report of carryover funds from the 2005-07 biennium to the subsequent appropriations committee of the legislative assembly as required by NDCC section 54-44.1-11.

Informal Recommendation 09-6: We recommend that NDSU management ensure that the amounts and uses of funds carried over from one biennium to the next are properly reported to appropriation committees of the next legislative assembly in compliance with NDCC 54-44.1-11.

North Dakota State University's Response:

Agree. NDSU officials assumed the request for carryover funds applied only to general fund operating expenses. In the future NDSU will report all carryover funds, including special line items and special funds.

I encourage you to call me at (701) 239-7293 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Brucks', with a long horizontal flourish extending to the right.

Chris Brucks, CPA
Auditor in-charge

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