

# Office of the State Auditor

*Division of State Audit*

## University of North Dakota Grand Forks, North Dakota

Audit Report for the  
Biennium Ended June 30, 2003  
Client Code 230

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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March 15, 2004

Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Charles E. Kupchella, President, University of North Dakota

We are pleased to submit this audit of the University of North Dakota for the biennium ended June 30, 2003. 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 Mark Scott, CPA. David Feltman, Robyn Hoffmann, CPA, Mary Feltman, CPA and Jenny Morken were the staff auditors. 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 Kupchella and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The University of North Dakota (UND) at Grand Forks, founded six years before statehood, is the largest and most comprehensive university in the region of the Dakotas, Montana, Wyoming, and western Minnesota. Classified as a Carnegie Doctoral/Research-Intensive Institution, UND is characterized by a solid foundation in the liberal arts, a manageable size, high-quality students and faculty, a varied curriculum, nine colleges and schools, a widely recognized program of graduate education and research, rich cultural resources, and an outstanding record of alumni support.

## **RESPONSES TO LAFRC REQUESTS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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1. *Were expenses made in accordance with legislative appropriations and other state fiscal requirements and restrictions?*

Yes.

2. *Were revenues accounted for properly?*

Yes.

3. *Were there adequate financial controls and procedures?*

Yes.

4. *Was internal control adequate and functioning effectively?*

Yes.

5. *Do financial records and reports reconcile with state fiscal offices?*

Yes.

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

No. Based on the laws and legislative intent tested as outlined on pages 16-17 of this report, the University of North Dakota was not in compliance with the following significant statutes, laws, rules, and regulations under which it was created and is functioning:

- ❖ 15-10-12.1. Acceptance of buildings and campus improvements – Legislative Approval (see page 17);
- ❖ 44-04-07. Inventory required (see page 18);
- ❖ 54-44.1-06. (Effective through June 30, 2005) Preparation of the budget data – Contents (see page 20);
- ❖ 24-02-03.3. Central management system for all state –owned licensed motor vehicles. (see page 21); and
- ❖ 44-08-04. Traveling expenses (see page 22).

7. *Was there any indication of fraud or dishonesty?*

No.

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

No.

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

Yes.

10. *Were all activities of the agency encompassed within appropriations of specific amounts?*

No. All activities of the institution are not encompassed within appropriations of specific amounts. An identification of specific appropriation amounts are as follows:

Expenses per 800G less Depreciation	Specifically Appropriated		Non-Specifically Appropriated	
	\$	%	\$*	%*
522,397,927	141,349,673	27%	381,048,254	73%

\* - Although not encompassed within appropriations of specific amounts, these amounts are appropriated in Chapter 28 of Senate Bill 2003 of the 2001 Session Laws. This act appropriated unspecified amounts of federal acts, private grants, and additional income not required by law to be deposited in operating funds in the state treasury. In addition, Section 15-10-12 of the North Dakota Century Code provides that funds in the institution accounts are appropriated on a continuing basis to the State Board of Higher Education.

*11. Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the cost allocation system?*

No. The University of North Dakota maintains their accounting records on the Higher Education Computer Network (HECN), which is reconciled to the SAMIS system on a monthly basis.

*12. Has the agency developed budgets of actual anticipated expenses and revenues on at least a quarterly basis and compared (on at least a quarterly basis) actual expenses and revenues on the accrual basis to budgeted expenses and revenues?*

No. State Board of Higher Education policy 802.6 requires the institution presidents to periodically report budget and fiscal status to the Board consistent with the format and intervals established by the Board, to alert the Board to significant budget and fiscal variances. Campuses report to the SBHE Budget and Finance Committee at six month intervals. The report includes, among other things, information on potential significant revenue variances, potential deficits, pending legal actions, and major changes in capital projects. The University of North Dakota has also established internal policies or procedures for ensuring that the campus operates within the annual budget as approved. The University of North Dakota does budget to actual comparisons at several campus levels. Reports of revenues and expenses are generated on a monthly basis that are reviewed by the appropriate oversight level for spending within budget authorization.

*13. Was the institution in compliance with bond indenture provisions?*

Yes.

## ***Background Information***

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The University of North Dakota, as a member of the North Dakota University System, serves the state, the country, and the world community through teaching, research, creative activities, and service. State-assisted, the University's work depends also on federal, private, and corporate sources. With other research universities, the University shares a distinctive responsibility for the discovery, development, preservation, and dissemination of knowledge. Through its sponsorship and encouragement of basic and applied research, scholarship, and creative endeavor, the University contributes to the public well-being.

The University maintains its original mission in liberal arts, business, education, law, medicine, engineering and mines, and has also developed special missions in nursing, fine arts, aerospace, energy, human resources, and international studies. It provides a wide range of challenging academic programs for undergraduate, professional, and graduate students through the doctoral level. The University encourages students to make informed choices, to communicate effectively, to be intellectually curious and creative, to commit themselves to lifelong learning and the services of others, and to share responsibility both for their own communities and for the world. The University promotes cultural diversity among its students, staff, and faculty.

In addition to its on-campus instructional and research programs, the University of North Dakota separately and cooperatively provides extensive continuing education and public service programs for all areas of the state and region.

More information can be obtained from the University of North Dakota's home page at: <http://www.und.nodak.edu/>

# *Audit Objectives, Scope, And Methodology*

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## Audit Objectives

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The objectives of this audit of the University of North Dakota for the biennium ended June 30, 2003 were to provide reliable, audited financial statements and to answer the following questions:

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

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## Audit Scope

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This audit of the University of North Dakota for the biennium ended June 30, 2003 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## Audit Methodology

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- Prepared condensed financial statements from the data used in the North Dakota University System's financial audit reports and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures related to inventory, statement of net asset items, and revenue and expenses.
- Reviewed prior year audit workpapers and audit report.
- Interviewed appropriate institutional personnel.
- Reviewed institutional written plans and applicable manuals.
- Reviewed applicable meeting minutes.
- Observed institutional processes and procedures.
- Reviewed applicable sections in the North Dakota Century Code (NDCC), North Dakota Constitution, and appropriate session laws.
- Searched for recent studies or reports relating to the University of North Dakota.

## ***Discussion And Analysis***

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

For the biennium ended June 30, 2003, operations of the University of North Dakota were primarily supported by appropriations from the state's general fund (27%). This is supplemented by federal grants and contracts (20%), student tuition and fees (19%), and sales and services of educational departments (13%). In addition, beginning net assets at July 1, 2002 were restated by \$17,962,786 for a prior period error in calculating the cumulative effect of a change in accounting principle for accumulated depreciation.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of student tuition and fees, federal funds, auxiliary enterprises, sales and services of educational departments, and state, local, and nongovernmental grants and contracts. Nonoperating revenues consisted of state appropriations, gifts, investment income, and other nonoperating revenues. Total revenues for the year ended June 30, 2003 and June 30, 2002 were \$256,577,857 and \$238,914,694, respectively.

These revenues remained fairly constant except for federal grants and contracts, auxiliary enterprises, gifts, and investment income. The 17% increase in federal grants and contracts is due primarily to increased research activity. The 17% increase in auxiliary enterprises is due to a general increase in all funds. The 64% increase in gifts is due to a gift of a building from the UND Alumni Foundation as well as a difference in appraised value and market value of a motel given to the University. The 59% decrease in investment income is due primarily to net unallocated losses that were realized in fiscal year 2003.

Total expenses for the University of North Dakota were \$246,246,871 for the year ended June 30, 2003 as compared to \$235,044,663 for the prior year. The increase in total expenses for the audited period reflects primarily salary and wages (which accounts for 63% of expenses) as well as operating expenses (which accounts for 20% of expenses). All other expenses remained fairly constant.

## *Condensed Financial Statements*

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### STATEMENT OF NET ASSETS

	June 30, 2003	June 30, 2002
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 39,758,240	\$ 36,666,409
Investments	39,111,775	40,109,836
Accounts receivable, net	8,335,955	5,359,678
Due from state general fund	731,889	2,248,014
Intergovernmental receivable	14,483,461	15,955,229
Inventories	2,556,780	2,628,283
Notes receivable, net	25,206,034	24,338,087
Other assets	1,220,919	242,141
Unamortized bond discount and cost of issuance	962,690	808,081
Capital assets, net	263,126,148	267,065,964
<b>Total Assets</b>	<b>\$ 395,493,891</b>	<b>\$ 395,421,722</b>
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 6,967,688	\$ 6,133,851
Accrued payroll	3,875,724	3,651,287
Deferred revenue	7,181,978	5,298,297
Deposits	4,739,097	4,626,912
Other current liabilities		2,255
Advances from Bank of North Dakota	3,331,654	5,331,654
Payable to others	60,760,982	54,108,898
<b>Total Liabilities</b>	<b>\$ 86,857,123</b>	<b>\$ 79,153,154</b>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	\$ 209,596,526	\$ 222,857,826
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	9,007,614	9,777,521
Expendable:		
Scholarships and fellowships	3,033,130	2,954,922
Research	72,256	71,828
Instructional department uses	1,986,894	1,628,999
Loans	27,156,409	26,690,209
Capital projects	6,295,659	71,682
Debt service	3,764,489	4,677,639
Unrestricted	47,723,791	47,537,942
<b>Total Net Assets</b>	<b>\$ 308,636,768</b>	<b>\$ 316,268,568</b>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET ASSETS**

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>OPERATING REVENUES:</b>		
Student tuition and fees	\$ 47,645,592	\$ 44,647,062
Federal grants and contracts	53,231,190	45,512,469
State and local grants and contracts	2,203,241	2,031,379
Nongovernmental grants and contracts	10,372,702	11,024,699
Sales and services of educational departments	31,759,011	32,278,513
Auxiliary enterprises	25,654,853	21,965,711
Other	947,485	550,010
<b>Total Operating Revenues</b>	<b>\$ 171,814,074</b>	<b>\$ 158,009,843</b>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	\$ 158,862,429	\$ 145,146,979
Operating expenses	52,854,517	45,551,036
Data processing	1,838,800	2,018,887
Depreciation	13,695,041	15,335,294
Scholarships and fellowships	5,248,937	8,787,413
Cost of sales and services	11,318,261	14,229,009
<b>Total Operating Expenses</b>	<b>\$ 243,817,985</b>	<b>\$ 231,068,618</b>
<b>Operating Income (Loss)</b>	<b>\$ (72,003,911)</b>	<b>\$ (73,058,775)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State appropriations	\$ 68,813,100	\$ 63,865,120
Gifts	8,270,890	5,050,689
Investment income	1,005,108	2,480,789
Interest on capital asset-related debt	(2,417,096)	(2,370,396)
Loss on sale of capital assets	(11,790)	(1,605,649)
Insurance proceeds	138,710	4,617,186
Other nonoperating revenues over expenses	1,420,355	976,060
<b>Net Nonoperating Revenues</b>	<b>\$ 77,219,277</b>	<b>\$ 73,013,799</b>
<b>Income (loss) before capital grants and gifts</b>	<b>\$ 5,215,366</b>	<b>\$ (44,976)</b>
State appropriations-capital assets	\$ 1,436,945	\$ 1,068,729
Capital grants and gifts	3,678,675	2,846,278
<b>Total Other Revenue</b>	<b>\$ 5,115,620</b>	<b>\$ 3,915,007</b>
<b>Increase in net assets</b>	<b>\$ 10,330,986</b>	<b>\$ 3,870,031</b>
<b>Net Assets:</b>		
Net Assets-beginning of the year		\$ 312,398,537
Net Assets-beginning of the year, as restated	\$ 298,305,782	
Net Assets-end of the year	<b>\$ 308,636,768</b>	<b>\$ 316,268,568</b>

## STATEMENT OF CASH FLOWS

	June 30, 2003	June 30, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 49,426,406	\$ 44,735,654
Grants and contracts	65,169,236	60,320,761
Payments to suppliers	(64,054,227)	(61,965,607)
Payments to employees	(158,364,795)	(143,617,568)
Payments for scholarships and fellowships	(5,248,937)	(8,787,413)
Loans issued to students	(6,973,978)	(5,366,627)
Collection of loans to students	5,524,264	4,993,552
Auxiliary enterprise charges	25,537,315	21,965,711
Sales and service of educational departments	29,803,240	32,278,513
Cash paid on deposits	(10,088)	
Other receipts (payments)	(185,902)	2,752,765
<b>Net cash used by operating activities</b>	<b>\$ (59,377,466)</b>	<b>\$ (52,690,259)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	\$ 70,970,859	\$ 66,659,204
Grants and gifts received for other than capital purposes	10,380,555	5,050,689
Deposits		(1,936,417)
Principal paid on advances from Bank of North Dakota	(2,000,000)	
Agency fund cash increase/(decrease)	(503,168)	3,121,402
Other nonoperating revenues	1,420,355	976,060
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 80,268,601</b>	<b>\$ 73,870,938</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	\$ 10,545,267	\$ 6,710,000
Bonds discounts paid		(170,218)
Capital appropriations	795,311	1,068,729
Capital grants and gifts received	674,416	2,846,278
Proceeds from sale of capital assets	225,199	
Purchases of capital assets	(22,338,051)	(14,731,673)
Insurance proceeds	260,887	4,617,186
Principal paid on capital debt and lease	(7,746,842)	(9,537,137)
Interest paid on capital debt and lease	(2,399,508)	(2,219,075)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (19,983,321)</b>	<b>\$ (11,415,910)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	\$ 24,428,216	\$ 49,960,003
Interest on investments	1,580,875	3,044,818
Purchase of investments	(23,825,074)	(35,870,273)
<b>Net cash provided by investing activities</b>	<b>\$ 2,184,017</b>	<b>\$ 17,134,548</b>
<b>Net increase in cash</b>	<b>3,091,831</b>	<b>26,899,317</b>
<b>Cash - Beginning of the Year</b>	<b>36,666,409</b>	<b>9,767,092</b>
<b>Cash - End of the Year</b>	<b>\$ 39,758,240</b>	<b>\$ 36,666,409</b>

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

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Operating income (loss)	\$ (72,003,911)	\$ (73,058,775)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	13,695,041	15,335,294
Amortization Expense		25,929
Increase in allowance for bad debts		1,030,830
Notes receivable principal forgiven		555,570
Expenses paid by capital lease		666,987
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	(2,081,115)	1,840,806
Intergovernmental receivables	(637,897)	
Inventories	71,502	(174,356)
Notes receivable	(867,947)	(923,085)
Other assets	(1,133,386)	1,288,337
Accounts payable and accrued liabilities adjusted for interest payable	1,325,571	(2,565,726)
Compensated absences	484,495	535,165
Deferred revenue	1,770,181	2,752,765
<b>Net cash used by operating activities</b>	<u>\$ (59,377,466)</u>	<u>\$ (52,690,259)</u>

**SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS:**

Assets acquired through capital lease	\$ 3,454,237	\$ 2,284,845
Assets acquired through special assessment	2,166	
Gifts of capital assets	2,074,310	
Book value of building acquired, net of \$1,515,269 loss on exchange		4,000,000
<b>Total non-cash transactions</b>	<u>\$ 5,530,713</u>	<u>\$ 6,284,845</u>

**STATEMENT OF APPROPRIATIONS**

**For The Biennium Ended June 30, 2003**

<b>Expenses by Line Item:</b>	<u>Original</u>		<u>Final</u>		<u>Unexpended</u>
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operating Expenses	\$ 85,601,876	\$ 16,482,486	\$ 102,084,362	\$ 101,974,362	\$ 110,000
Capital Assets	13,713,136	(11,201,000)	2,512,136	2,371,739	140,397
Plant Improvement Carryover		1,560,732	1,560,732	1,560,732	
Capital Improvements Off SAMIS:					
Carnegie Library Renovation Smith, Johnstone and Fulton Renovation		3,000,000	3,000,000		3,000,000
Wilkerson Hall Loading Dock		2,650,000	2,650,000	932,501	1,717,499
Rural Tech Center		1,700,000	1,700,000		1,700,000
Rural Tech Center Canopy		3,800,000	3,800,000		3,800,000
Land Purchase		60,000	60,000		60,000
Energy Improvement Projects	3,990,785		3,990,785	2,210,146	1,780,639
Memorial Student Union	3,500,000		3,500,000	2,181,623	1,318,377
1997 Flood Expenditures		12,000,000	12,000,000	3,331,654	8,668,346
<b>Totals</b>	<b>\$ 106,805,797</b>	<b>\$ 30,193,218</b>	<b>\$ 136,999,015</b>	<b>\$ 114,702,757</b>	<b>\$ 22,296,258</b>

<b>Expenses by Source:</b>					
General Fund	87,964,012	18,083,218	106,047,230	105,906,833	140,397
Special Fund	18,841,785	12,110,000	30,951,785	8,795,924	22,155,861
<b>Totals</b>	<b>\$ 106,805,797</b>	<b>\$ 30,193,218</b>	<b>\$ 136,999,015</b>	<b>\$ 114,702,757</b>	<b>\$ 22,296,258</b>

**Appropriation Adjustments:**

Operating Expenses - \$16,482,486

- \$15,979,546 was a transfer from the North Dakota University System technology pool, pursuant to Senate Bill 2003, section 12. \$13,762,277 was spent during the biennium on general operating expenses of the information technology service departments. The unspent balance of \$2,216,869 is budgeted in fiscal year 2004 for general operating expenses of the information technology service departments.
- \$1,229,516 is a transfer from the North Dakota University System equity and special needs pool pursuant to Senate Bill 2003, section 13.
- \$275,000 is a transfer from the North Dakota University System board initiatives fund pursuant to Senate Bill 2003, section 2. \$165,000 was spent during the biennium on the Arts and

Humanities summit and Connect ND projects. The unspent amount of \$110,000 is budgeted in fiscal year 2004 for Connect ND.

- \$19,161 is a transfer from the North Dakota University System disabled student fund pursuant to Senate Bill 2003, section 2. \$19,155 was spent during the biennium on computer related expenses. The balance of this transfer is budgeted in fiscal year 2004 for disabled student expenses.
- \$(150,000) is a reduction for a line item transfer to the capital assets line item pursuant to Senate Bill 2003, section 7.
- \$(870,737) is a reduction for the Governor's 5% general fund allotment.

Capital Assets – \$(11,201,000)

- \$(11,351,000) is a transfer to the capital improvement – off SAMIS line item to spend monies without abstracting through SAMIS.
- \$150,000 is a transfer from the operating line item pursuant to Senate Bill 2003, section 7. \$9,603 was spent during fiscal year 2003 on a computer center emergency generator with the balance budgeted in fiscal year 2004 also for the generator.

Plant Improvement Carryover - \$1,560,732

- \$1,560,732 was an unspent plant improvement funding from the prior biennium. This carryover was spent in plant funds.

Capital Improvement Off SAMIS - \$11,351,000

- \$11,351,000 was a transfer from the capital assets line item for projects that will not have expenses abstracted through SAMIS.

1997 Flood Expenses - \$12,000,000

- \$12,000,000 was an increase in appropriation authority as a line of credit at the Bank of North Dakota. This was approved by the Budget Section on June 14, 2001.

**Medical School**

<b>Expenses by Line Item:</b>	<u>Original</u>		<u>Final</u>		<u>Unexpended</u>
	<u>Appropriation</u>	<u>Adjustments</u>	<u>Appropriation</u>	<u>Expenses</u>	<u>Appropriation</u>
Operating Expenses	\$ 30,006,416	\$ (27,846)	\$ 29,978,570	\$ 29,978,570	
<b>Totals</b>	<b>\$ 30,006,416</b>	<b>\$ (27,846)</b>	<b>\$ 29,978,570</b>	<b>\$ 29,978,570</b>	<b>\$ -</b>
<b>Expenses by Source:</b>					
General Fund	\$ 30,006,416	\$ (27,846)	\$ 29,978,570	\$ 29,978,570	
<b>Totals</b>	<b>\$ 30,006,416</b>	<b>\$ (27,846)</b>	<b>\$ 29,978,570</b>	<b>\$ 29,978,570</b>	<b>\$ -</b>

**Appropriation Adjustments:**

Operating Expenses - (\$27,846)

- \$222,026 is a transfer from the North Dakota University System equity and special needs pool pursuant to Senate Bill 2003, section 13.
- \$(249,872) is a reduction for the Governors 5% general fund allotment.

## *Internal Control*

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In our audit for the biennium ended June 30, 2003, we identified the following areas of the University of North Dakota's internal control as being the most important:

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Internal Controls Subjected  
To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with laws and legislative intent.

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 significant. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses. However, we noted a matter involving internal control that we have reported to management of the University of North Dakota in a separate letter dated March 15, 2004.

## *Compliance With Laws and Legislative Intent*

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In our audit for the biennium ended June 30, 2003, we identified and tested the University of North Dakota's compliance with laws and legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### Laws and Legislative Intent Subjected To Testing

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- Appropriation of \$141,000 was used to purchase land as described in section 22 of Senate Bill 2003. [01 Senate Bill 2003, chapter 28, section 23].
- Sundry project of \$3,990,785 was for a project described in the report filed by OMB, and UND monitored the resulting energy savings and the cost-effectiveness of the project. [01 Senate Bill 2023, chapter 48, sections 3 and 7].
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1/Attorney General's opinion dated September 11, 1987).
- Public funds deposited with BND (various NDCC sections primarily in chapters 15-10, 15-55, and 15-67).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (NDCC 1-08-02, 1-08-04, 15-10-12, 15-67-01, 15-67-04, 15-67-05, and 15-67-07).
- Fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements (NDCC 54-44-04.6, 54-44.1-06, 44-04-07, 54-27-21, and 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, article X, section 12, subpart 2), being within budgeted amounts (NDCC 54-44.1-09, article X, section 12), refunds of appropriated expenses (Attorney General opinion) and funds not transferable to other institutions (NDCC 15-10-16, 15-55-14, and Article VIII, section 6, subpart 6e).
- 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 (NDCC 44-08-01, 48-01.1-03, 54-44.4-01, 54-44.4-02, 54-44.4-05, 54-44.4-06 and 54-44.7-02,).
- Conflict of interest (NDCC 12.1-13-03, 48-02-12).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1, 47-30.1-17, and 47-30.1-05).
- Bond revenues and reserves (NDCC 15-55-03 and 15-55-06).
- Entrusted property (NDCC 12.1-23-07).

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The findings are described below.

### **IMPROVEMENTS FINANCED BY GIFTS**

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Finding 03-1

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The University of North Dakota did not receive approval from the Legislature or Budget Section to spend gift funds of \$400,000 for infrastructure improvements for the Hilton Garden Inn - a private, west campus development. Per North Dakota Century Code section 15-10-12.1, the consent of the Legislative Assembly or Budget Section is required for campus improvements financed by gifts if the cost of the improvement is more than \$385,000.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend that the University of North Dakota comply with NDCC section 15-10-12.1 and request approval from the Legislature or Budget Section for all improvements greater than \$385,000.

**University of North Dakota Response:**

UND operated under the premise that NDCC section 15-10-12.1 does not apply. That section governs donations, gifts, grants, and bequests to institutions for campus improvements and building maintenance. There was no donation, gift, grant, or bequest made to UND or the State Board of Higher Education.

On April 17, 2002 and June 26, 2002, the University of North Dakota informed the Budget Section that the University of North Dakota has agreed to lease University property to a developer for the construction of a Hilton Garden Inn hotel. The State Board of Higher Education approved the lease. The lease required the lessee to bear all costs of construction. The lease also required the lessor to request, on behalf of the lessee, financial assistance from the city of Grand Forks for the purpose of constructing infrastructure improvements on the premises.

This facility is not owned by UND or the State Board of Higher Education. The lessee is not required to transfer title of the building to the University of North Dakota at the end of the lease. UND did not use a donation, gift, grant, or bequest for a campus improvement or building maintenances. In fact, the grant of \$400,000 was for the private development, and not a campus improvement or building maintenance. UND was involved in the transaction only because the city used UND as a conduit to pass through the funds to the developer.

However, since the auditors concluded that the Joint Powers Agreement between UND and the City of Grand Forks gave UND ownership of the infrastructure improvement, if a similar situation

arises in the future, we will ask the Budget Section if approval is required.

### **DEPARTMENT AND EQUIPMENT INVENTORY**

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Finding 03-2

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During our test of departmental inventory sheets, we noted 3 of 10 items tested that were not promptly deleted or transferred on the fixed asset system:

- IBM ThinkPad Laptop totaling \$5,418.31, was transferred to another department, however, the transfer form was not returned, therefore, no changes have been made on the fixed asset system;
- Piper Seminole totaling \$298,504 was destroyed in October 2000; insurance was received in November 2000. The item was not removed until September 2003; and
- Plasma Spec I totaling \$53,443, was lost in 1997, and had not been removed as of June 2003.

During our physical existence test of 25 items we noted the following:

- The Interactive Video Network (IVN) Department changed campus locations. The Department's equipment inventory records were not updated to show the change.
- A camera costing \$22,694, had been returned to the manufacturer in August 2002, but has not been removed from the inventory.
- The internal physical equipment inventory count report, required by Accounting Services to be returned by May 2, 2003 had not been completed or returned as of June 26, 2003.
- Two items totaling \$21,057 were not properly identified. These two items were not correctly tagged and their serial numbers were not recorded in the fixed asset system; therefore they could not be positively identified.
- A ticket machine costing \$5,250 was sold in 1999 and was not taken off the fixed asset system.
- Four items totaling \$34,613 were in different locations than listed on the fixed asset system.

Section 44-04-07 of the NDCC requires the person in charge of an institution to maintain or cause to maintain a complete and current inventory record of all property of sufficient value and permanence as to render such inventory record practical. The same section requires a complete inventory of all such property. Said inventory record must provide a comprehensive description of each item, together with manufacturer's serial number, or other means of positive identification, and must include statements of all property disposed.

**Recommendation:**

We recommend that the University of North Dakota comply with NDCC 44-04-07 and promptly and accurately record comprehensive descriptions, disposals and changes.

**University of North Dakota Response:**

- Item #95370 – Departments are notified annually that equipment transfers are to be noted on Equipment Transfer forms and that the forms are to be returned to Asset Management (AM), formerly known as Inventory Control. AM has contacted the two departments to ensure that an Equipment Transfer form is completed and AM will change the location in the system.
- Item #100057 – Beginning in January of 2004, AM meets monthly with the Safety Office and Facilities to review claims outstanding. This meeting will help to ensure that AM is aware of equipment losses and can delete equipment on a timely basis.
- Item #E1412 – This item was deleted in March 2004. This was done as soon as the department returned its annual inventory noting the loss.
- Department 9400 – IVN moved from Gamble Hall to the Conflict Resolution Center in June of 2003. Their annual inventory is due by June 30, 2004. A thorough inventory will be performed, as some of the equipment will remain in Gamble Hall.
  - Item #96010 – AM will follow up with the department to ensure that the equipment is removed from inventory.
  - Per AM records, IVN submitted their annual inventory on July 18, 2003.
- Item #90269 – AM has contacted the department and a new tag will be pounded and sent to the department. Item #E1126B – In 1984 when the tag was created, AM believes that the department did not use the standard method of enhancement that is currently in use and practiced by the University. Rather than adding the cost of the enhancement to the original tag (#E1126B), the department added an entire new tag. AM is aware that this department no longer uses that practice.
- Item #79912 – A search for this item was conducted in June 2003. It was noted then that the asset had been sold. The asset was not sold through surplus property. Purchasing arranged for a Michigan Tech to purchase the machine. The file was maintained by Purchasing but it was not clear if AM had received the information to delete the asset. Going forward, at year-end, it will be required for AM to obtain copies of Purchasing's disposal records and reconcile to HECN records. The UND Bookstore is

conducting a full inventory this spring and has been informed to note any and all discrepancies from the Inventory Item List and the assets the physically located.

- Item #96088 – The location of this equipment was updated in February 2004 with a change in location noted on their annual inventory. Item #43853 – This department’s annual physical inventory is due by June 30<sup>th</sup> for all changes. This equipment was moved to a storage room and AM will update this location in the system. Item #103540 – As noted above, IVN is conducting an annual inventory this spring and will have the correct location at that point. Item #90671 – This copier was in the Career Services area. The department moved the copier out of room 280 due to remodeling.

UND holds an Asset Management training session in the spring and fall each year. AM has its own website with forms and instructions for completing its annual inventory. With a campus of this size, the University relies heavily upon the departments to get pertinent inventory information such as sales and equipment transfer information to AM. The departments with the above discrepancies will be required to attend the fall Asset Management training session. All departments were contacted regarding the findings as noted above.

### **CAPITAL LEASES**

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Finding 03-3

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UND had six capital leases totaling \$1,142,531 paid with appropriated funds. Of these six leases, two leases totaling \$208,518 were reported in the state budget for 2001-2003 or 2003-2005. The remaining leases, totaling \$1,047,758, were not included in the state budget. NDCC section 54-44.1-06, subpart 8, states that the office of the budget shall prepare budget data which must contain and include a list of every individual asset or service, excluding real estate, with a value of at least fifty thousand dollars and every group of assets and services comprising a single system with a combined value of at least fifty thousand dollars acquired through a capital or operating lease arrangement or debt financing arrangement by a state agency or institution. The list must include assets or services acquired in the current biennium and anticipated assets or services to be acquired in the next biennium.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend that UND comply with section 54-44.1-06, subpart 8 and properly report all leases and anticipated leases that are greater than \$50,000 in the budget.

**University of North Dakota Response:**

Historically, UND has reported capital lease agreements over \$50,000 assigned to appropriated funds at the time the biennial budget is being prepared. After the submission of the biennial budget, UND enters new leases or will revise the funding source on current leases, neither case is always anticipated during the biennial budget process. Because of legislative flexibility, new appropriated leases or funding revisions to current leases are allowable.

The four leases mentioned above were obligated or funding revised after the 03-05 biennial budget process was complete on campus. UND will continue to report leases assigned to appropriated funds in the biennial budget process. If the UND Budget Office is aware of a planned obligation to appropriated funds over \$50,000 for anticipated leases, we will report in the biennial budget process.

**MOTOR POOL SURCHARGE**

UND added per mile and per hour surcharges to North Dakota Department of Transportation (NDDOT) state fleet rental rates. For fiscal years 2002 and 2003, the additional surcharge totaled \$79,238. NDCC section 24-02-03.3 provides that the NDDOT shall regulate the operation, maintenance, and management of all motor vehicles owned or leased by the state. The Director shall provide a uniform method of documenting the use and cost of operation of motor vehicles and motor vehicle-related equipment in the system. Every state agency and institution, unless exempted, must use the system.

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Finding 03-4

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend that UND discontinue the surcharge to the NDDOT fleet rental rates.

**University of North Dakota Response:**

NDDOT does not provide adequate reimbursement to cover all costs related to the operation of registered motor vehicles at UND. In order to recover those costs, a fee was established to charge users of the services. This fee is reviewed and updated annually.

UND will meet with NDDOT to request additional reimbursement to cover these costs. We will notify the auditors on the resolution of the outcome.

## **NON-EMPLOYEE TRAVEL POLICY**

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Finding 03-5

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UND arranged with a local lodging facility to have the lodging expense for 24 individuals billed directly to UND. However, the lodging expense included hotel charges for nine state employees. The lodging expense per room was \$69 per night, when the state maximum for employees was \$45 per night. This resulted in excess charges of approximately \$175. UND's Accounting Services Accounting Policies and Procedures, Non-Employee and Student Travel Policy defined a non-employee as "individuals not employed at the university or enrolled as a student at the university."

NDCC section 44-08-04 states that except as provided in section 44-08-04.1, each elective or appointive officer, employee, representative, or agent of this state, or of any of its subdivisions, agencies, bureaus, boards, or commissions, may make claim for meals and lodging while engaged in the discharge of a public duty away from the claimant's normal working and living residence for all or any part of any quarter of a day. The fourth quarter is from twelve midnight to six a.m. and the sum must be the actual lodging expenses not to exceed forty-five dollars plus any additional applicable state or local taxes.

SBHE Policy Section 806.1, Payment or Reimbursement of Meals and other Travel or Institutional Expenses states that "Payment or reimbursement of employee travel expenses, including meals or per diem, is governed by N.D.C.C. §§ 44-08-04 (lodging and per diem), ...The university system office and institutions shall reimburse Board members, officers and employees for eligible travel expenses at the rates set forth in those statutes... "

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Audit Recommendation  
and Agency Response

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### **Recommendation:**

We recommend that UND:

1. Limit reimbursement to lodging facilities for lodging expense of state employees to the amounts allowed by law, and
2. Change the accounting policy definition of "non-employee" to be consistent with state law and SBHE policy.

### **University of North Dakota Response:**

If UND hosts a conference or event in North Dakota and arranges for the lodging facility to directly bill UND and the charge is more than \$45 plus additional state or local taxes per night, UND will require the UND department to certify that the billing does not include other ND state employees.

The certification would be in the form of a signed statement by the department and would only be required for non UND employees because UND does not allow our employees to directly bill in-state lodging in excess of the \$45 plus additional state or local taxes.

UND will review their travel policies.