

NORTH DAKOTA  
STATE UNIVERSITY  
FARGO, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2013

ROBERT R. PETERSON  
STATE AUDITOR

Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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April 3, 2014

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

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

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

The in-charge auditor for this audit was Cory Wigdahl, CFE. 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, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## ***Introduction***

North Dakota State University is distinctive as a student-focused, land-grant, Research University, ranked by the Carnegie Commission on Higher Education among the top 108 public and private universities in the country. NDSU is in the elite category of "Research Universities/Very High Research Activity," with several programs ranked in the Top 100 by the National Science Foundation. NDSU is fully accredited as an institution by the Higher Learning Commission of the North Central Association of Colleges and Secondary Schools.

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

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

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

The financial statements for North Dakota State University were included in the Annual Financial Report of the North Dakota University System; an unqualified opinion was issued on the annual financial report of the North Dakota University System.

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

Yes.

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

Yes.

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

Yes, there were indications of a lack of efficiency in financial operations and management of North Dakota State University including "Inadequate Controls for Credit Adjustments to Student Accounts" (page 19), and "Inadequate Controls for Student Residency Determination" (page 20).

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

There were no recommendations included in the prior audit report.

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

Yes, a management letter was issued and is included on page 22 of this report, along with management's response to the recommendation relative to controls for waiver adjustments.

## **LAFRC Audit Communications**

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

None noted.

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

The most significant accounting estimates used by 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 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.*

The only significant audit adjustments we proposed for the North Dakota State University related to employee tuition waiver and was recorded during the fiscal year 2013 audit of the North Dakota University System and can be seen in that audit report.

- 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. 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 North Dakota State University for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of North Dakota State University's operations and is internal control adequately designed in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to 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, 2013. 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.

North Dakota State University's main campus is in Fargo, with Extension Service and Research Experiment Station locations all across the state.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2013 and 2012 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial information in the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested compliance with laws and regulations, which included selecting representative samples to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations
- Reviewed segregation of duties in all program areas.
- Performed walkthroughs in all program areas documenting client procedures.
- 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***

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

### ***Financial Summary***

North Dakota State University's assets increased \$40 million in fiscal year 2013. The largest increases between the two years include cash and investments (\$27.4 million) and capital assets (\$16.4 million). The increase in cash and investments is primarily due to the timing of state appropriations. The increase in capital assets was due to additions of several capital building projects, the largest being the West Dining Center (\$5.3 million), Indoor Track Facility (\$5.3 million), Industrial Ag and Communications Center (\$1.6 million), Stevens Hall (\$1.1 million), Loftsgard Hall (\$983,000), Appareo Building Remodel (\$932,000), Hultz Hall (\$805,000), and E Morrow Lebedeff Hall (\$744,000).

Liabilities increased \$5.3 million in fiscal year 2013 primarily due to an increase in accounts payable. Payables increase when expenses are incurred during the year but paid after year-end. At NDSU the increase was primarily due to purchases for resale expenses attributable to merchandise sold for the 2<sup>nd</sup> football championship (\$1.7 million) and project expenses for the Main Greenhouse (\$800,000), purchase card correction (\$850,000), and new equipment for the Enterprise Computing and Infrastructure Department (\$2.4 million).

Revenues increased \$28 million in fiscal year 2013 primarily due to the timing of state appropriations. North Dakota State University received total state appropriations of \$238 million for the biennium, \$134 million was received in fiscal year 2013 compared to \$104 million in fiscal year 2012. Other significant changes were an increase in student tuition and fees of \$4 million and a decrease in federal grants and contracts of \$7.6 million. Student tuition and fees (which comprise 25% of total revenues) increased 4%, which was due to an increase in fees and enrollment. Federal grants and contracts decreased primarily because ARRA funds were received in fiscal year 2012 and not in fiscal year 2013.

Expenses increased \$18 million in fiscal year 2013 primarily due to increases in operating expenses of \$9.3 million and salaries and wages of \$8.7 million. The operating expense increases were due to routine activities such as a \$2.6 million increase in internal fees charged to departments, \$1.4 million increase in supplies and equipment for the AES building, \$717,000 increase in purchase card expenses, \$869,000 increase in TV and print advertising for university relations. The increase in salaries and wages (which comprise 65% of total expenses) was 4% and considered an average market, performance, or equity adjustment.

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

North Dakota State University added the following:

- Master of Science Degree and Graduate Certificate in International Infectious Disease Management and Biosecurity (DMB) jointly with Makerere University, Kampala, and Uganda at a distance;
- Minor in Leadership Studies to be offered via Tri-College;
- Minor in Speech, Language, Hearing Sciences to be offered via Tri-College;

- Ph.D. in Exercise Science and Nutrition;
- Ph.D. in Counselor Education and Supervision;
- Ph.D. in Gerontology;
- Certificate in Professional Selling;
- Ph.D. in Couple and Family Therapy; and
- Minor in Managerial Psychology.

NDSU made the following organizational changes:

- From Department of Music to School of Music;
- Center for Professional Selling and Sales Technology;
- Fraud Education and Research Institute;
- Center in Leadership Practice;
- Center for Quality, Reliability, and Maintainability Engineering Organization;
- The Upper Midwest Center on Public Policy; and
- Division of Fine Arts to College of Arts, Humanities, and Social Science.

NDSU terminated the following:

- Certificates in Marketing and Human Resources Management.

NDSU established an American Indian Public Health Resource Center.

NDSU received approval for a tuition model Phase I. Full-time students would be defined as taking 15 credit hours or more and part-time students would be charged 105% of the full-time student rate.

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

North Dakota State University had no significant variances on their statement of appropriations.

# Financial Statements

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## Statement of Net Position

	June 30, 2013	June 30, 2012
<b>ASSETS</b>		
Cash & cash equivalents	\$ 38,311,725	\$ 28,845,246
Investments	82,508,844	64,610,100
Accounts receivable, net	5,614,676	5,505,059
Due from component units	2,161,722	1,818,006
Due from other NDUS institution	1,261,288	
Due from state general fund	9,148,768	17,049,913
Notes receivable, net	5,237,625	5,287,044
Grants & Contracts Receivable	19,664,958	17,041,130
Inventories	1,734,982	2,066,337
Notes receivable, net	1,477,005	1,470,460
Unamortized bond discount and cost of issuance	2,448,619	2,573,123
Other assets	375,103	457,417
Capital assets, net	331,886,214	315,461,631
Total assets	<u>\$ 501,831,529</u>	<u>\$ 462,185,466</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 17,881,636	\$ 9,346,571
Accrued payroll	10,309,141	9,869,336
Unearned revenue	7,598,788	7,966,920
Deposits	1,417,883	1,188,830
Due to component units	43,609,903	45,893,584
Due to others	101,671,961	102,887,240
Other noncurrent liabilities	8,767	25,716
Total liabilities	<u>\$ 182,498,079</u>	<u>\$ 177,178,197</u>
<b>NET POSITION</b>		
Invested in capital assets	\$ 205,711,923	\$ 193,282,993
Restricted For:		
Nonexpendable:		
Scholarships and fellowships	368,855	372,771
Expendable:		
Scholarships and fellowships	207,910	123,053
Research	6,551,544	8,549,270
Institutional	1,062,310	1,723,898
Loans	7,032,635	7,057,463
Capital projects	43,772	27,901
Debt service	10,128,295	5,021,691
Unrestricted	88,226,206	68,848,229
Total net position	<u>\$ 319,333,450</u>	<u>\$ 285,007,269</u>

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

	June 30, 2013	June 30, 2012
<b>REVENUES AND OTHER ADDITIONS:</b>		
State appropriations	\$ 134,019,974	\$ 104,336,108
Student tuition and fees	100,397,231	96,268,445
Federal grants and contracts	57,695,414	65,320,926
Auxiliary enterprises	46,082,125	45,071,208
Sales and services of educational departments	23,606,398	21,448,147
Nongovernmental grants and contracts	10,287,622	9,372,488
Capital grants and gifts	10,260,010	8,086,373
Gifts	9,231,214	9,772,784
State and local grants and contracts	7,259,487	9,195,960
Federal appropriations	5,127,259	7,325,897
Investments income	2,013,833	1,753,531
Other revenue	953,672	761,115
Tax proceeds	88,727	107,850
Insurance proceeds	4,404	175,861
Total revenues and other additions	\$ 407,027,370	\$ 378,996,693
<b>EXPENSES AND OTHER DEDUCTIONS:</b>		
Salaries and wages	\$ 241,842,660	\$ 233,120,287
Operating expenses	83,779,808	74,437,588
Depreciation	19,746,928	18,901,210
Cost of sales and services	10,606,034	10,536,285
Interest on capital asset-related debt	5,885,244	6,776,674
Data processing	5,119,033	4,102,430
Scholarships and fellowships	4,909,822	5,370,497
Transfers to Building Authority	285,142	284,492
Other nonoperating expenses	51,533	30,971
Loss on capital assets	16,020	685,406
Total expenses and other deductions	\$ 372,242,224	\$ 354,245,840
Revenue over expenses	\$ 34,785,146	\$ 24,750,853
<b>NET POSITION</b>		
Net position-beginning of the year, restated	\$ 284,548,304	\$ 260,256,416
Net position-end of the year	\$ 319,333,450	\$ 285,007,269

## Statement of Appropriations

For The Biennium Ended June 30, 2013

### NORTH DAKOTA STATE UNIVERSITY

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operating expenses	\$ 118,934,698	\$ 21,480,515	\$ 140,415,213	\$ 140,145,495	\$ 269,718
Capital assets	39,104,927	(35,800,000)	3,304,927	2,613,583	691,344
Capital assets - carryover		7,646,222	7,646,222	6,419,048	1,227,174
Capital improvements -					
Off system					
Bison Sports Arena		28,867,885	28,867,885	260,703	28,607,182
Indoor practice facility		5,500,000	5,500,000	5,243,890	256,110
Information tech projects		2,000,000	2,000,000		2,000,000
Batcheller Building COE		1,750,000	1,750,000		1,750,000
Menard Hall		4,874,300	4,874,300	3,982,122	892,178
Gate City Bank auditorium		410,000	410,000	389,127	20,873
Capital project-off system-					
carryover					
West dining center		2,064,365	2,064,365	522,459	1,541,906
Niskanen apartments		6,217,793	6,217,793	912,690	5,305,103
Minard Hall		424,666	424,666	417,172	7,494
Geosciences		558,293	558,293	392,555	165,738
Research I		29,002,640	29,002,640	6,757,708	22,244,932
Totals	<u>\$ 158,039,625</u>	<u>\$ 74,996,679</u>	<u>\$ 233,036,304</u>	<u>\$ 168,056,552</u>	<u>\$ 64,979,752</u>
<b>Expenses by source:</b>					
General fund	\$ 121,939,625	\$ 29,157,019	\$ 151,096,644	\$ 149,178,126	\$ 1,918,518
Special fund	36,100,000	45,839,660	81,939,660	18,878,426	63,061,234
Totals	<u>\$ 158,039,625</u>	<u>\$ 74,996,679</u>	<u>\$ 233,036,304</u>	<u>\$ 168,056,552</u>	<u>\$ 64,979,752</u>

### Appropriation Adjustments:

#### Operating expenses

The \$21,480,515 adjustment includes:

- \$6,005,607 transfer from the NDUS for equity and student affordability pursuant to 2011 HB1003, section 6.
- \$15,699,908 transfer from the NDUS for system information technology services pursuant to 2011 HB1003, section 9.
- \$75,000 transfer from the NDUS for the education leadership program pursuant to 11 SB2015, section 20.
- (\$300,000) transfer to the capital asset line pursuant to 2011 HB1003, section 12.

### Capital Assets

The (\$35,800,000) adjustment includes:

- (\$36,100,000) transfer to the capital improvement – off system line item for the special fund portion of the projects appropriated in 2011 HB1003 because funding will not be received from the state but from other sources and report separately to OMB.
- \$300,000 transfer from the operating expense line pursuant to 2011 HB1003, section 12.

### Capital Assets-Carryover

The \$7,646,222 adjustment is unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11.

### Capital Improvements-Off system

This line includes special fund authority for following projects:

- Bison Sport Arena - \$29,100,000 transfer from the capital asset line less \$232,115 reduction for prior biennium expenses – pursuant to 2011 HB 1003.
- Indoor practice facility - \$5,000,000 transfer from the capital asset line plus an additional \$500,000 authorization approved by the Budget Section September 15, 2011.
- Information Technology project - \$2,000,000 transfer from the capital asset line.
- Batcheller Building Center of Excellence - \$1,750,000 project authorization approved by the Budget Section December 13, 2011.
- Menard Hall - \$4,874,300 project authorization approved by the Budget Section December 13, 2011.
- Gate City Bank Auditorium - \$410,000 project authorization approved by the Budget Section June 19, 2012.

### Capital Projects-Off system-Carryover

This line includes special fund authority for various projects as listed in the above statement, appropriated in prior bienniums and carried forward pursuant NDCC 54-44.1-11.

## FOREST SERVICE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating expenses	\$ 5,112,167	\$ 652,514	\$ 5,764,681	\$ 4,738,970	\$ 1,025,711
Capital assets	103,791		103,791	103,791	
Biennium carryover		327,144	327,144	316,626	10,518
Totals	\$ 5,215,958	\$ 979,658	\$ 6,195,616	\$ 5,159,387	\$ 1,036,229

Expenses by source:					
General fund	\$ 4,212,472	\$ 74,811	\$ 4,287,283	\$ 3,885,198	\$ 402,085
Special fund	1,003,486	904,847	1,908,333	1,274,189	634,144
Totals	\$ 5,215,958	\$ 979,658	\$ 6,195,616	\$ 5,159,387	\$ 1,036,229

### Appropriation Adjustments:

#### Operating expenses

The \$652,514 adjustment was special fund authority received for Trees for ND program authorized pursuant to 2011 HB1003 section 11.

#### Biennium carryover

The \$327,144 includes \$74,812 unspent general funds from the prior biennium and \$252,333 special fund authority from the prior biennium carried over pursuant to NDCC 54-44.1-11.

## UPPER GREAT PLAINS TRANSPORTATION INSTITUTE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Transportation Institute	\$ 24,419,961	\$ 9,945	\$ 24,429,906	\$ 15,093,706	\$ 9,336,200
Totals	\$ 24,419,961	\$ 9,945	\$ 24,429,906	\$ 15,093,706	\$ 9,336,200

Expenses by source:					
General fund	\$ 1,919,628	\$ 9,945	\$ 1,929,573	\$ 1,929,191	\$ 382
Federal fund	17,665,513		17,665,513	11,137,524	6,527,989
Special fund	4,834,820		4,834,820	2,026,992	2,807,828
Totals	\$ 24,419,961	\$ 9,945	\$ 24,429,906	\$ 15,093,706	\$ 9,336,200

### Appropriation Adjustments:

The \$9,945 adjustment is the unspent general funds from the prior biennium carried over pursuant to NDCC 54-44.1-11.

## EXTENSION SERVICE

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
NDSU - Extension Services	\$ 47,026,654		\$ 47,026,654	\$ 43,924,801	\$ 3,101,853
Soil Conservation Committee	987,800		987,800	987,800	
Totals	<u>\$ 48,014,454</u>		<u>\$ 48,014,454</u>	<u>\$ 44,912,601</u>	<u>\$ 3,101,853</u>

### Expenses by source:

General fund	\$ 24,885,644		\$ 24,885,644	\$ 24,885,644	
Special fund	23,128,810		23,128,810	20,026,957	\$ 3,101,853
Totals	<u>\$ 48,014,454</u>		<u>\$ 48,014,454</u>	<u>\$ 44,912,601</u>	<u>\$ 3,101,853</u>

### Appropriation Adjustments:

None

## MAIN RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Main Research Center	\$ 98,589,973	\$ 8,601,447	\$ 107,191,420	\$ 107,191,420	
Totals	<u>\$ 98,589,973</u>	<u>\$ 8,601,447</u>	<u>\$ 107,191,420</u>	<u>\$ 107,191,420</u>	

### Expenses by source:

General Fund	\$ 54,456,398	\$ 2,148,643	\$ 56,605,041	\$ 56,605,041	
Special Fund	44,133,575	6,452,804	50,586,379	50,586,379	
Totals	<u>\$ 98,589,973</u>	<u>\$ 8,601,447</u>	<u>\$ 107,191,420</u>	<u>\$ 107,191,420</u>	

### Appropriation Adjustments:

The \$8,601,447 includes:

- \$2,669,317 unspent special fund authority from the prior biennium carried over pursuant to 2011 HB1020, section 10.
- \$2,148,643 unspent general fund authority from the prior biennium carried over pursuant to NDCC 54-44.1-11.
- \$3,783,487 additional special fund authority pursuant to 2011 HB1020, section 4.

## DICKINSON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Dickinson Research Center	\$ 6,388,562		\$ 6,388,562	\$ 4,686,213	\$ 1,702,349
Totals	\$ 6,388,562		\$ 6,388,562	\$ 4,686,213	\$ 1,702,349

Expenses by source:					
General fund	\$ 3,158,759		\$ 3,158,759	\$ 3,158,759	
Special fund	3,229,803		3,229,803	1,527,454	\$ 1,702,349
Totals	\$ 6,388,562		\$ 6,388,562	\$ 4,686,213	\$ 1,702,349

### Appropriation Adjustments:

None

## CENTRAL GRASSLANDS RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Central Grasslands Research	\$ 2,865,847		\$ 2,865,847	\$ 2,641,522	\$ 224,325
Totals	\$ 2,865,847		\$ 2,865,847	\$ 2,641,522	\$ 224,325

Expenses by source:					
General fund	\$ 1,789,789		\$ 1,789,789	\$ 1,789,789	
Special fund	1,076,058		1,076,058	851,733	\$ 224,325
Totals	\$ 2,865,847		\$ 2,865,847	\$ 2,641,522	\$ 224,325

### Appropriation Adjustments:

None

## HETTINGER RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Hettinger Research Center	\$ 3,373,175	\$ 347,295	\$ 3,720,470	\$ 3,720,470	
Totals	\$ 3,373,175	\$ 347,295	\$ 3,720,470	\$ 3,720,470	

Expenses by source:					
General fund	\$ 1,659,018		\$ 1,659,018	\$ 1,659,018	
Special fund	1,714,157	347,295	2,061,452	2,061,452	
Totals	\$ 3,373,175	\$ 347,295	\$ 3,720,470	\$ 3,720,470	

### Appropriation Adjustments:

The \$347,295 adjustment is additional special fund authority authorized pursuant to 2011 HB1020, section 4.

## LANGDON RESEARCH CENTER

Expenses by line item:	Original	Adjustments	Final	Expenses	Unexpended
	Appropriation		Appropriation		Appropriation
Langdon Research Center	\$ 2,378,807		\$ 2,378,807	\$ 2,273,829	\$ 104,978
Totals	\$ 2,378,807		\$ 2,378,807	\$ 2,273,829	\$ 104,978

Expenses by source:					
General fund	\$ 1,395,564		\$ 1,395,564	\$ 1,395,564	
Special fund	983,243		983,243	878,265	\$ 104,978
Totals	\$ 2,378,807		\$ 2,378,807	\$ 2,273,829	\$ 104,978

### Appropriation Adjustments:

None

## NORTH CENTRAL RESEARCH CENTER

Expenses by line item:	Original	Adjustments	Final	Expenses	Unexpended
	Appropriation		Appropriation		Appropriation
North Central Research	\$ 4,399,821		\$ 4,399,821	\$ 3,630,683	\$ 769,138
Totals	\$ 4,399,821		\$ 4,399,821	\$ 3,630,683	\$ 769,138

Expenses by source:					
General fund	\$ 1,670,255		\$ 1,670,255	\$ 1,670,255	
Special fund	2,729,566		2,729,566	1,960,428	\$ 769,138
Totals	\$ 4,399,821		\$ 4,399,821	\$ 3,630,683	\$ 769,138

### Appropriation Adjustments:

None

## WILLISTON RESEARCH CENTER

Expenses by line item:	Original	Adjustments	Final	Expenses	Unexpended
	Appropriation		Appropriation		Appropriation
Williston Research Center	\$ 3,200,089	\$ 101,500	\$ 3,301,589	\$ 3,301,589	
Contingent Appn Funding	210,000		210,000		\$ 210,000
Totals	\$ 3,410,089	\$ 101,500	\$ 3,511,589	\$ 3,301,589	\$ 210,000

Expenses by source:					
General fund	\$ 2,358,157		\$ 2,358,157	\$ 2,358,157	
Special fund	1,051,932	101,500	1,153,432	943,432	\$ 210,000
Totals	\$ 3,410,089	\$ 101,500	\$ 3,511,589	\$ 3,301,589	\$ 210,000

### Appropriation Adjustments:

The \$101,500 adjustment is additional special fund authority authorized pursuant to 2011 HB1020, section 4.

## 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	\$ 7,126,488		\$ 7,126,488	\$ 6,969,017	\$ 157,471
Totals	<u>\$ 7,126,488</u>		<u>\$ 7,126,488</u>	<u>\$ 6,969,017</u>	<u>\$ 157,471</u>

Expenses by source:					
General fund	\$ 2,913,666		\$ 2,913,666	\$ 2,913,666	
Special fund	4,212,822		4,212,822	4,055,351	\$ 157,471
Totals	<u>\$ 7,126,488</u>		<u>\$ 7,126,488</u>	<u>\$ 6,969,017</u>	<u>\$ 157,471</u>

### Appropriation Adjustments:

None

## AGRONOMY SEED FARM

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Agronomy Seed Farm	\$ 1,435,168		\$ 1,435,168	\$ 1,149,854	\$ 285,314
Totals	<u>\$ 1,435,168</u>		<u>\$ 1,435,168</u>	<u>\$ 1,149,854</u>	<u>\$ 285,314</u>

Expenses by source:					
Special fund	\$ 1,435,168		\$ 1,435,168	\$ 1,149,854	\$ 285,314
Totals	<u>\$ 1,435,168</u>		<u>\$ 1,435,168</u>	<u>\$ 1,149,854</u>	<u>\$ 285,314</u>

### Appropriation Adjustments:

None

## NORTHERN CROPS INSTITUTE

Expenses by line item:	Original		Final		Unexpended
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Northern Crops Institute	\$ 3,347,307		\$ 3,347,307	\$ 2,846,885	\$ 500,422
Totals	<u>\$ 3,347,307</u>		<u>\$ 3,347,307</u>	<u>\$ 2,846,885</u>	<u>\$ 500,422</u>

Expenses by source:					
General fund	\$ 1,692,582		\$ 1,692,582	\$ 1,692,582	
Special fund	1,654,725		1,654,725	1,154,303	\$ 500,422
Totals	<u>\$ 3,347,307</u>		<u>\$ 3,347,307</u>	<u>\$ 2,846,885</u>	<u>\$ 500,422</u>

### Appropriation Adjustments:

None

## *Internal Control*

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

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

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

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

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

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

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2013, we identified and tested North Dakota State University's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Determine the North Dakota University System reported to the appropriations committees of the sixty-third legislative assembly on the use one-time funding for the biennium beginning July 1, 2011, and ending June 30, 2013 (11 HB 1003, chapter 3, section 2):
  - ◊ Capital projects – Other funds \$36,100,000
  - ◊ Special assessment payments - \$272,683
  - ◊ Capital projects – Other funds \$6,000
  - ◊ Emerald Ash Borer Program - \$250,000
- Determine that \$800,000 from the permanent oil tax trust fund was used only for defraying the costs of operations of the Dickinson Research Center, for the biennium beginning July 1, 2011, and ending June 30, 2013 (11 HB 1020, chapter 19, section (8)).
- Determine the main research center reported to the appropriations committees of the sixty-third legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2011 ending June 30, 2013 (11 HB 1020, chapter 19, section 2):
  - ◊ Main research center greenhouse project: \$9,494,581
- Determine if North Dakota State University reported to the budget section regarding the status of the Minard hall project and requested increased spending authorization from the budget section for the project (11 HB 1003, chapter 31, section 8).
- Determine that upon approval of the State Board of Agricultural Research and Education and appropriate branch research center directors, transfers of appropriation authority within subdivisions 1, 2, 4, and 5 of section 1 of this Act were reported to the director of the Office of Management and Budget (11 HB 1020, chapter 19, section 5).
- Determine if during the 2011-12 interim, the upper Great Plains Transportation Institute reported at least annually to the budget section of the legislative management regarding the status of the reports and presented the updated reports to the sixty-third legislative assembly (11 SB 2325, chapter 53, section 1).
- Determine that of the funds appropriated to the Williston Research Center, \$210,000 from the general fund is contingent and subject to the provisions of this section. If funding for 50% of the 2011-13 biennium costs relating to the director position at the Williston research center is not provided by the Montana State University Eastern Agricultural Research Center, the Williston Research Center may spend up to \$210,000 and hire one full-time equivalent director position for the biennium beginning July 1, 2011, and ending June 30, 2013 (11 HB 1020, chapter 10, section 3).
- 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).
- Compliance with lease and financing arrangements in budget requests (NDCC 54-44.1-06).

- All expenditures of the state and of its budget units of moneys drawn from the state treasury must be made under authority of biennial appropriations acts, which must be based upon a budget as provided by law, and no money may be drawn from the treasury, except by appropriation made by law as required by section 12 of article X of the Constitution of North Dakota (NDCC 54-44.1-09).
- Travel-related expenditures are made in accordance with OMB policy and state statute (NDCC section 44-08-04).
- Conflict of Interest (NDCC 12.1-13-03 and 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).

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

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

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

## *Operations*

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

- Is the supporting documentation adequate?
- Are policies and procedures developed and maintained?
- Is segregation of duties adequate?
- Are reporting requirements sufficient?
- Are independent verifications made?

We also noted a certain matter involving tuition/fee waiver operations that we have reported to management of North Dakota State University in a management letter dated April 3, 2014.

### ***Inadequate Controls for Credit Adjustments to Student Accounts (Finding 13-1)***

#### **Condition:**

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

- Documented processes and procedures for Parking, Course and Program Fees, and Late Fee adjustments have not been developed.
- Documented procedures for Library credits have not been developed.
- Independent verification of credit adjustments are not being performed for Housing, Library, Course and Program Fees, Late Fees, Parking, and Bookstore adjustments.

#### **Criteria:**

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

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

#### **Cause:**

North Dakota State University has not adequately developed and implemented processes and procedures for non-cash adjustments to student accounts.

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

North Dakota State University lacks assurance regarding the propriety of credit adjustments recorded to student accounts and there is an increased risk erroneous adjustments could be recorded without detection. Furthermore, there is an increased risk of unauthorized and improper refund payments being processed without detection. During fiscal year 2012 through March 2013, non-cash credit adjustments recorded to student accounts totaled approximately \$11.1 million.

**Operational Improvement 13-1:**

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

- Documenting processes and procedures for Parking, Course and Program Fees, and Late Fee adjustments.
- Documenting procedures for Library credits.
- Performing independent verifications of Housing, Library, Course and Program Fees, Late Fees, Parking, and Bookstore credit adjustments.

**North Dakota State University Response:**

*NDSU agrees to document and enhance existing processes and procedures for credit adjustments noted above. NDSU already established a Business Analyst position who has the responsibility of reviewing Revenue Control Compliance, and has begun this review across the institution. In addition, the independent verification of the credit adjustments will be included in the process and procedures.*

**Inadequate Controls for Student Residency Determination (Finding 13-2)****Condition:**

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

- Clear and complete processes have not been developed and documented surrounding proper reevaluation of a student's residency determination.
- Redeterminations of a student's residency are not reviewed and approved by an appropriate independent individual.
- Residency reports are not reviewed by an independent individual to identify data errors and other anomalies.
- Proper proof of residency status is not required for students that obtained a general equivalency diploma.

**Criteria:**

Criteria for determination of residency for tuition purposes is governed by State Board of Higher Education policy 504, NDCC 15-10-19.1 and the Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring and verification methods are necessary to ensure management objectives are effectively achieved.

**Cause:**

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

**Effect or Potential Effect:**

Accurate student residency status determinations are critical because of differences between in-state and out-of-state student tuition rates. For the 2012-2013 academic year, North Dakota State University tuition and fees for full time undergraduate rates totaled \$7,233 for ND residents compared to \$17,479 for non-residents. Additionally, resident and non-resident FTE reporting is done for state and federal purposes and current practices do not ensure reliable or accurate reporting.

**Operational Improvement 13-2:**

We recommend North Dakota State University strengthen student residency controls to:

- Develop documented processes surrounding reevaluation of student residency determinations;
- Ensure review and approval of student residency redeterminations by an appropriate independent individual;
- Review of residency reports by an independent individual to identify data errors or other anomalies; and;
- Require, obtain, and compare proof of residency status for general equivalency diploma.

**North Dakota State University Response:**

*NDSU agrees to:*

- *Enhance existing documentation by incorporating positional processing responsibilities, for the reevaluation of student residency determinations, into NDSU's Registration and Records procedure manual. The procedure manual already includes the Residency Guidelines developed by NDUS, and adheres to those guidelines.*
- *Ensure review and approval of residency redeterminations by segregating duties.*
- *Review residency discrepancy reports by independent individuals.*

*NDSU's disagrees that additional proof of residency is necessary for general equivalency diploma students. NDSU obtains proof of residency as dictated by NDUS. In addition, NDUS' General Counsel and Procedure 504(3) indicate the Admission Application is a legal document to determine residency.*

**Auditor Concluding Remarks:**

*We conclude that the NDUS procedure (504) does not meet the minimum requirements set forth by NDCC 15-10-19.1. Thus, NDSU does not require adequate supporting documentation for students with a general equivalency diploma. There is a high risk that non-resident's could erroneously receive the resident rate which would result in forgone revenue.*

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

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April 3, 2014

Mr. Bruce Bollinger  
Vice President for Finance and Administration  
NDSU Dept. 3000  
PO Box 6050  
Fargo, ND 58108-6050

Dear Mr. Bollinger:

We have performed an audit of North Dakota State University for the biennium ended June 30, 2013, 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 a certain condition we did not consider reportable within the context of your audit report. This condition relates 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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider the status.

The following presents our informal recommendation:

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

### **Condition:**

North Dakota State University grants various tuition waivers including waivers for employee spouse and dependents, cultural diversity, veteran dependent, National Guard, presidential, firefighter/peace officer survivors, pharm/engin differential, academic excellence, and international students. Control procedures surrounding the awarding of these waivers are not completely adequate. Specifically, we noted the following conditions:

- Documented processes and procedures to obtain adequate supporting documentation for the firefighter/peace officer survivor and the veteran dependent waiver have not been developed.
- Lacking independent verification to ensure that the approved waivers were posted properly to the student account.

- Inadequate supporting documentation for the veteran dependent waiver.

**Criteria:**

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

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

**Cause:**

North Dakota State University has not developed proper processes and procedures for awarding firefighter/peace officer survivor waivers, veteran dependent waivers, and for ensuring independent verifications for all waivers.

**Effect or Potential Effect:**

Possible improper waivers granted to students. Tuition waivers granted to students for the fall 2011 term through March 2013 totaled approximately \$35.1 million.

**Informal Recommendation 13-1:**

We recommend North Dakota State University strengthen controls surrounding tuition waivers by:

- Developing documented policies for awarding tuition waivers to firefighter/peace officer survivors.
- Developing an independent verification to ensure that the approved waivers were posted properly to the student accounts.

**North Dakota State University Response:**

*NDSU agrees.*

*Firefighter/Peace Officer waiver – One waiver was awarded in the past 10 years and the ND Century Code was followed when awarded. NDSU agrees to develop a procedure for when another waiver is awarded.*

*Veteran Dependent waiver – Approximately 20 students are awarded per year. These waivers were incorporated into the ImageNow workflow process this year, which assists in maintaining adequate documentation and provides a documented process.*

*Independent verification of posted waivers – NDSU has many compensating controls to ensure adequate posting. However, we agree to enhance these controls with an independent verification.*

I encourage you to call me at 701-239-7296 or an audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Cory Wigdahl, CFE  
Auditor in-charge

You may obtain audit reports on the internet at:

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