

NORTH DAKOTA
STATE UNIVERSITY
FARGO, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

March 14, 2016

The Honorable Jack Dalrymple, 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, 2015. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

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

The in-charge auditor for this audit was Cory Wigdahl, CFE. Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to 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

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 that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

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

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

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

Other than our findings addressing "Noncompliance with Public Improvement Bidding" (page 23), 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?

Yes.

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

Yes, there was one reportable indication of a lack of efficiency in financial operations and management of North Dakota State University addressing "Noncompliance with Public Improvement Bidding" (page 23).

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

Yes, all prior findings were implemented.

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 26 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 2015, North Dakota State University changed accounting policies related to pensions by adopting Statement No. 68, *Accounting and Financial Reporting for Pensions*. There were no management conflicts of interest or significant unusual transactions 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.*

There were no significant audit adjustments.

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

None.

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

None.

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

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

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

None.

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

ConnectND Finance, Human Resource Management System (HRMS), and Campus Solutions are high-risk information technology systems critical to North Dakota State University. No exceptions related to the operations of an information technology system were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of North Dakota State University for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of 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, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe 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. All locations were included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2015 and 2014 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed 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 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).

For the biennium ended June 30, 2015, operations of North Dakota State University were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Assets increased \$65 million in fiscal year 2015 due to:

- Accounts receivable increased \$3.6 million due to recording a receivable for the Minard Hall settlement for \$3 million;
- Due from the state general fund increase of \$5 million was due to the timing of the state distribution of funds; and
- Capital assets increase of \$57 million due to construction in progress additions of \$23 million for the Sanford Health Athletic Complex, \$14 million for the STEM building, and an increase in building additions of \$19 million for Minard Hall, and \$5 million for the Research building.

Liabilities increased \$31 million in fiscal year 2015 due to:

- NDSU recorded \$23 million pension liability because of the implementation of GASB 68, *Accounting and Financial Reporting for Pensions*;
- Accounts payable increased \$5 million for an increase in payments to vendors for work done on the Sanford Health Athletic Complex and the STEM building; and
- Due to others increased \$3 million because of an increase in bonds payable.

Revenues increased \$35 million in fiscal year 2015 due to:

- \$4.3 million increase in student tuition and fees reflects a 4.23% increase approved by the Board of Higher Education;
- \$15.6 million increase in state appropriations-capital asset reflects the timing of drawdowns for the STEM building (\$9.4 million), AES Beef Research facility (\$4 million), and various capital improvements of \$2.9 million; and
- \$15 million increase in capital grants and gifts reflects funding received from the Foundations for the Sanford Health Athletic Complex.

Total expenses for North Dakota State University were \$405,483,852 for the year ended June 30, 2015, as compared to \$387,003,390 for the prior year. The increase in total expenses for the audited period reflects primarily salaries and wages (\$13.6 million) and operating expenses (\$5.8 million), which also account for 89% of total expenses in both years. The increase in salaries and wages was primarily due to an average increase of \$3.1% in fiscal year 2015. The increase in operating expenses reflects an overall increase in utilities and repairs. All other expenses remained fairly constant.

Analysis of Significant Changes in Operations

There were no significant changes in operations.

Analysis of Significant Variances - Budgeted and Actual Expenditures

There were no significant variance between budgeted and actual expenses.

Financial Statements

Statement of Net Position

| | June 30, 2015 | June 30, 2014 |
|---------------------------------------|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 42,368,465 | \$ 53,859,397 |
| Investments | 93,199,385 | 80,768,442 |
| Accounts receivable, net | 10,143,132 | 6,482,855 |
| Receivable from component units | 1,905,515 | 1,398,130 |
| Due from other NDUS institutions | 712,566 | 2,393,126 |
| Due from state general fund | 13,798,972 | 8,832,731 |
| Grants & contracts receivables, net | 15,250,700 | 15,617,075 |
| Inventories | 1,632,290 | 1,717,420 |
| Notes receivable, net | 6,514,881 | 6,575,567 |
| Unamortized bond discount | 67,965 | 97,715 |
| Other assets | 1,622,933 | 1,277,905 |
| Capital assets, net | 392,410,954 | 335,384,315 |
| Total assets | \$ 579,627,758 | \$ 514,404,678 |
| Deferred outflows of resources | \$ 5,366,463 | \$ 1,062,278 |
| LIABILITIES | | |
| Accounts payable | \$ 17,266,083 | \$ 12,630,546 |
| Payable to component units | 314,979 | 1,282,726 |
| Accrued payroll | 12,075,156 | 10,776,416 |
| Deferred revenue | 6,517,711 | 6,886,911 |
| Deposits | 1,530,520 | 1,653,621 |
| Due to component units | 35,852,742 | 37,821,918 |
| Due to others | 101,305,035 | 98,248,785 |
| Pension liability | 22,717,420 | |
| Other liabilities | 3,144,939 | 582,560 |
| Total liabilities | \$ 200,724,585 | \$ 169,883,483 |
| Deferred inflows of resources | \$ 4,519,131 | \$ 230,680 |
| Net Position: | | |
| Invested in capital assets | \$ 278,562,461 | \$ 215,796,822 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 414,255 | 414,351 |
| Expendable: | | |
| Scholarships and fellowships | 165,649 | 153,819 |
| Research | 7,297,016 | 6,371,440 |
| Institutional | 1,377,744 | 1,616,989 |
| Loans | 7,128,192 | 7,029,996 |
| Capital projects | 44,930 | 295,252 |
| Debt service | 3,460,618 | 8,458,246 |
| Unrestricted | 81,299,640 | 105,215,878 |
| Total Net Position | \$ 379,750,505 | \$ 345,352,793 |

Statement of Revenues, Expenses and Changes in Net Position

| | June 30, 2015 | June 30, 2014 |
|---|-----------------------|-----------------------|
| REVENUES AND OTHER ADDITIONS | | |
| State appropriations | \$ 119,487,388 | \$ 122,486,870 |
| Student tuition and fees | 110,778,521 | 106,491,251 |
| Auxiliary enterprises | 43,286,230 | 42,560,463 |
| Federal grants and contracts | 41,554,635 | 44,726,127 |
| Sales and services of educational departments | 35,517,866 | 35,920,553 |
| State appropriations-capital assets | 22,709,435 | 7,083,135 |
| Capital grants and gifts | 21,973,267 | 6,612,857 |
| Nongovernmental grants and contracts | 11,623,657 | 11,880,324 |
| Federal grants and contracts | 10,623,730 | 10,748,270 |
| Gifts | 9,204,609 | 7,489,167 |
| State and local grants and contracts | 8,363,527 | 8,328,337 |
| Federal appropriations | 6,701,819 | 5,790,560 |
| Other nonoperating revenues | 2,747,987 | |
| Investment income | 2,267,067 | 2,554,108 |
| Other | 1,091,936 | 861,352 |
| Gain on capital assets | 971,177 | |
| Tax proceeds | 103,660 | 114,913 |
| Insurance proceeds | 33,769 | 190,479 |
| Inter-institutional transfers | | 24,746 |
| Total revenues and other additions | \$ 449,040,280 | \$ 413,863,512 |
| EXPENSES AND OTHER DEDUCTIONS | | |
| Salaries and wages | \$ 268,589,588 | \$ 254,955,104 |
| Operating expenses | 92,916,914 | 87,101,118 |
| Depreciation | 21,761,642 | 20,714,843 |
| Cost of sales and services | 9,658,146 | 9,626,280 |
| Interest on capital asset-related debt | 5,048,939 | 5,521,863 |
| Data processing | 4,724,564 | 4,695,984 |
| Scholarships and fellowships | 2,498,685 | 3,115,800 |
| Transfers to building authority | 285,374 | 285,487 |
| Loss on capital assets | | 954,381 |
| Other nonoperating expenses | | 32,530 |
| Total expenses and other deductions | \$ 405,483,852 | \$ 387,003,390 |
| Revenue over expenses | \$ 43,556,428 | \$ 26,860,122 |
| NET POSITION | | |
| Net position-beginning of year, as restated | \$ 336,194,077 | \$ 318,492,671 |
| Net position-end of year | \$ 379,750,505 | \$ 345,352,793 |

Statement of Cash Flows

| | June 30, 2015 | June 30, 2014 |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 111,926,354 | \$ 104,161,601 |
| Grants and contracts | 62,072,430 | 68,910,754 |
| Payments to suppliers | (107,551,019) | (104,161,511) |
| Payments to employees | (267,622,327) | (255,261,150) |
| Payments for scholarships and fellowships | (2,498,685) | (3,115,800) |
| Loans issued to students | (1,431,864) | (1,199,468) |
| Collection of loans to students | 1,450,580 | 1,220,400 |
| Auxiliary enterprise charges | 43,314,138 | 42,351,732 |
| Sales and service of educational departments | 35,539,366 | 36,251,078 |
| Cash (paid) received on deposits | (76,330) | 177,693 |
| Other receipts | 993,891 | 39,283 |
| Net cash used by operating activities | \$ (123,883,466) | \$ (110,625,388) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | \$ 118,942,171 | \$ 122,444,163 |
| Federal appropriations | 6,701,819 | 5,790,560 |
| Grants and gifts received for other than capital purposes | 19,744,423 | 18,159,048 |
| Direct Lending Receipts | 51,770,123 | 53,187,283 |
| Direct Lending Disbursements | (51,915,369) | (52,888,895) |
| Agency fund cash increase/(decrease) | (228,349) | 13,162 |
| Tax Revenue | 103,660 | 114,913 |
| Net cash flows provided by noncapital financing activities | \$ 145,118,478 | \$ 146,820,234 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from issuance of debt | \$ 33,102,299 | \$ 8,448,914 |
| Transfers to Building Authority | (285,374) | (285,487) |
| Capital appropriations | 18,288,411 | 7,441,879 |
| Capital grants and gifts received | 20,860,272 | 6,739,501 |
| Proceeds from sale of capital assets | 1,350,000 | 1,385,783 |
| Purchases of capital assets | (59,558,050) | (26,513,903) |
| Insurance proceeds | 33,769 | 190,479 |
| Principal paid on capital debt and lease | (4,990,336) | (8,691,734) |
| Deposits with capital debt payment trustees | (26,090,000) | (8,255,000) |
| Interest paid on capital debt and lease | (5,283,066) | (5,426,340) |
| Net cash used by capital and related financing activities | \$ (22,572,075) | \$ (24,965,908) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | \$ 19,108,777 | \$ 13,181,421 |
| Interest on investments | 2,258,726 | 2,304,805 |
| Purchase of investments | (31,521,372) | (11,167,492) |
| Net cash (used) provided by investing activities | \$ (10,153,869) | \$ 4,318,734 |
| Net (decrease) increase in cash | (11,490,932) | 15,547,672 |
| Cash-Beginning of Year | \$ 53,859,397 | \$ 38,311,725 |
| Cash-End of Year | \$ 42,368,465 | \$ 53,859,397 |

(Continued on next page)

(Continued from previous page)

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|-------------------------|-------------------------|
| RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (147,933,167) | \$ (129,440,721) |
| Adjustment to reconcile net loss to net cash used by operating activities | | |
| Depreciation expense | 21,761,643 | 20,714,843 |
| Other nonoperating (expenses) revenues | (35,732) | 80,732 |
| Change in assets and liabilities | | |
| Accounts receivable adjusted for interest receivable | 1,399,288 | (494,088) |
| Grant & contract receivables | 530,610 | 3,745,287 |
| Inventories | 85,130 | 17,562 |
| Notes receivable | 60,686 | 139,063 |
| Other assets | (55,194) | (902,801) |
| Accounts payable and accrued liabilities adjusted for interest payable | (218,460) | (3,875,715) |
| Pension liability | 3,479,742 | |
| Net change in deferred outflows | (3,659,713) | |
| Net change in deferred inflows | | 230,680 |
| Accrued payroll | 1,290,278 | 465,999 |
| Compensated absences | (143,047) | (772,045) |
| Deferred revenue | (369,200) | (711,877) |
| Deposits | (76,330) | 177,693 |
| Net cash used by operating activities | <u>\$ (123,883,466)</u> | <u>\$ (110,625,388)</u> |

**SUPPLEMENTAL DISCLOSURE ON NON-CASH
TRANSACTIONS**

| | | |
|---|------------------|-------------------|
| Assets acquired through capital lease | \$ 1,653,338 | \$ 263,523 |
| Expenses paid by capital lease/special assessment | 107,114 | 138,009 |
| Gifts of capital assets | 278,531 | 170,673 |
| Net increases in value of investments | 12,355 | 264,429 |
| Total non-cash transactions | <u>2,051,338</u> | <u>\$ 836,634</u> |

Statement of Appropriations

For The Biennium Ended June 30, 2015

NORTH DAKOTA STATE UNIVERSITY

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------|----------------|----------------|----------------|---------------|
| | Appropriation | Adjustments | Appropriation | Expenses | Appropriation |
| Operating expenses | \$ 140,341,540 | \$ (6,555,000) | \$ 133,786,540 | \$ 133,786,540 | |
| Capital assets | 70,671,600 | (29,535,944) | 41,135,656 | 20,043,796 | \$ 21,091,860 |
| Capital assets - carryover | | 1,918,518 | 1,918,518 | 1,918,518 | |
| Capital improve-off system | | | | | |
| Low rise lavatory-phase 1 | | 880,997 | 880,997 | 773,615 | 107,382 |
| Low rise lavatory-phase 2 | | 1,030,000 | 1,030,000 | 834,529 | 195,471 |
| Memorial Union food court | | 701,820 | 701,820 | 475,309 | 226,511 |
| Nutrition dietetics lab | | 750,000 | 750,000 | 320,852 | 429,148 |
| Ctr for Comp Assist Sci | | 4,270,000 | 4,270,000 | 606,083 | 3,663,917 |
| Sanford Health complex | | 5,595,643 | 5,595,643 | | 5,595,643 |
| Dinan Hall lavatory reno | | 1,185,000 | 1,185,000 | 1,033,093 | 151,907 |
| Cap proj-off system-carryover | | | | | |
| Sanford Health complex | | 32,441,519 | 32,441,519 | 21,576,785 | 10,864,734 |
| Research I | | 22,244,931 | 22,244,931 | 1,838,251 | 20,406,680 |
| Indoor track facility | | 256,110 | 256,110 | 221,072 | 35,038 |
| Minard hall | | 899,673 | 899,673 | 670,716 | 228,957 |
| Totals | \$ 211,013,140 | \$ 36,083,267 | \$ 247,096,407 | \$ 184,099,159 | \$ 62,997,248 |
| Expenses by source: | | | | | |
| General fund | \$ 171,193,784 | \$ 5,646,930 | \$ 176,840,714 | \$ 155,748,854 | \$ 21,091,860 |
| Federal fund | | 4,270,000 | 4,270,000 | 606,083 | 3,663,917 |
| Special fund | 39,819,356 | 26,166,337 | 65,985,693 | 27,744,222 | 38,241,471 |
| Totals | \$ 211,013,140 | \$ 36,083,267 | \$ 247,096,407 | \$ 184,099,159 | \$ 62,997,248 |

Appropriation Adjustments:

Operating expenses

The (\$6,555,000) was a transfer to the capital asset line pursuant to 2015 SB 2003, section 35.

Capital assets

This adjustment includes the following:

- \$6,555,000 transfer from the operating line pursuant to 2015 SB 2003, section 35.
- (\$39,819,356) transfer to the capital improvement off system line (\$4,415,000 - low rise lavatory phase 1 - \$1 million; low rise lavatory phase 2 - \$1,030,000; Memorial Union food court \$975,000; nutrition dietetics lab \$750,000; Center for Computationally assisted upgrades \$660,000); and the capital project off system carryover line (\$35,404,356 – Sanford Health Athletic Complex) because the revenues are from special funds and the spending will be off system and reported separately to OMB.

Capital assets carryover

The \$1,918,518 adjustment is the prior biennium unspent general funds carried over pursuant to NDCC 54-44.11. These funds were designated for Minard Hall (\$1,227,174), Ceres Hall roof (\$679,442), Hultz Hall steamline replacement (\$10,220), and special assessments (\$1,682).

Capital improvement-off system

- Low rise lavatory-phase 1 includes: \$1,000,000 transfer from capital assets less \$119,003 for prior biennium expenses.
- Low rise lavatory-phase 2 adjustment of \$1,030,000 is a transfer from capital assets.
- Memorial Union food court includes: \$975,000 transfer from capital assets less \$273,179 expenses from the prior biennium.
- Nutrition dietetics hospitality lab adjustment of \$750,000 is a transfer from capital assets.
- Center for Computationally Assisted Science and Technology upgrades includes: \$660,000 transfer from capital assets and \$3,610,000 increased spending authority from federal funds approved by the budget section December 11, 2013.
- The Sanford Health Athletic Complex adjustment of \$5,595,643 increase in spending authority from private donations was approved by the budget section December 11, 2013.
- Dinan Hall lavatory renovation project adjustment of \$1,185,000 was approved by the BHE January and April 2014.

Capital project-off system-carryover

- Sanford Health Athletic Complex includes a \$35,404,356 transfer from capital assets less \$2,962,837 expenses from the prior biennium.
- Research I (\$22,244,931), indoor track facility (\$256,110), and Minard Hall (\$899,673) adjustments are special fund authority from the prior biennium carried over pursuant to NDCC 54-44.1-11.

FOREST SERVICE

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Operating expenses | \$ 6,249,979 | | \$ 6,249,979 | \$ 5,713,603 | \$ 536,376 |
| Capital assets | 886,210 | \$ 30,000 | 916,210 | 884,002 | 32,208 |
| Biennium carryover | | 402,086 | 402,086 | 152,086 | 250,000 |
| Totals | \$ 7,136,189 | \$ 432,086 | \$ 7,568,275 | \$ 6,749,691 | \$ 818,584 |

Expenses by source:

| | | | | | |
|---------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| General fund | \$ 5,486,189 | \$ 432,086 | \$ 5,918,275 | \$ 5,385,834 | \$ 532,441 |
| Special fund | 1,650,000 | | 1,650,000 | 1,363,857 | 286,143 |
| Totals | \$ 7,136,189 | \$ 432,086 | \$ 7,568,275 | \$ 6,749,691 | \$ 818,584 |

Appropriation Adjustments:

Capital assets

The \$30,000 adjustment was a transfer from the NDUS for deferred maintenance allocation pursuant to 2013 SB 2003 section 24.

Biennium carryover

The \$402,086 adjustment was unspent general funds 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 |
|-------------------------------|----------------------|--------------------|----------------------|----------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 241,627 | | \$ 241,627 | \$ 697 | \$ 240,930 |
| Transportation Institute | 26,288,160 | \$ 382 | 26,288,542 | 19,021,156 | 7,267,386 |
| Totals | \$ 26,529,787 | \$ 382 | \$ 26,530,169 | \$ 19,021,853 | \$ 7,508,316 |

Expenses by source:

| | | | | | |
|---------------|----------------------|---------------|----------------------|----------------------|---------------------|
| General fund | \$ 4,076,824 | \$ 382 | \$ 4,077,206 | \$ 3,940,928 | \$ 136,278 |
| Special fund | 22,452,963 | | 22,452,963 | 15,080,925 | 7,372,038 |
| Totals | \$ 26,529,787 | \$ 382 | \$ 26,530,169 | \$ 19,021,853 | \$ 7,508,316 |

Appropriation Adjustments:

Transportation Institute

The \$382 adjustment was unspent general funds from the prior biennium carried over pursuant to 2011 HB 1020, section 7.

EXTENSION SERVICE

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|----------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 1,716,289 | | \$ 1,716,289 | \$ 290,251 | \$ 1,426,038 |
| NDSU - Extension Service | 50,902,985 | \$ 710,500 | 51,613,485 | 49,711,512 | 1,901,973 |
| Soil Conservation Committee | 1,137,800 | | 1,137,800 | 1,137,800 | |
| Totals | \$ 53,757,074 | \$ 710,500 | \$ 54,467,574 | \$ 51,139,563 | \$ 3,328,011 |

Expenses by source:

| | | | | | |
|---------------|----------------------|-------------------|----------------------|----------------------|---------------------|
| General fund | \$ 28,909,265 | \$ 10,500 | \$ 28,919,765 | \$ 28,919,765 | |
| Special fund | 24,847,809 | 700,000 | 25,547,809 | 22,219,798 | \$ 3,328,011 |
| Totals | \$ 53,757,074 | \$ 710,500 | \$ 54,467,574 | \$ 51,139,563 | \$ 3,328,011 |

Appropriation Adjustments:

NDSU Extension Service

The \$710,500 adjustment includes:

- \$10,500 general fund authority from the Energy Development impact funding pool appropriated in 2013 HB 1015, section 6; and
- \$700,000 special fund authority for the 4-H Camp project from fundraising activities approved by the budget section March 12, 2014.

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> |
| Accrued leave payments | \$ 2,561,394 | | \$ 2,561,394 | \$ 163,172 | \$ 2,398,222 |
| Main Research Center | 109,098,843 | | 109,098,843 | 108,805,027 | 293,816 |
| Totals | \$ 111,660,237 | | \$ 111,660,237 | \$ 108,968,199 | \$ 2,692,038 |

Expenses by source:

| | | | | | |
|---------------|-----------------------|--|-----------------------|-----------------------|---------------------|
| General Fund | \$ 58,606,521 | | \$ 58,606,521 | \$ 58,106,384 | \$ 500,137 |
| Special Fund | 53,053,716 | | 53,053,716 | 50,861,815 | 2,191,901 |
| Totals | \$ 111,660,237 | | \$ 111,660,237 | \$ 108,968,199 | \$ 2,692,038 |

Appropriation Adjustments:

None

DICKINSON RESEARCH CENTER

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 87,008 | | \$ 87,008 | \$ 7,604 | \$ 79,404 |
| Dickinson Research Center | 6,116,621 | \$ 4,750 | 6,121,371 | 5,815,166 | 306,205 |
| Totals | \$ 6,203,629 | \$ 4,750 | \$ 6,208,379 | \$ 5,822,770 | \$ 385,609 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|-----------------|---------------------|---------------------|-------------------|
| General fund | \$ 3,678,608 | \$ 4,750 | \$ 3,683,358 | \$ 3,683,358 | |
| Special fund | 2,525,021 | | 2,525,021 | 2,139,412 | \$ 385,609 |
| Totals | \$ 6,203,629 | \$ 4,750 | \$ 6,208,379 | \$ 5,822,770 | \$ 385,609 |

Appropriation Adjustments:

Dickinson Research Center

The \$4,750 adjustment is general fund authority from the Energy Development impact funding pool appropriated in 2013 HB 1015, section 6.

CENTRAL GRASSLANDS RESEARCH CENTER

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 51,363 | | \$ 51,363 | \$ 9,003 | \$ 42,360 |
| Central Grasslands Research | 3,229,867 | | 3,229,867 | 2,836,176 | 393,691 |
| Totals | \$ 3,281,230 | | \$ 3,281,230 | \$ 2,845,179 | \$ 436,051 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|--|---------------------|---------------------|-------------------|
| General fund | \$ 2,025,990 | | \$ 2,025,990 | \$ 2,025,990 | |
| Special fund | 1,255,240 | | 1,255,240 | 819,189 | \$ 436,051 |
| Totals | \$ 3,281,230 | | \$ 3,281,230 | \$ 2,845,179 | \$ 436,051 |

Appropriation Adjustments:

None

HETTINGER RESEARCH CENTER

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 64,173 | | \$ 64,173 | \$ 485 | \$ 63,688 |
| Hettinger Research Center | 4,661,729 | \$ 1,750 | 4,663,479 | 4,044,220 | 619,259 |
| Totals | \$ 4,725,902 | \$ 1,750 | \$ 4,727,652 | \$ 4,044,705 | \$ 682,947 |

Expenses by source:

| | | | | | |
|---------------|---------------------|-----------------|---------------------|---------------------|-------------------|
| General fund | \$ 2,195,790 | \$ 1,750 | \$ 2,197,540 | \$ 2,197,540 | |
| Special fund | 2,530,112 | | 2,530,112 | 1,847,165 | \$ 682,947 |
| Totals | \$ 4,725,902 | \$ 1,750 | \$ 4,727,652 | \$ 4,044,705 | \$ 682,947 |

Appropriation Adjustments:

Hettinger Research Center

The \$1,750 adjustment is general fund authority from the Energy Development impact funding pool appropriated in 2013 HB 1015, section 6.

LANGDON RESEARCH CENTER

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 41,140 | | \$ 41,140 | \$ 25,822 | \$ 15,318 |
| Langdon Research Center | 2,832,495 | | 2,832,495 | 2,222,782 | 609,713 |
| Totals | \$ 2,873,635 | | \$ 2,873,635 | \$ 2,248,604 | \$ 625,031 |

Expenses by source:

| | | | | | |
|---------------|---------------------|--|---------------------|---------------------|-------------------|
| General fund | \$ 1,567,635 | | \$ 1,567,635 | \$ 1,567,635 | |
| Special fund | 1,306,000 | | 1,306,000 | 680,969 | \$ 625,031 |
| Totals | \$ 2,873,635 | | \$ 2,873,635 | \$ 2,248,604 | \$ 625,031 |

Appropriation Adjustments:

None

NORTH CENTRAL RESEARCH CENTER

| Expenses by line item: | Original | | Final | | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | <u>Adjustments</u> | <u>Appropriation</u> | <u>Expenses</u> | <u>Appropriation</u> |
| Accrued leave payments | \$ 59,951 | | \$ 59,951 | | \$ 59,951 |
| Langdon Research Center | 4,582,677 | \$ 3,750 | 4,586,427 | \$ 3,864,925 | 721,502 |
| Totals | \$ 4,642,628 | \$ 3,750 | \$ 4,646,378 | \$ 3,864,925 | \$ 781,453 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|-----------------|---------------------|---------------------|-------------------|
| General fund | \$ 2,015,952 | \$ 3,750 | \$ 2,019,702 | \$ 2,019,702 | |
| Special fund | 2,626,676 | | 2,626,676 | 1,845,223 | \$ 781,453 |
| Totals | \$ 4,642,628 | \$ 3,750 | \$ 4,646,378 | \$ 3,864,925 | \$ 781,453 |

Appropriation Adjustments:

North Central Research Center

The \$3,750 adjustment is general fund authority from the Energy Development impact funding pool appropriated in 2013 HB 1015, section 6.

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> |
| Accrued leave payments | \$ 77,383 | | \$ 77,383 | \$ 3,184 | \$ 74,199 |
| Williston Research Center | 3,766,986 | \$ 209,250 | 3,976,236 | 3,976,236 | |
| Totals | \$ 3,844,369 | \$ 209,250 | \$ 4,053,619 | \$ 3,979,420 | \$ 74,199 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|-------------------|---------------------|---------------------|------------------|
| General fund | \$ 2,478,732 | \$ 4,250 | \$ 2,482,982 | \$ 2,482,982 | |
| Special fund | 1,365,637 | 205,000 | 1,570,637 | 1,496,438 | \$ 74,199 |
| Totals | \$ 3,844,369 | \$ 209,250 | \$ 4,053,619 | \$ 3,979,420 | \$ 74,199 |

Appropriation Adjustments:

Williston Research Center

The \$209,250 adjustment includes:

- \$4,250 general fund authority from the Energy Development impact funding pool appropriated in 2013 HB 1015, section 6;
- \$205,000 increase of special fund authority pursuant to 2013 SB 2020, section 3.

CARRINGTON RESEARCH CENTER

| Expenses by line item: | Original | <u>Adjustments</u> | Final | <u>Expenses</u> | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | | <u>Appropriation</u> | | <u>Appropriation</u> |
| Accrued leave payments | \$ 122,898 | | \$ 122,898 | \$ 29,890 | \$ 93,008 |
| Carrington Research Center | 7,892,494 | | 7,892,494 | 7,892,494 | |
| Totals | \$ 8,015,392 | | \$ 8,015,392 | \$ 7,922,384 | \$ 93,008 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|--|---------------------|---------------------|------------------|
| General fund | \$ 3,622,995 | | \$ 3,622,995 | \$ 3,622,995 | |
| Special fund | 4,392,397 | | 4,392,397 | 4,299,389 | \$ 93,008 |
| Totals | \$ 8,015,392 | | \$ 8,015,392 | \$ 7,922,384 | \$ 93,008 |

Appropriation Adjustments:

None

AGRONOMY SEED FARM

| Expenses by line item: | Original | <u>Adjustments</u> | Final | <u>Expenses</u> | Unexpended |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|----------------------|
| | <u>Appropriation</u> | | <u>Appropriation</u> | | <u>Appropriation</u> |
| Accrued leave payments | \$ 5,741 | | \$ 5,741 | \$ 5,000 | \$ 741 |
| Agronomy Seed Farm | 1,466,018 | | 1,466,018 | 1,306,404 | 159,614 |
| Totals | \$ 1,471,759 | | \$ 1,471,759 | \$ 1,311,404 | \$ 160,355 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|--|---------------------|---------------------|-------------------|
| Special fund | \$ 1,471,759 | | \$ 1,471,759 | \$ 1,311,404 | \$ 160,355 |
| Totals | \$ 1,471,759 | | \$ 1,471,759 | \$ 1,311,404 | \$ 160,355 |

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> |
| Accrued leave payments | \$ 42,195 | | \$ 42,195 | \$ 6,573 | \$ 35,622 |
| Northern Crops Institute | 3,819,827 | \$ 826,971 | 4,646,798 | 3,685,928 | 960,870 |
| Totals | \$ 3,862,022 | \$ 826,971 | \$ 4,688,993 | \$ 3,692,501 | \$ 996,492 |

| Expenses by source: | | | | | |
|----------------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| General fund | \$ 2,064,861 | | \$ 2,064,861 | \$ 2,064,861 | |
| Special fund | 1,797,161 | \$ 826,971 | 2,624,132 | 1,627,640 | \$ 996,492 |
| Totals | \$ 3,862,022 | \$ 826,971 | \$ 4,688,993 | \$ 3,692,501 | \$ 996,492 |

Appropriation Adjustments:

Northern Crops Institute

The \$826,971 adjustment includes increased spending authority from private donations (\$597,730) and special funds (\$229,241) approved by the Budget Section December 11, 2013.

Internal Control

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

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

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of North Dakota State University in a management letter dated March 14, 2016.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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:

- North Dakota University System reported to the appropriations committees of the sixty-third legislative assembly on the use of one-time funding for the biennium ended June 30, 2015 (2013 SB 2003, chapter 34, section 2).
- The Dickinson Research Extension Center spent up to \$755,000 of revenues received during the 2013-15 biennium from mineral royalties, leases, or easement for ongoing operational expenses and any revenues received in excess of \$755,000 are spent only for one-time expenditures for the biennium ended June 30, 2015 (2013 SB 2020, chapter 51, section 4).
- The Main Research Center reported to the appropriations committees of the 64th legislative assembly on the use of one-time funding for the biennium ended June 30, 2015 (2013 SB 2020, chapter 51, section 2).
- Williston Research Extension Center retained all revenues received during the 2013-15 biennium from mineral royalties, leases, or easements and reported to the 64th legislative assembly on the amounts received for the biennium ended June 30, 2015 (2013 SB 2020, chapter 51, section 5).
- North Dakota State University discontinued the lease of the KingAir B200 airplane and provided a report to the appropriations committees of the 64th legislative assembly regarding the status of the lease and efforts to utilize other air transportation services (2013 HB 1033, chapter 221, section 5).
- 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 the ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Gifts, grants, and scholarship expenses were proper (Article IX, Section 1 of the North Dakota Constitution, NDCC 1-08-02, 15-10-12).
- Fixed asset requirements were followed including surplus property, record keeping, and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, and 54-27-21.1).
- Expenses, including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of North Dakota Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, and 54-06-09).
- Purchasing, including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 44-08-01).
- Capital construction (NDCC 15-10-12.1, 48-01.2-02, 04, 05, 07, 09, 10, 13, 18, 19, 20, 21, 23, 25, 54-44.7).
- Conflict of interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).

- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

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

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is included in the Operations section of this report as "Noncompliance with Public Improvement Bidding" (page 23).

Operations

In our audit for the biennium ended June 30, 2015, we identified the following areas of potential improvements to operations, as expressed by our operational objectives surrounding capital improvement projects greater than \$250,000:

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

Our audit of North Dakota State University identified the following area of potential improvement to operations, as expressed by our operational objective:

Noncompliance with Public Improvement Bidding (Finding 15-1)

Condition:

We noted the following while reviewing the Sanford Health Athletic Complex (SHAC) capital project at North Dakota State University:

- Formal bids were let for the athletic flooring, and there were three vendors that submitted three bids for the athletic floor. Each vendor was deemed a responsible bidder and each floor type submitted met the specification requirements. The floor prices ranged from \$299,900 - \$439,066. The athletic flooring bids were then evaluated (criteria not made public in the advertisement nor the bid specifications) by the architect, along with input from the coaches and athletic directors, to arrive at awarding a contract, in the amount of \$358,885, to a vendor who was not the lowest responsible bidder;
- Formal bids were let for the seating consisting of a polymer back with an upholstered seat, and the contract was properly awarded to the lowest responsible bidder for the contract price of \$1.3 million. However, a change order was initiated, and approved for significant chair enhancements including a change of style and backing materials from what was originally bid out thus increasing the contract by \$1.1 million, also an additional 40 seats were added to a film room increasing the contract another \$12,000, total change order increase of \$1.2 million, thus bringing the total contract up to \$2.4 million. The use of the change order for the significant chair enhancements circumvented the competitive bidding process. The total change order increase of \$1.2 million was backed by a secured pledge from the North Dakota State University Development Foundation and Alumni Association.

Criteria:

NDCC 48-01.2-01, part 19, states the lowest responsible bidder is the lowest best bidder for the project considering past experience, financial condition, past work with the governing body, and other pertinent attributes that may be identified in the advertisement for bids.

NDCC 48-01.2-07, in part states at the time and place specified in the notice, a governing body shall open publicly and read aloud each responsible bid received and award the contract to the lowest responsible bidder.

NDCC 54-44.4-05, in part states purchasing contracts must be awarded through a competitive bidding process to the lowest responsible bidder considering conformity with specifications, terms of delivery, and quality and serviceability, unless it is determined to be advantageous to the state to select a contractor through a competitive proposal process using other or additional criteria.

Cause:

There were many questions on the types of athletic floors available and North Dakota State University was unaware on how to proceed with the vast variety of floors available.

North Dakota State University decided to upgrade the seats and did not follow proper bidding requirements for the upgrade.

Effect or Potential Effect:

There is noncompliance with public improvement bidding by not awarding a contract to the lowest responsible bidder for the athletic flooring. The contract difference is \$58,985.

There is noncompliance with state purchasing practices, the seating that was purchased was not the same seating that was initially bid out for competitive pricing.

Operational Improvement:

We recommend North Dakota State University follow formal bidding procedures as outlined in the NDCC and award contracts to the lowest responsible bidder and purchasing contracts are awarded through a competitive bidding process.

North Dakota State University Response:

Item No. 1: Agree in part. NDCC 48-01.2-01 indicates that a state entity may review “past experience, financial condition, past work with the governing body, and other pertinent attributes that may be identified in the advertisement for bids”. The specifications for the basketball court flooring at the SHAC asked each contractor to provide multiple different flooring options with the bid. As such, it was implicitly understood that the quality and characteristics of the various flooring options would be part of the “responsibility” analysis. To date, no bidder has indicated that they were unaware that the performance characteristics of the flooring were part of the evaluation process. NDSU will, in the future, expressly state in the advertisement when a similar evaluation is part of the process.

Item No. 2: Disagree. After a competitive bid process, NDSU entered into a contract for the seating in the SHAC on January 23, 2014. Nearly one year later, a donor wished to upgrade the seats and was willing to pay for the upgrade in full. In lieu of breaching the original contract and paying the resulting damages, NDSU opted to issue a change order for the upgraded seats. The change order was used to accommodate the donor’s willingness to pay for the seat upgrade in full, not to circumvent the bidding process as indicated in the audit finding. No law or policy has been identified which prohibited NDSU from utilizing this methodology.

Auditor Concluding Remarks:

- Rather than North Dakota State University properly identifying what type of athletic flooring was required to best fit the institution’s needs, they appear to have attempted to use the formal bidding process to determine the type of athletic flooring to procure. If North Dakota State University was going to request multiple bids on different types of athletic flooring, the institution should have identified the specific athletic flooring options*

in the request for bids to ensure bids could be evaluated objectively and fairly. We conclude there was noncompliance with state law.

- *North Dakota State University competitively bid out a specific type of seat. They significantly changed the type of seat to be used (nearly doubling the cost of the seats). A change order should not be the mechanism used when such a significant change occurs. The final seats obtained were not procured in a competitive manner. North Dakota State University's attempt to justify the use of a change order for such a significant change circumvents the procurement laws. It is unclear what, if any, damages would have resulted for terminating the original contract as North Dakota State University did not document communications they claim to have had with the vendor. We conclude North Dakota State University could not demonstrate that the final seats were competitively purchased as required in state law.*

Management Letter (Informal Recommendations)

March 14, 2016

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, 2015, 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 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 MONITORING OF ACCESS ROLES

Condition:

We were unsuccessful in obtaining the documented results of North Dakota State University's monitoring activities for access roles performed in fiscal year 2015, for the Human Capital Management and Campus Solutions Environments of PeopleSoft.

Criteria:

Proper internal controls should provide reasonable assurance that operations are effective and efficient and financial reporting is reliable. An integral part of operational effectiveness and efficiency as well as ensuring the reliability of financial information is requiring that proper restrictions on the different levels of access are continuously monitored to ensure the integrity of

the data. Additionally, proper internal controls also provide reasonable assurance of compliance with applicable laws and regulations. NDUS Procedure 1912.1 identifies risks and requires coordinators to review procedures, keep current on potential threats, and conduct regular risk assessment and an annual evaluation to ensure ongoing compliance. System access and security is an identified risk in NDUS Procedure 1912.1.

Cause:

No documented review of Human Capital Management and Campus Solution Environments of PeopleSoft could be produced when requested.

Effect or Potential Effect:

There is noncompliance with NDUS procedure 1912.1. Lack of monitoring an individual's access roles to PeopleSoft increases the risk of unauthorized access which increases the risk of financial statement misstatement and fraud. It also increases the risk that too much control rests in one individual's hands knowingly or unknowingly leading to internal control issues surrounding segregation of duties. If adequate monitoring of access rights does not exist, the following could occur:

- Misappropriation of assets;
- Misstated financial statements;
- Incomplete and inaccurate financial documentation (i.e. errors or irregularities); and
- Improper use of funds or modification of data could go undetected.

Informal Recommendation 15-1:

We recommend North Dakota State University continuously monitor the access roles to the Human Capital Management and Campus Solutions Environments of PeopleSoft to ensure:

- the proper level of access is granted and/or removed in a timely manner to warrant proper segregation of duties; and that
- one of these continuous monitoring of access roles be documented at least yearly.

North Dakota State University Response:

NDSU agrees with the recommendation. The monitoring that has taken place has not been annually documented. A yearly documentation plan will be implemented by June 30, 2016. To avoid a repeat finding in the next audit, the details of the documentation plan will be reviewed with the auditors to ensure it is sufficient.

INADEQUATE CONTROLS OVER PROCUREMENT

Condition:

We noted North Dakota State University purchased a tractor without formally letting bids, and relied upon and approved the Sole Source Purchase Justification form completed by the department. However, it was noted that the Sole Source Purchase Justification form was not completed accurately, and did not justify or exempt the purchase from being formally bid out.

Criteria:

NDUS Procedure 803.1, part 2, states in part, *personal property, equipment or supplies estimated at \$25,000 or more must be purchased from formal bids.*

NDUS Procedure 803.1, part 5, states in part, purchases made from discount contracts under a group alliance or consortium and items possessing unique characteristics or properties or sole source products or services may be exempt from the competitive bid requirement. This

exemption applies only with the written approval of the purchasing officer or other official delegated that authority based upon documentation of:

1. The unique characteristics of the product, and
2. Specifically what task is to be performed requiring the unique characteristics of the product.

The purchasing office shall document in writing the process in all cases in which the lowest bid is not accepted or if approval is given for a purchase made from a discount contract or for items possessing unique characteristics or sole source products or services under subsection 6 in Policy 803.1. Documentation shall include a completed NDUS "Sole Source Purchase Justification."

NDSU Policy Manual, Section 400, part 3, states in part, Personal property, equipment or supplies estimated at \$10,000 or more must be purchased from formal bids.

NDSU Policy Manual, Section 400, part 6 states, Items which do NOT require competitive bidding are purchases made from discount contracts under a group alliance or consortium, other items possessing unique characteristics or properties which because of those peculiarities are essential to the conduct of particular research projects or instructional endeavors or sole source services. Purchases of an item or service under this exception is permitted only with the written approval of the purchasing officer or other official delegated that authority based upon documentation of: a) The unique characteristics of the products, and b) Specifically what task is to be performed requiring the unique characteristics of the product.

The purchasing office shall document in writing the process in all cases in which the lowest bid is not accepted. All required documentation shall be retained according to governing records retention policies.

Cause:

The reason for not formally letting bids was that a Sole Source Purchase Justification form was filled out and approved.

Effect or Potential Effect:

Without formally letting bids, competitive pricing was not obtained as required in NDUS Procedure 803.1.

Informal Recommendation 15-2:

We recommend North Dakota State University complies with its purchasing policies and NDUS purchasing procedures to ensure competitive pricing is obtained. We further recommend that when a purchase is being made via a sole source, that the sole source form is thoroughly reviewed for accuracy and completeness.

North Dakota State University Response:

NDSU agrees with the recommendation. The process should have been initiated by doing formal bids. Price quotes, instead of formal bids, were initially sought by the department using a preliminary list of desired specifications. In the end, the lowest price quote was used; but it was not the formal bid process.

As corrective action, the originating NDSU department (where the process was not initiated correctly) was informed of the formal bids requirements. In April 2016, NDSU's Purchasing Director is also meeting with the applicable department chairs and directors to review the policy requirements. In addition, effective January 1, 2016, State Board of Higher Education policy was revised, to increase the dollar threshold requiring formal bids for purchases greater to \$50,000 (previously \$25,000). NDSU plans to change its threshold from \$10,000 to \$50,000, to

match the State Board's policy. This increased threshold should also assist in improving compliance so more time can be focused on the higher dollar items.

I encourage you to call me at 701-239-7296 or an audit manager at 701-239-7291 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 'Cory Wigdahl', with a long horizontal flourish extending to the right.

Cory Wigdahl, CFE
Auditor in-charge

You may obtain audit reports on the internet at:

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