

**UNIVERSITY OF NORTH DAKOTA
Grand Forks, North Dakota**

**Audit Report for the
Biennium Ended June 30, 2001
Client Code 230**

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TRANSMITTAL LETTER

February 22, 2002

Honorable John H. Hoeven, Governor

Members of the North Dakota Legislative Assembly

Dr. Charles E. Kupchella, University of North Dakota President

We are pleased to submit this audit of University of North Dakota for the biennium ended June 30, 2001. 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 economy and effectiveness of state government.

This audit was conducted by Mark Scott, auditor in-charge, Dave Mix, Mary Feltman, Robyn Hoffmann and Dave Feltman, staff auditors. John Grettum was the audit manager. Inquiries or comments relating to this audit may be directed to John by calling (701) 239-7250. We wish to express our appreciation to Robert Gallager, Vice President for Finance and Operations 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

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.

LAFRC Responses

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

1. Were expenditures 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?

Certain one-time salary adjustments paid during FY01 were not disclosed to the budget section. For additional commentary, see the Compliance with Legislative Intent section of this audit report on page 16.

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?

There were three findings in the prior audit.

- One finding was implemented.
- The second finding was regarding obtaining competitive bidding on all leases. Implementation could not be determined as UND did not have any new leases in this audit. We will review this again in the next audit.
- The third recommendation was regarding obtaining adequate supporting documentation to support a student's resident status. UND obtains a signed affidavit from the student that states they are a resident, but does not obtain any additional supporting documentation. Therefore this recommendation was not implemented.

For additional commentary, see the Status of Prior Recommendations section of this audit report.

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 follows:

	2001/00 Total				
	Expenditures & Other Deductions	Specifically Appropriated	%	Non-Specifically Appropriated *	% *
Current Funds:					
Unrestricted	\$ 331,816,533	\$ 319,236,525	96%	\$ 12,580,008	4%
Restricted	91,497,251	76,186,197	83%	15,311,054	17%
Loan Funds	848,350	-	0%	848,350	100%
Plant Funds:					
Unexpended	48,194,078	42,835,941	89%	5,358,137	11%
Retire. Of Indebt.	21,441,317	21,119,012	98%	322,305	2%
Total	\$ 493,797,529	\$ 459,377,675	93%	\$ 34,419,854	7%

* Although not encompassed within appropriations of specific amounts, these amounts are appropriated in House Bill 1003 of the 1999 Session Laws. These acts appropriate unspecified amounts of federal acts, private grants and additional income not required by law to be deposited in operating funds in the state treasury.

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

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

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

Yes.

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

Yes.

BACKGROUND INFORMATION

MISSION:

The University of North Dakota (UND), 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 and its branch campuses, 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 UND's home page at: <http://www.und.nodak.edu/>.

Enrollment: 11,764 (fall 2001).

Academic Divisions: John D. Odegard School of Aerospace Sciences, College of Arts and Sciences, College of Business and Public Administration, College of Education and Human Development, School of Engineering and Mines, Graduate School, Law School, School of Medicine and Health Sciences, College of Nursing, Division of Continuing Education.

Programs of Study: 89 undergraduate majors; 46 masters programs; 18 doctoral programs; Medicine; Law.

Annual Budget (2001-02): \$263 million.

Full-time Employees: 2,403.

Campus: 553 acres; 233 buildings, 5.6 million square feet of space under roof.

Strategic Plan: Completed in 2001, *Pathways to the Future* is linked to the recommendations of the North Dakota Legislature's Higher Education Roundtable Report and to the strategic plan of the North Dakota State Board of Higher Education. It can be viewed at: <http://www.und.edu/stratplan/>.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit of University of North Dakota for the biennium ended June 30, 2001 were to provide reliable, audited financial statements and to answer the following questions:

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

This audit of University of North Dakota for the biennium ended June 30, 2001 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

- *Prepared condensed financial statements from the data used in the North Dakota University System's financial statement reports and reviewed management's discussion and analysis of the financial statements.*
- *Reviewed prior year audit workpapers and audit report.*
- *Interviewed appropriate institutional personnel.*
- *Reviewed institutional written plans and applicable manuals.*
- *Observed institutional processes and procedures.*
- *Reviewed applicable sections in the North Dakota Century Code (NDCC) Chapters 12.1, 15, 26.1, 44, 47, 48, and 54 and 1999 and 2001 Session Laws relating to colleges and universities.*
- *Reviewed applicable meeting minutes.*
- *Tested samples of receipts, expenditures, journal entries and interdepartmental billings.*
- *Performed detailed analytical procedures related to balance sheet items and revenue and expenditures.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis was prepared by University of North Dakota's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

- ❖ The student body grew for the fourth straight year, reaching 11,764 in the fall of 2001 and providing perhaps the best evidence that UND's goal of rebuilding enrollment after the 1997 Red River Valley flood has been achieved.
- ❖ Sponsored agreements, gifts and grants grew for the fourth straight year, reaching \$45.2 million.

- ❖ The new 11,500-seat Ralph Engelstad Arena was completed. The facility, regarded as the finest college hockey arena in the United States, was made possible by a \$100 million gift from alumnus Ralph Engelstad of Las Vegas, Nevada. The facility is owned by a private corporation and the intent is to transfer the facility to the University at an appropriate time in the future.
- ❖ Twenty-five North Dakotans, many of them faculty members at other North Dakota colleges, were enrolled in a special doctoral program in higher education offered almost entirely in Bismarck. The program takes a more flexible approach to the once rigid on-campus residency requirements for graduate work. It is geared to the needs of professionals who would find it difficult to leave their jobs to study in a conventional on-campus program.
- ❖ As part of its effort to facilitate the transfer of students from other schools, UND has signed “program to program” articulation agreements with eight two-year colleges and is negotiating agreements with 20 others in the region. This approach means that a student can enroll at a two-year school with the confidence that not only will his or her credits transfer, but that they will count towards the requirement of specific UND major fields of study.
- ❖ The UND School of Medicine and Health Sciences, which marked the 25th anniversary of its first class of medical doctors (previously students transferred after two years), was recognized by *U.S. News and World Report* as one of the nation’s top four schools specializing in rural medicine.
- ❖ The Federal Aviation Administration designated the John D. Odegard School of Aerospace Sciences as a national “center of excellence” for the training of pilots and other airlines personnel and for federally sponsored research into aviation safety. FAA Administrator Jane Garvey traveled to Grand Forks to announce the selection.
- ❖ The University’s Energy and Environmental Research Center (EERC), which operates without state funds, generated \$19 million in contract revenues during the year by serving 215 active clients in 49 states and 47 countries. Seventy percent of its contracts were in the private sector. Nearly 60 percent of its 210 scientists, engineers and support personnel are graduates of North Dakota colleges and universities.
- ❖ The School of Law has been ranked the third “most wired” law school in the nation, according to a survey by *National Jurist* magazine endorsed by the American Bar Association. The study measured such aspects as access to computers, network services, hardware resources, and the availability of information technology in the classroom.

For the biennium ended June 30, 2001, operations of University of North Dakota were primarily supported by appropriations from the state’s general fund and tuition and fee revenue. This is supplemented by federal, state and private gifts, grants and contract revenue along with sales of service revenue of auxiliary and educational departments.

Comparison of Current to Prior Year's Results/Financial Summary

	Year Ending			
	2001	2000	\$ Difference	% Difference
Assets and Other Debits:				
Cash and Investments	\$ 64,705,970	\$ 60,043,472	\$ 4,662,498	7.77%
Receivables (Net)	48,663,178	47,861,360	801,818	1.68%
Due from Other funds	8,972,206	6,379,588	2,592,618	40.64%
Inventories	2,500,997	2,358,557	142,440	6.04%
Fixed Assets	417,487,563	419,690,832	(2,203,269)	-0.52%
Other Assets	1,125,071	2,571,565	(1,446,494)	-56.25%
TOTAL ASSETS	\$ 543,454,985	\$538,905,374	\$ 4,549,611	0.84%
Liabilities:				
Accounts Payable and Accrued Expenses	\$ 7,349,933	\$ 5,193,160	\$ 2,156,773	41.53%
Salaries Payable	2,714,698	2,605,613	109,085	4.19%
Due to Other Funds	9,078,850	9,814,955	(736,105)	-7.50%
Bonds Payable	27,408,895	29,145,445	(1,736,550)	-5.96%
Notes Payable	1,574,505	1,091,617	482,888	44.24%
Deposits Held in Trust for Others	3,441,927	2,662,323	779,604	29.28%
Leases Payable	19,538,194	18,294,647	1,243,547	6.80%
Compensated Absences Payable	5,300,388	4,916,760	383,628	7.80%
Deferred Revenue	2,983,249	3,000,766	(17,517)	-0.58%
Other Liabilities	2,022,636	2,761,004	(738,368)	-26.74%
TOTAL LIABILITIES	\$ 81,413,275	\$ 79,486,290	\$ 1,926,985	2.42%

The increase in total assets of \$4.5 million or .84% includes the following significant activity:

- The large increase in due from other funds is attributable to the increase in the amount due from the state for appropriations and an interfund receivable.
- The other assets decreased significantly due to the reduction of prepaid expenses and other deposits.

The increase in total liabilities of \$1.9 million or 2.42% includes the following significant activity:

- Accounts payable and accrued expenses increase was primarily the result of June 30 falling on a weekend in fiscal year 2001 resulting in one less day to receive and process invoices for payments so the invoices could input prior to July 1.
- The notes payable increase is due largely to the issuance of a note by UND to the UND Foundation for some of the monies to construct the new university bookstore.
- Deposits held for others increase substantially due to the recording of the final closing entry for OMB for the biennium.
- Other liabilities decreased because in fiscal year 2001 the remaining accrued interest from fiscal year 1999 on the flood line of credit was paid.

Analysis of Significant Changes in Operations

	Year Ending			
	2001	2000	\$ Difference	% Difference
Revenues and Other Additions:				
State Funds	\$ 85,670,818	\$ 74,845,786	\$ 10,825,032	14.46%
Tuition and Fees	45,733,499	41,418,676	4,314,823	10.42%
Gifts, Grants and Contracts	63,111,968	52,487,716	10,624,252	20.24%
Sales and Services - Auxiliaries	21,975,534	21,029,728	945,806	4.50%
Sales and Services - Departments	29,753,816	29,299,371	454,445	1.55%
Investment and Endowment Interest	3,957,996	2,560,821	1,397,175	54.56%
Retirement of Indebtedness-Principal & Interest	13,934,581	6,826,099	7,108,482	104.14%
Debt Issuance	6,241,397	82,186	6,159,211	7494.23%
Expended for Plant Facilities	39,004,619	31,656,110	7,348,509	23.21%
Other Additions	17,231,241	6,031,993	11,199,248	185.66%
TOTAL REVENUES AND OTHER ADDITIONS	<u>\$ 326,615,469</u>	<u>\$ 266,238,486</u>	<u>\$ 60,376,983</u>	<u>22.68%</u>
Expenditures and Other Deductions:				
Education and General Expenditures	\$ 189,764,704	\$ 173,494,323	\$ 16,270,381	9.38%
Auxiliary Enterprise Expenditures	22,578,486	22,069,032	509,454	2.31%
Expended for Plant Facilities	29,866,696	18,327,382	11,539,314	62.96%
Retirement of Indebtedness-Principal & Interest	14,118,568	5,057,018	9,061,550	179.19%
Disposal of Plant Facilities	41,207,888	10,287,289	30,920,599	300.57%
Debt Issuance	15,458,004	5,025,004	10,433,000	207.62%
Other Deductions	10,998,497	9,060,662	1,937,835	21.39%
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	<u>\$ 323,992,843</u>	<u>\$ 243,320,710</u>	<u>\$ 80,672,133</u>	<u>33.15%</u>

In November 1999, GASB released Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. The University of North Dakota will implement these new reporting requirements for fiscal year 2002 in accordance with the implementation dates set forth in GASB 35.

The 2001 legislative session appropriated salary, operating and equipment to UND in one line item called operations. This will change accounting procedures beginning in fiscal year 2002 but will have no impact on the fiscal year 2000 or 2001 financial statements.

The 2001 legislative session also changed the equipment capitalization from \$750 to \$5,000. This resulted in a decrease of capitalized equipment in the amount of \$33,965,035 for June 30, 2001.

The increase in total revenues and other additions of \$60.3 million or 22.68% includes the following significant activity:

- State appropriation revenue increased because of funding for the deficiency appropriation for the flood of 1997 and the increase in salary and operating expenses across the board. Additionally, since fiscal year 2001 was the second year of the biennium, a receivable is recorded at fiscal year end for the remaining appropriation.
- Gifts, grants, and contracts increased significantly due to a concentrated effort by the University to bring in more sponsored agreements.

- Debt issuance and the retirement of indebtedness increased due in large part to refunding bond issues to decrease the interest rate.
- Investment and endowment income increased substantially primarily due to increasing the amount invested.
- Other additions increased primarily due to paying off the 1990 COP lease that was accomplished by the issuance of new debt.

The increase in total expenditures and other deductions of \$80.7 million or 33.15% includes the following significant activity:

- Expended for plant facilities increased due in large part because of the additional work performed on the replacement of the steam lines and the 1990 COP's lease that was retired.
- Across the board salary increases of approximately 4% attributed to the overall expenditure increase.
- Disposal of facilities increase was due to the deletion from the fixed assets of equipment under \$5,000.
- Other deductions increased due to the various expenses recorded for the refunding of current debt and issuance of new debt.

Analysis of Significant Variances in Final Budgeted and Actual Amounts

	<u>1999-2001 Adjusted Appropriation</u>	<u>1999-2000 Expenditures</u>	<u>2000-2001 Expenditures</u>	<u>Total 1999-2001 Biennium Expenditures</u>	<u>1999-2001 Biennium Unexpended Appropriation</u>
Salaries and Wages	\$139,697,274	\$67,913,064	\$71,546,565	\$139,459,629	\$237,645
Operating Expenses	39,776,693	18,662,982	20,397,609	39,060,591	716,102
Equipment	3,403,375	1,392,358	1,924,046	3,316,404	86,971
Capital Improvements	4,927,136	951,256	2,405,148	3,356,404	1,570,732
Capital Improvements Off SAMIS	25,071,426	12,985,166	9,396,548	22,381,714	2,689,712
Interactive Video Network	2,067,107	994,495	1,057,105	2,051,600	15,507
ODIN	587,714	223,672	358,746	582,418	5,296
Flood	3,385,584	-	3,385,584	3,385,584	-
Special Initiatives Pool	1,989,167	391,285	1,033,336	1,424,621	564,546
1997-99 Carryover	791,572	738,207	53,365	791,572	-
Local Funds	<u>330,347,887</u>	<u>116,906,964</u>	<u>136,381,734</u>	<u>253,288,698</u>	<u>77,059,189</u>
TOTAL	<u>\$552,044,935</u>	<u>\$221,159,449</u>	<u>\$247,939,786</u>	<u>\$469,099,235</u>	<u>\$82,945,700</u>

The large variance between the budgeted and actual expenditures for the local funds is due to limitations within the administrative computing system. Negative amounts cannot be entered for the recharge center that results in a duplication of amounts in the budget.

CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in a condensed form to present 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. All fund types and account groups are condensed and reported in one column. Accordingly, the accompanying summary financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

Statement of Assets, Liabilities, and Fund Balances

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 9,968,119	\$ 25,500,469
Investments	54,737,851	34,543,003
Receivables (Net)	54,896,144	52,679,835
Interfund Receivable	2,739,240	1,561,113
Inventory	2,500,997	2,358,557
Other Assets	1,125,071	2,571,565
Fixed Assets	417,487,563	419,690,832
TOTAL ASSETS	<u>\$ 543,454,985</u>	<u>\$ 538,905,374</u>
 <u>LIABILITIES:</u>		
Accounts Payable	\$ 20,427,070	\$ 19,694,069
Accrued Payroll	8,015,086	7,522,373
Interfund payable	2,739,240	1,476,247
Bonds Payable	27,408,895	29,145,445
Capital Leases Payable	19,538,194	18,294,647
Deferred Revenue	2,983,249	3,000,766
Other Liabilities	301,541	352,743
Total Liabilities	<u>\$ 81,413,275</u>	<u>\$ 79,486,290</u>
 <u>FUND BALANCES:</u>		
Investment in Fixed Assets	\$ 371,130,781	\$ 374,849,991
Restricted Fund Balances	50,982,722	47,522,461
Unrestricted Fund Balances	39,928,207	37,046,632
Total Fund Balances	<u>\$ 462,041,710</u>	<u>\$ 459,419,084</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 543,454,985</u>	 <u>\$ 538,905,374</u>

Statement of Revenues and Expenditures

	For Fiscal Year Ended	
	June 30, 2001*	June 30, 2000*
<u>REVENUE AND OTHER ADDITIONS:</u>		
Operating Transfers In From State	\$ 85,660,818	\$ 74,845,786
Gifts, Grants and Contracts	63,111,968	52,487,716
Tuition and Fees	45,733,499	41,418,676
Sales and Services-Educational Depts.	29,753,816	29,299,371
Sales and Services-Auxiliaries	21,975,534	21,029,728
Other Revenues	14,498,094	3,906,752
Investment and Endowment Income	4,555,014	3,141,582
Debt Issuance	5,967,858	82,186
Local Appropriation and Taxes	1,288,207	1,489,090
Proceeds From Escrow	834,605	
Total Revenues and Other Additions	<u>\$ 273,379,413</u>	<u>\$ 227,700,887</u>
<u>EXPENDITURES AND OTHER DEDUCTIONS:</u>		
Instruction	\$ 84,209,401	\$ 82,256,330
Expended for Plant	29,866,696	18,327,382
Auxiliary Expenditures	22,578,486	22,069,032
Research	19,439,167	17,298,640
Academic Support	18,411,788	16,796,642
Institutional Support	17,976,201	15,442,481
Public Service	17,522,779	10,451,032
Retirement of Indebtedness	14,138,977	5,076,090
Scholarships and Fellowships	13,384,018	11,905,366
Operation and Maintenance of Plant	10,495,250	11,936,760
Student Services	8,326,100	7,407,072
Indirect Costs Recovered	7,931,319	7,434,214
Other Expenditures and Deductions	2,757,395	317,205
Total Expenditures and Other Deductions	<u>\$ 267,037,577</u>	<u>\$ 226,718,246</u>

* Excludes Investment in Plant fund revenues and expenditures.

Statement of Appropriations

For The Biennium Ended June 30, 2001

University of North Dakota

<u>OBJECT:</u>	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Benefits	\$ 98,902,879	\$ 8,320,461	\$ 107,223,340	\$ 107,134,178	\$ 89,162
Operating Expenses	27,655,286	4,532,580	32,187,866	32,030,189	157,677
Equipment	1,520,260	1,333,200	2,853,460	2,811,087	42,373
Capital Improvements	4,917,136	10,000	4,927,136	3,356,404	1,570,732
Capital Improvements - Off SAMIS	4,500,000	20,571,426	25,071,426	22,381,714	2,689,712
Local Funds	282,733,609		282,733,609	221,166,043	61,567,566
Interactive Video Network		2,067,107	2,067,107	2,051,601	15,506
ODIN		587,714	587,714	582,417	5,297
1997 Flood Expenditures		3,385,584	3,385,584	3,385,584	-
Special Initiatives Pool	1,462,223	526,944	1,989,167	1,424,620	564,547
97 Biennium Carryover		791,508	791,508	791,508	-
Totals	<u>\$ 421,691,393</u>	<u>\$ 42,126,524</u>	<u>\$ 463,817,917</u>	<u>\$ 397,115,345</u>	<u>\$ 66,702,572</u>

SOURCE:

General Fund Authority	\$ 81,824,691	\$ 17,834,286	\$ 99,658,977	\$ 98,940,150	\$ 718,827
Special Fund Authority	339,866,702	24,292,238	364,158,940	298,175,195	65,983,745
Totals	<u>\$ 421,691,393</u>	<u>\$ 42,126,524</u>	<u>\$ 463,817,917</u>	<u>\$ 397,115,345</u>	<u>\$ 66,702,572</u>

Appropriation Adjustments:

Salaries and Wages (\$8,320,461):

- \$2,731,854 and \$1,708,310 are allocations from the North Dakota University System technology pool pursuant to section 15 of House Bill 1003.
- \$973,787 is an allocation from the North Dakota University System critical salary pool pursuant to section 16 of House Bill 1003.
- \$883,116 is an allocation from the North Dakota University System equity and special needs pool pursuant to section 17 of House Bill 1003.
- \$99,346 is an equity adjustment by OMB pursuant to section 10 of Senate Bill 2015.
- \$-150,000 is a line item transfer to the equipment line item.
- \$-935 is a line item transfer to the IVN and ODIN line items for \$705 and \$230, respectively.
- \$2,074,983 is an increase in appropriation authority for uncommitted revenue pursuant to House Bill 1003, section 3.

Operating Expenses (\$4,532,580):

- \$2,683,615 and \$1,767,376 are allocations from the North Dakota University System technology pool pursuant to section 15 of House Bill 1003.
- \$11,420 is an allocation from the North Dakota University System disabled student services pursuant to section 3 of House Bill 1003.
- \$-33,000 and \$-366,000 are line item transfers to the equipment line item.

- \$369,672 is an increase in appropriation authority for uncommitted revenue pursuant to House Bill 1003, section 3.
- \$99,497 is an allocation from the North Dakota University System's Board initiatives and contingency fund line items pursuant to section 2 of House Bill 1003.

Equipment (\$1,333,200):

- \$633,950 and \$93,750 are allocations from the North Dakota University System technology pool pursuant to section 15 of House Bill 1003.
- \$150,000 is a line item transfer from the salaries and wages line item.
- \$33,000 and \$366,000 are line item transfers from the operating line item.
- \$56,500 is an increase in appropriation authority for uncommitted revenue pursuant to House Bill 1003, section 3.

Capital Improvements (\$10,000):

- \$10,000 is an increase in appropriation authority pursuant to the emergency clauses in Senate Bills 2003 and 2023 of the 2001 biennium.

Capital Improvements – Off SAMIS (\$20,571,426):

- \$-28,155 was the amount spent in the 1997 biennium pursuant to Senate Bill 2030.
- \$12,000,000 is an increase in appropriation authority as a line of credit at the Bank of North Dakota.
- \$8,589,581 is an increase in appropriation authority adjusted by OMB for prior biennium unfinished projects. These include Abbott Hall, Apartment Storage Facility and Auxiliary Storage Facility projects from the 1995 biennium for \$83,017, \$413,586 and \$244,416, respectively. From the 1997 biennium, projects include the Bookstore Auxiliary Operation Renovation, EERC Addition and Medical School Animal Quarters for \$1,200,000, \$400,000 and \$6,248,562, respectively.
- \$10,000 is an increase in appropriation authority pursuant to the emergency clauses in Senate Bills 2003 and 2023 of the 2001 biennium.

Interactive Video Network (\$2,067,107):

- \$1,016,564 and \$1,027,940 are allocations from the North Dakota University System technology pool pursuant to section 15 of House Bill 1003.
- \$1,898 is an allocation from the North Dakota University System critical salary pool pursuant to section 16 of House Bill 1003.
- \$705 is a line item transfer from the salaries and wages line item.

ODIN (\$587,714):

- \$281,792 and \$303,942 are allocations from the North Dakota University System technology pool pursuant to section 15 of House Bill 1003.
- \$1,750 is an allocation from the North Dakota University System critical salary pool pursuant to section 16 of House Bill 1003.
- \$230 is a line item transfer from the salaries and wages line item.

1997 Flood Expenditures (\$3,385,584):

- \$3,115,908 is an increase in appropriation authority for a deficiency appropriation pursuant to Senate Bill 1026. This bill is an emergency measure from the 2001 biennium.

- \$269,676 in an increase in appropriation authority for a deficiency appropriation pursuant to Senate Bill 2003, section 5. This section is an emergency measure from the 2001 biennium.

Special Initiatives Pool (\$526,944):

- \$64,072 is an allocation from the North Dakota University System Board Initiatives line item for \$32,036 and the North Dakota University System Contingency line item for \$32,036. This is pursuant to section 2 of House Bill 1003.
- \$424,569 is an increase in appropriation authority for uncommitted revenue, pursuant to House Bill 1003, section 3.
- \$38,303 is an allocation from the North Dakota University System Board Initiatives line item, pursuant to section 2 of House Bill 1003.

Biennium Carryover (\$791,508):

- \$791,508 is pursuant to section 7, House Bill 1003. This amount includes the prior biennium unspent general fund of \$6,420, plus special fund cash and accounts receivable of \$823,359 and \$431,774, respectively, less special fund accounts payable of \$470,045.

Medical School

OBJECT:	Original <u>Appropriation</u>	<u>Adjustments</u>	Final <u>Appropriation</u>	<u>Expenditures</u>	Unexpended <u>Appropriation</u>
Salaries and Wages	\$ 32,021,200	\$ 452,734	32,473,934	\$ 32,325,451	\$ 148,483
Operating Expenses	7,502,327	86,500	7,588,827	7,030,402	558,425
Equipment	547,915	2,000	549,915	505,317	44,598
Local Funds	47,592,145	22,133	47,614,278	34,823,299	12,790,979
97 Biennium Carryover		64	64	64	-
Totals	<u>\$ 87,663,587</u>	<u>\$ 563,431</u>	<u>\$ 88,227,018</u>	<u>\$ 74,684,533</u>	<u>\$ 13,542,485</u>

SOURCE:

General Fund Authority	\$ 29,258,660	\$ 241,098	\$ 29,499,758	\$ 29,499,692	\$ 66
Special Fund Authority	58,404,927	322,333	58,727,260	45,184,841	13,542,419
Totals	<u>\$ 87,663,587</u>	<u>\$ 563,431</u>	<u>\$ 88,227,018</u>	<u>\$ 74,684,533</u>	<u>\$ 13,542,485</u>

Appropriation Adjustments:

Salaries and Wages (\$452,734)

- \$231,159 was an allocation from the North Dakota University System critical salary pool pursuant to section 16 of House Bill 1003.
- \$9,875 is the general fund portion of an equity adjustment pursuant to section 10 of Senate Bill 2015.
- \$211,700 is an increase in appropriation authority for uncommitted revenue pursuant to House Bill 1003, section 3.

Operating Expenses (\$86,500)

- \$86,500 is an increase in appropriation authority for uncommitted revenue pursuant to House Bill 1003, section 3.

Equipment (\$2,000)

- \$2,000 is an increase in appropriation authority for uncommitted revenue pursuant to House Bill 1003, section 3.

Local Funds (\$22,133)

- \$22,133 is the special fund portion of an equity adjustment pursuant to section 10 of Senate Bill 2015.

Biennium Carryover (\$64)

- \$64 is the amount of the prior biennium unspent general fund pursuant to section 7, House Bill 1003.

INTERNAL CONTROL

In our audit for the biennium ended June 30, 2001, we identified the following areas of University of North Dakota's internal control as being the most important:

- *Controls surrounding the processing of revenues.*
- *Controls surrounding the processing of expenditures.*
- *Controls effecting the safeguarding of assets.*
- *Controls relating to compliance with legislative intent.*

We gained an understanding of the management controls 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 the 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 the internal control and its operation that we consider to be material weaknesses.

COMPLIANCE WITH LEGISLATIVE INTENT

In our audit for the biennium ended June 30, 2001, we identified and tested compliance with the following areas of University of North Dakota's legislative intent that we determined to be critical and of higher risk of noncompliance:

- Appropriations and related transfers (North Dakota Session Laws Chapter 3, House Bill 1003).
- Use of revenue from the lease of the new university bookstore (North Dakota Session Laws Chapter 49, Senate Bill 2030, section 1).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1 and AG opinion dated 9-11-87).
- Proper use of State Treasurer (State Constitution, Article X, Section 12), including institutional collections and public funds deposited with the BND (Various NDCC sections primarily in chapters 15-10, 15-55 & 15-67).

- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposits and expenditures of gifts including construction with gifts and grants (NDCC 54-44-04.6, 15-10-12.1).
- Fixed asset requirements including record keeping, surplus property, including lease and lease analysis requirements (NDCC 54-44-04.6, 54-44.1-06, 44-04-07, 54-27-21, 54-27-21.1).
- Expenditures including proper voucher approvals (NDCC 44-08-05.1, Article X, section 12, subpart 2), within budget (NDCC 54-44.1-09, Article X, Section 12), refunds of appropriated expenditures (AG opinion) and funds not transferable to other institutions (NDCC 15-10-16, 15-55-14, Article VIII, section 6, subpart 6e).
- Travel related expenditures are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, 54-06-09).
- Purchasing including bidding (NDCC 54-44.4-01, 54-44.4-06, 54-44.7-02, 44-08-01, 54-44.4-02, 48-01.1-02).
- Conflict of interest and nepotism (NDCC 12.1-13-03, 48-02-12, 44-04-09).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1, 47-30.1-17).
- Information systems related legislation including appointment of an information technology coordinator and a properly approved information technology plan (NDCC 54-59-10, 11).

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below.

One Time Payroll Adjustments

One-time salary adjustments paid during FY2001 were not disclosed to the budget section. Adjustments, totaling \$9,000, were for awards to 18 employees paid from the Medical School Dean fund.

NDCC 54-14-03.1 states all irregularities, including bonuses, cash incentive awards and temporary salary adjustments for state employees shall be submitted to the budget section at the next scheduled meeting of the budget section following the discovery of the expenditure.

Recommendation:

We recommend University of North Dakota submit all one-time payroll adjustments to the budget section pursuant to NDCC 54-14-03.1.

University of North Dakota Response:

The University of North Dakota erroneously overlooked the aforementioned one-time payroll adjustments in the original report. After the error was discovered, an addendum listing the aforementioned names was submitted to Laura Glatt, North Dakota University System Vice Chancellor for Administrative Affairs, on March 7, 2002.

STATUS OF PRIOR AUDIT RECOMMENDATIONS

In our prior University of North Dakota audit of the biennium ended 6/30/99, we made the following recommendations:

1. BACKGROUND

Budget section approvals were not received prior to the construction of various projects, nor were all expenditures reported on the capital tracking reports for fiscal year 1998 or fiscal year 1999.

RECOMMENDATION

We recommend that Budget Section approval be obtained before construction of buildings and campus improvements that are financed by donations, gifts, grants and bequests.

STATUS

Implemented.

2. BACKGROUND

UND did not obtain bids for leases from companies that operate in the Student Union.

RECOMMENDATION

We recommended that UND obtain bids for all leases where they are the lessor in order to ensure the best value is received for the institution and the taxpayers and to ensure free and open competition to avoid the appearance of favoritism. We also recommended that UND and the Board of Higher Education establish a policy in order to address the need for bids for leases of the institution's real property and service contracts.

STATUS

There were no new leases, therefore we were unable to determine if this was implemented. We will review this in the next audit.

3. BACKGROUND

UND did not obtain adequate supporting documentation for students requesting a change in residency status from nonresident to resident. The student is required to sign an affidavit certifying they qualify for resident status and that is all that is required.

RECOMMENDATION

We recommended that UND obtain and retain for audit purposes, adequate supporting documentation to validate a student's application for resident student status.

STATUS

Not implemented. Per inquiry of appropriate personnel, supporting documentation is not obtained at the time the affidavit is signed and the decision whether or not to grant residency is made. Because of this, we did not believe there was anything to test as the signature on an affidavit is not deemed adequate audit evidence, so we did not test. Further, in the opinion of legal counsel from the Attorney General's office, the student's signature on the residency application (affidavit) may be enough to grant North Dakota residency.