

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, 2005
Client Code 23000

Robert R. Peterson
State Auditor



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Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Background Information</i>	<i>6</i>
<i>Audit Objectives, Scope, And Methodology</i>	<i>7</i>
<i>Discussion And Analysis</i>	<i>8</i>
<i>Financial Summary</i>	<i>8</i>
<i>Analysis of Significant Variances Between Final Budgeted and Actual Expenses</i>	<i>9</i>
<i>Financial Statements</i>	<i>10</i>
<i>Statement of Net Assets</i>	<i>10</i>
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>	<i>11</i>
<i>Statement of Cash Flows</i>	<i>12</i>
<i>Statement of Appropriations</i>	<i>14</i>
<i>University of North Dakota</i>	<i>14</i>
<i>Medical School</i>	<i>17</i>
<i>Internal Control</i>	<i>18</i>
<i>Nonemployee Travel</i>	<i>18</i>
<i>Compliance With Laws And Legislative Intent</i>	<i>20</i>

Transmittal Letter

May 24, 2006

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dr. Charles 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, 2005. 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 Robyn Hoffmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President 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

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.

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

RESPONSES TO LAFRC AUDIT QUESTIONS

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

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

Unqualified.

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

Yes.

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

Other than our finding addressing non-employee travel (see page 18), we determined internal control was adequate.

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

No.

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

Yes.

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

Yes. There was one informal recommendation reported which is summarized below:

BUDGETS:

Operating expenditures exceeded the adjusted budget by \$5.77 million. This was due to unbudgeted waivers of \$7.7M and large budgets in department 2030, Chester Fritz Library and department 2052, ITSS with few expenses.

RECOMMENDATION:

We recommend that the University of North Dakota improve budgeting procedures to insure budgets adequately represent the expenses of the University.

University of North Dakota Response:

Agree. A review of budgeting procedures will occur during fiscal year 2007 and areas of improvement will be identified. Revisions to the budget process will be implemented with the preparation of the fiscal year 2008 annual budget.

LAFRC AUDIT COMMUNICATIONS

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

The University of North Dakota has several related parties where management serves on the board of directors of the related parties. The President of the University of North Dakota serves on the board of directors of the following related parties: University of North Dakota Aerospace Foundation, Fellows of the University of North Dakota, Inc.; Energy and Environmental Research Center (EERC) Foundation; Center for Innovation Foundation; and the Alumni Association and Foundation. The Vice President of Finance and Operations serves on the board of directors of the following related parties: Fellows of the University of North Dakota, Inc.; EERC Foundation; Center for Innovation Foundation; Alumni Association and Foundation; and the University of North Dakota Arena Services. The Vice President of Academic Affairs and Provost serves on the board of directors of the Alumni Association and Foundation.

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

3. *Identify any significant audit adjustments.*

In our fiscal years 2005 and 2004 North Dakota University System audit reports, all of the material adjustments we proposed for the University of North Dakota were recorded. For both years, we proposed approximately \$19M, \$10.7M, \$33.9M, \$2M, and \$42.7M of revenue, expense, asset, liability and net asset adjustments/reclassifications, respectively. Other non-material audit adjustments were proposed and the University of North Dakota was given the option to record. For both years, we proposed approximately \$3.2M, \$1.5M, \$2.6M, \$.5M, and \$2.7M of revenue, expense, asset, liability, and net asset adjustments/reclassifications. A complete listing of Posted Audit Adjustments and Passed Audit Adjustments were included in the 2005 and 2004 North Dakota University System audit reports.

4. *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.

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

None.

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

None.

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

None.

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

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to the University of North Dakota operations.

Background Information

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.edu/>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the University of North Dakota for the biennium ended June 30, 2005 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 and legislative intent?
3. Are there areas of the University of North Dakota's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the University of North Dakota for the biennium ended June 30, 2005 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared condensed financial statements from the data used in the North Dakota University System's financial statement audits and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures related to the statement of net asset items, revenue and expenses, and statement of cash flow items.
- 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.

Discussion And Analysis

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, 2005, operations of the University of North Dakota were primarily supported by appropriations from the state's general fund. This is supplemented by student tuition and fees, federal grants and contracts, and auxiliary enterprises.

FINANCIAL SUMMARY

Operating revenues consisted primarily of student tuition and fees, federal and state grants and contracts, sales and services of educational departments, and auxiliary enterprises. Nonoperating revenues consisted mainly of state appropriations, gifts, and investment income. These revenues remained fairly consistent between fiscal years 2005 and 2004, except for state appropriations and tuition and fees which increased by 18.5% and 17.8%, respectively. Total revenues for the years ended June 30, 2005 and June 30, 2004 were \$294,017,687 and \$279,533,086, respectively.

The state appropriation revenue increase was mainly due to the timing of spending of appropriations. Fiscal year 2005 was the second year of the biennium and historically more spending is done in the second year of the biennium. The tuition and fees increase was due to the tuition and fee increase of 16.5-17% for fiscal year 2005, approved by the State Board of Higher Education in February of 2004 and an increase in headcount as well.

Total expenses for the University of North Dakota were \$293,657,592 for the year ended June 30, 2005 as compared to \$272,464,902 for the prior year. Expenses remained fairly constant except operating expenses and data processing expenses which increased 18.9% and 141.6%, respectively. The increase in operating expenses reflects an overall increase in spending because of increased headcount and in increase in tuition revenue. The increase in data processing expenses is mainly due to the implementation of ConnectND. Additionally,

salary and wages and operating expenses account for 64% and 23.7% of total expenses, respectively.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENSES

The University of North Dakota had significant variances between final budgeted and actual expenses noted on page 3 of this report.

Financial Statements

STATEMENT OF NET ASSETS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
ASSETS		
Cash and cash equivalents	\$ 27,884,210	\$ 24,169,758
Investments	45,576,326	63,621,754
Accounts receivable, net	8,142,091	8,538,931
Receivable from component units	609,688	844,832
Due from state general fund	207,310	1,991,268
Grants and contracts receivable, net	25,485,511	16,170,135
Notes receivable, net	25,855,218	25,599,231
Inventory	2,385,697	2,483,123
Other assets	648,263	296,586
Unamortized bond discount & cost of issuance	706,468	760,150
Capital assets, net	288,733,799	276,453,877
Total Assets	<u>\$ 426,234,581</u>	<u>\$ 420,929,645</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,633,156	\$ 7,381,467
Payable to component unit	312,994	
Accrued payroll	6,430,601	3,706,730
Deferred revenue	7,742,656	8,320,652
Deposits	4,202,931	4,873,224
Advances from Bank of ND	2,610,854	2,610,854
Due to component units	14,424,209	10,543,365
Due to others	65,812,133	67,788,401
Total Liabilities	<u>\$ 110,169,534</u>	<u>\$ 105,224,693</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 228,260,116	\$ 225,120,909
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	10,238,734	10,276,347
Expendable:		
Scholarships and fellowships	3,261,949	3,192,454
Research	1,941,082	72,675
Institutional	2,122,855	1,967,181
Loans	27,755,084	27,410,885
Debt service	5,151,089	4,999,525
Unrestricted	37,334,138	42,664,976
Total Net Assets	<u>\$ 316,065,047</u>	<u>\$ 315,704,952</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
OPERATING REVENUES		
Student tuition and fees	\$ 85,942,800	\$ 72,966,544
Federal grants and contracts	62,513,949	62,808,239
State and local grants and contracts	3,177,644	2,798,496
Nongovernmental grants and contracts	12,398,070	12,788,381
Sales and services of educational departments	20,533,980	23,054,669
Auxiliary enterprises	26,615,386	25,720,318
Other	459,752	876,385
Total Operating Revenues	<u>\$ 211,641,581</u>	<u>\$ 201,013,032</u>
OPERATING EXPENSES		
Salaries and wages	\$ 188,054,301	\$ 174,302,386
Operating expenses	72,929,561	61,329,652
Data processing	5,962,788	2,468,104
Depreciation	15,565,390	14,821,517
Scholarships and fellowships	4,226,780	5,410,766
Cost of sales and services	3,691,029	11,157,239
Total Operating Expenses	<u>\$ 290,429,849</u>	<u>\$ 269,489,664</u>
Operating loss	<u>\$ (78,788,268)</u>	<u>\$ (68,476,632)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 70,129,323	\$ 59,197,215
Gifts	4,819,436	5,593,132
Investment income	2,497,072	3,587,933
Interest on capital asset-related debt	(3,125,334)	(2,696,325)
Loss on capital assets	(88,918)	(278,913)
Insurance proceeds	139,483	254,094
Tax revenues	1,533,853	
Other nonoperating (expenses) revenues	(13,491)	1,437,269
Net Nonoperating Revenues	<u>\$ 75,891,424</u>	<u>\$ 67,094,405</u>
Income before capital grants and gifts	<u>\$ (2,896,844)</u>	<u>\$ (1,382,227)</u>
State appropriations-capital assets	\$ 1,281,304	\$ 1,205,079
Capital grants and gifts	1,975,635	7,245,332
Total Other Revenues	<u>\$ 3,256,939</u>	<u>\$ 8,450,411</u>
Increase in net assets	\$ 360,095	\$ 7,068,184
NET ASSETS		
Net assets-beginning of the year, as restated	315,704,952	308,636,768
Net assets-end of the year	<u>\$ 316,065,047</u>	<u>\$ 315,704,952</u>

STATEMENT OF CASH FLOWS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 85,823,568	\$ 73,552,309
Grants and contracts	69,544,445	76,422,812
Payments to suppliers	(78,569,537)	(75,058,027)
Payments to employees	(182,981,735)	(173,706,942)
Payments for scholarships and fellowships	(4,226,780)	(5,410,766)
Loans issued to students	(6,240,837)	(6,167,263)
Collection of loans to students	5,403,384	5,186,765
Auxiliary enterprise charges	27,019,464	25,761,359
Sales and service of educational departments	19,544,558	22,022,773
Cash (paid) received on deposits	(807,678)	135,167
Other receipts	108,074	2,003,258
Net cash used by operating activities	<u>\$ (65,383,074)</u>	<u>\$ (55,258,555)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 71,903,827	\$ 57,422,711
Grants and gifts received for other than capital purposes	4,819,436	5,878,763
Principal paid on advances from Bank of North Dakota		(720,800)
Agency fund cash (decrease) increase	(1,978,748)	497,270
Tax revenues	1,533,853	
Other nonoperating (expenses) revenues	(13,491)	1,396,268
Net cash flows provided by noncapital financing activities	<u>\$ 76,264,877</u>	<u>\$ 64,474,212</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt		\$ 19,645,000
Capital appropriations	\$ 1,290,758	1,720,204
Capital grants and gifts received	2,142,192	5,712,047
Proceeds from sale of capital assets	95,130	744,845
Purchases of capital assets	(21,499,880)	(22,272,210)
Insurance proceeds	145,296	336,750
Principal paid on capital debt and lease	(5,910,827)	(7,125,996)
Interest paid on capital debt and lease	(3,321,390)	(2,705,959)
Net cash used by capital and related financing activities	<u>\$ (27,058,721)</u>	<u>\$ (3,945,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 77,515,181	\$ 58,368,230
Interest on investments	2,406,300	2,143,958
Purchase of investments	(60,030,111)	(81,371,008)
Net cash (used) provided by investing activities	<u>\$ 19,891,370</u>	<u>\$ (20,858,820)</u>
Net increase (decrease) in cash	<u>\$ 3,714,452</u>	<u>\$ (15,588,482)</u>
Cash - Beginning of year	24,169,758	39,758,240
Cash - End of year	<u>\$ 27,884,210</u>	<u>\$ 24,169,758</u>

(Continued on next page)

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	<u>June 30, 2005</u>	<u>June 30, 2004</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (78,788,268)	\$ (68,476,632)
Adjustment to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	15,565,390	14,862,515
Expenses paid by capital lease		11,723
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(108,749)	(1,520,118)
Grants and contracts receivable	(8,545,219)	(1,972,304)
Inventories	97,426	73,658
Notes receivable	(255,987)	(393,197)
Other assets	(297,996)	1,126,873
Accounts payable and accrued liabilities	3,249,299	(753,658)
Accrued payroll	4,580,569	(10,113)
Compensated absences	491,997	605,557
Deferred revenue	(563,858)	1,051,974
Deposits	(807,678)	135,167
Net cash used by operating activities	<u>\$ (65,383,074)</u>	<u>\$ (55,258,555)</u>
SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS		
Assets acquired through capital lease	\$ 7,323,406	\$ 2,434,500
Expenses paid by capital lease/special assessments		11,723
Gifts of capital assets	92,500	2,339,101
Total non-cash transactions	<u>\$ 7,415,906</u>	<u>\$ 4,785,324</u>

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2005

UNIVERSITY OF NORTH DAKOTA

Expenses by Line Item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Operating Expenses	\$ 84,558,126	\$ 15,020,391	\$ 99,578,517	\$ 99,578,517	
Capital Assets	32,662,136	(30,300,000)	2,362,136	1,697,540	\$ 664,596
Capital Assets - Carryover		140,397	140,397	140,397	
Capital Improvements -Off SAMIS:					
Wellness Center	21,000,000	(61,697)	20,938,303	7,682,887	13,255,416
Airport Hanger	2,000,000		2,000,000		2,000,000
Neuroscience Research Facility		17,000,000	17,000,000		17,000,000
Carnegie Library Renovation		3,300,000	3,300,000	288,964	3,011,036
Native American Center		4,000,000	4,000,000	279,093	3,720,907
Squires Dining Renovation		1,500,000	1,500,000		1,500,000
Airline Security Building		5,000,000	5,000,000		5,000,000
Smith, Johnstone & Fulton Hall		1,304,593	1,304,593	533,374	771,219
Wilkerson Hall Loading Dock		1,700,000	1,700,000		1,700,000
Rural Tech Center		3,800,000	3,800,000		3,800,000
Energy Improvement Projects		1,780,639	1,780,639	1,512,013	268,626
Memorial Union Renovation		1,318,377	1,318,377	1,309,873	8,504
SOM Neuroscience		4,897,764	4,897,764	3,244,639	1,653,125
SOM equipment and renovation		4,045,926	4,045,926	2,792,100	1,253,826
1997 Flood Expenditures		3,971,000	3,971,000	2,981,854	989,146
Totals	\$ 140,220,262	\$ 38,417,390	\$ 178,637,652	\$ 122,041,251	\$ 56,596,401
Expenses by Source:					
General Fund	\$ 86,920,262	\$ 15,531,788	\$ 102,452,050	\$ 101,787,454	\$ 664,596
Special Fund	53,300,000	22,885,602	76,185,602	20,253,797	55,931,805
Totals	\$ 140,220,262	\$ 38,417,390	\$ 178,637,652	\$ 122,041,251	\$ 56,596,401

Appropriation Adjustments:

Operating Expenses

- \$14,016,974 transfer from NDUS technology pool for technology expenses pursuant to section 4 of House Bill 1003 of the 2003 session.
- \$150,000 transfer from NDUS board initiatives for alcohol consortium. This transfer is pursuant to section 2 of House Bill 1003 of the 2003 session.

- \$578,417 transfer from NDUS operations pool for ConnectND expenses. This transfer was pursuant to section 5 of House Bill 1003 of the 2003 session.
- \$150,000 transfer from the NDUS technology pool for ConnectND project delay. Funding for this transfer was approved by the Emergency Commission and affirmed by the Budget Section Committee.
- \$250,000 transfer from the NDUS contingency and capital emergency line item for ConnectND expenses. This transfer was pursuant to section 6 of House Bill 1003 of the 2003 session.
- \$25,000 transfer from the NDUS board initiatives for Native Americans in Aviation. This transfer is pursuant to section 2 of House Bill 1003 of the 2003 session.
- \$-150,000 return of Emergency Commission funding due to change in projected ConnectND expenses and an unexpected excess of funds.

Capital Assets

This adjustment transferred authority for various capital improvement projects to the Off-SAMIS line item because expenditures for this project are not abstracted through OMB. The project and amount transferred are as follows:

- Neuroscience Research Facility \$17,000,000
- Carnegie Library renovation \$3,300,000
- Native American Center \$3,500,000
- Squires dining renovation \$1,500,000
- Airline Security building \$5,000,000

Plant Improvement – Carryover

The \$140,397 increase is the carryover or unspent balance from the prior biennium.

Capital Improvement – Off SAMIS

- Wellness Center - The \$61,697 decrease reflects expenditures that occurred before fiscal year 2004.
- Neuroscience Research Facility- \$17,000,000 is a transfer of authority from the capital asset line item.
- Carnegie Library Renovation - \$3,300,000 is a transfer of authority from the capital asset line item.
- Native American Center - \$3,500,000 is a transfer of authority from the capital asset line item. An additional \$500,000 other funds spending authority was approved by the Budget Section in October 2003.
- Squires Dining Renovation - \$1,500,000 is a transfer of authority from the capital asset line item.
- Airline Security Building - \$5,000,000 is a transfer of authority from the capital asset line item.
- Smith, Johnstone & Fulton Hall - \$1,304,593 is the prior biennium unspent balance. This project was originally

approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.

- Wilkerson Loading Dock - \$1,700,000 is the prior biennium unspent balance. This project was originally approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.
- Rural Tech Center - \$3,800,000 is the prior biennium unspent balance. This project was originally approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.
- Energy Improvement Projects - \$1,780,639 is the prior biennium unspent balance. This project was originally approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.
- Memorial Union Renovation - \$1,318,377 is the prior biennium unspent balance. This project was originally approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.
- SOM Neuroscience - \$3,913,605 is the prior biennium unspent balance with an additional \$984,159 federal funds spending authority approved by the budget section in June 2004. This project was originally approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.
- SOM equipment and renovation - \$4,045,926 is the prior biennium unspent balance. This project was originally approved during the 2001 session and was carried forward pursuant to NDCC 54-44.1-11.

1997 Flood Expenditures

This adjustment includes \$3,600,000 line of credit from the BND and \$371,000 deficiency appropriation pursuant to House Bill 1024 from the 2005 session.

MEDICAL SCHOOL

Expenses by Line Item:	<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	\$ 30,165,865		\$ 30,165,865	\$ 30,165,865	
Totals	\$ 30,165,865	\$ -	\$ 30,165,865	\$ 30,165,865	\$ -

Expenses by Source:					
General Fund	\$ 30,165,868		\$ 30,165,868	\$ 30,165,868	
Totals	\$ 30,165,868	\$ -	\$ 30,165,868	\$ 30,165,868	\$ -

Appropriation Adjustments:

None

Internal Control

In our audit for the biennium ended June 30, 2005, we identified the following areas of the University of North Dakota's internal control as being the most important:

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 laws and legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

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. We concluded that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the University of North Dakota's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. The reportable condition is described below. We also noted another matter involving internal control that we have included on page 3 of this report.

Finding 05-1

NONEMPLOYEE TRAVEL

During our test of non-employee/student travel, we noted 6 errors out of the 10 items tested. Five of those errors were lack of support for the expenses. There was no "Non-Employee/Student Travel Expense Worksheet" completed as well as the non-employee/student receiving the payment did not certify that they were entitled to the payment. The other error noted was for a \$110 payment to a hotel for lodging expenses where the non-employee was a "no-show" for two nights and UND was charged for the room.

Verifying certified support prior to payment aids in the prevention of expenses that are invalid or incorrect. UND's policy Non-Employee and Student Travel Policies states that the "Non-employee/Student Travel Expense Worksheet" should be included when reimbursing the non-employee and attached to the voucher. Canceling reservations immediately aids in the prevention of overpayments for rooms that were not used.

Recommendation:

We recommend that:

1. Non-employees/students complete the “Non-Employee /Student Travel worksheet and certify it before a request for payment is completed; and,
2. When a person is a “no-show” for a conference and it is for more than one night, the succeeding nights should be canceled.

University of North Dakota Response:

1. *UND disagrees. Of the six “errors” cited, four were for reimbursements from one department that has made arrangements to include all the detail required directly on the voucher. In reviewing the five vouchers lacking support (totaling \$305.95), we find all the information provided that is required on the worksheet.*

It is our intent to continue the business practice of allowing expense detail to be documented on a voucher or worksheet along with the responsible UND employee approving the payment.

2. *UND agrees. The policy for employees will be implemented for non-employees.*

Auditor Rebuttal:

The vouchers for the five errors did not have complete information, nor was it signed by the recipient. UND could not verify these payments were legitimate and projecting the error rate for this test, we can assume 60% of all non-employee travel expenditures were not legitimate.

Compliance With Laws And Legislative Intent

In our audit for the biennium ended June 30, 2005, we identified and tested the University of North Dakota's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Laws and Legislative Intent Subjected To Testing

- \$100,000 of the competitive research line item in subdivision 1 of section 1 of House Bill (HB) 1003 was used for private partnership for establishment of a design center. Determine if federal and private matching funds of \$300,000 were leveraged by the North Dakota University System prior to June 30, 2004 or funding was made available to other competitive research initiatives. (03 HB 1003, chapter 3, section 20).
- The \$206,000 included in subdivision 1 of section 1 of HB 1003 for the centers for excellence was used for expanded air service enterprise-upper great plains air taxi service. If federal matching funds relating to the expanded air service enterprise were leveraged by the North Dakota University System before June 30, 2004 and funds were not used to supplant funding for current operations or academic instruction or to pay indirect costs. (03 HB 1003, chapter 3, section 21).
- The construction of a basketball arena on the site authorized under chapter 159 of the 1999 session laws was financed with private funds. (03 HB 1003, chapter 3, section 25).
- The purchase of a hotel and land to be used as a student residence facility did not exceed \$1,200,000. (03 HB 1003, chapter 3, section 26).
- Funding of \$395,000 included in the operations line item in subdivision 13 of section 1 of HB 1003 is a one-time funding and is not included in the school of medicine and health sciences base funding for 2005-2007 biennium.
- Proper use/approval of clearing account and petty cash/till funds (North Dakota Century Code (NDCC) 54-06-08.1 and Attorney General's opinion dated September 11, 1987).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Lease and financing arrangements in budget requests and lease analysis requirements (NDCC 54-44.1-06, 54-27-21.1).
- Fixed asset reporting and records (NDCC 44-04-07).
- Expenses being within budgeted amounts (NDCC 54-44.1-09, and State Constitution, article X, section 12).

- Conflict of interest (NDCC 12.1-13-03 and 48-02-12).
- Adequate blanket bond coverage of employees (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1 and 47-30.1-05).
- 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 results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.