

NORTH DAKOTA STATE
UNIVERSITY

FARGO, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor

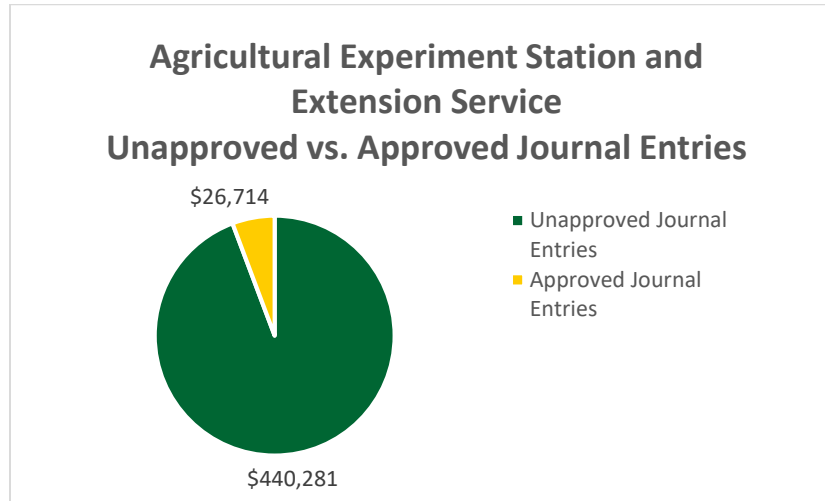
Office of the State Auditor
Division of State Audit

North Dakota State University

Report Highlights

Internal Control: We found areas that could be improved related to journal entries.

- NDSU did not have adequate journal entry approval for the Agricultural Experiment Station and Extension Service.



Source: ConnectND Financials

Legislative Intent: We found areas related to procurement procedures and conflicts of interest that need improvement.

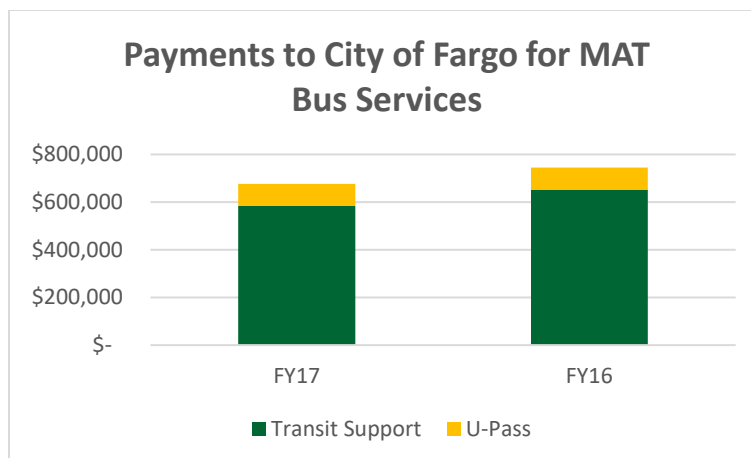
- NDSU was not in compliance with procurement rules, including state law and NDUS procedures;
- NDSU did not have adequate controls over conflicts of interest.

Operations: In 2004, NDSU and the city of Fargo entered into a Joint Powers Agreement for transit support within the city to reduce traffic congestion. NDSU makes a payment to the city of Fargo each year. An agreement (U-Pass) was also entered to enable students, faculty and staff to ride free of charge on any Metro Area Transit (MAT) bus by showing a valid identification.

Objectives:

- Is NDSU ensuring compliance with the MAT bus contract provisions?
- Is the benefit of the MAT bus program worth the cost of operating the program?

We concluded that NDSU was ensuring compliance with the agreements and the MAT bus program was worth the costs of operating the program.



Source: ConnectND Financials

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Alex Mehring, CPA, Auditor**

Primary University Contacts

**Dr. Dean Bresciani, President
Bruce Bollinger, VP for Finance and Admin
Gary Wawers, Controller**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
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FARGO, NORTH DAKOTA 58103

Transmittal Letter

July 13, 2018

Members of the North Dakota Legislative Assembly
State Board of Higher Education
Dr. Dean Bresciani, President, North Dakota State University

We are pleased to submit this audit of North Dakota State University for the biennium ended June 30, 2017. 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.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to President Bresciani and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

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

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

Responses to LAFRC Audit Questions

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

The financial statements for North Dakota State University were obtained from the Annual Financial Report of the North Dakota University System; however, the related note disclosures are not included in accordance with generally accepted accounting standards, so an opinion is not applicable. An unmodified opinion was issued on the annual financial report of the North Dakota University System.

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

Other than our findings addressing "Noncompliance with Procurement Rules" (page 19) and "Inadequate Controls Over Disclosed Conflicts of Interest" (page 20), North Dakota State University was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing "Inadequate Journal Entry Approval for the Agricultural Experiment Station and Extension Service" (page 16), we determined internal controls were adequate.

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

There were no indications of lack of efficiency in financial operations and management of North Dakota State University.

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

North Dakota State University has implemented all recommendations included in the prior audit report.

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

Yes, a management letter was issued and is included on page 23 of this report, along with management's response.

LAFRC Audit Communications

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

In fiscal year 2016, North Dakota State University changed accounting policies related to investments by adopting GASB Statement No. 72, Fair Value Measurement and Applications. There were no other significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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

The most significant accounting estimates used by North Dakota State University include useful lives of capital assets, allowance for uncollectible receivables and net pension liability. Estimated useful lives are used to compute depreciation on capital assets and are based on industry standards and experience. Management's estimate of the allowance is based on aging categories and past history. The net pension liability is based on the actuary's calculation based on plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives, allowances, and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

In fiscal year 2017, North Dakota State University had an audit adjustment for \$17.4 million to reclassify Research Technology Park refunded bonds.

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

None.

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

None.

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

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

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

None.

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

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

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of North Dakota State University for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of North Dakota State University is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Audit Methodology

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2017 and 2016 annual financial reports of the North Dakota University System.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Tested potential improvements to operations.
- Reviewed segregation of duties in all program areas.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota State University's processes and procedures.

- Reviewed compliance with MAT bus contract provisions.
- Tested internal controls and compliance with various laws and regulations at the Agricultural Experiment Station, Extension Service and Northern Crops Institute.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Financial Statements

Statement of Net Position

	June 30, 2017	June 30, 2016
ASSETS:		
Cash & cash equivalents	\$ 52,832,302	\$ 56,428,574
Investments	86,613,843	90,387,834
Accounts receivable, net	4,874,139	5,541,879
Due from other NDUS institutions	66,735	87,547
Due from component unit	380,363	945,548
Due from state general fund	14,458,009	9,844,079
Grants and contracts receivables, net	15,010,182	14,298,631
Inventories	1,801,816	1,830,992
Notes receivable, net	7,193,788	6,701,734
Other assets	1,272,956	1,170,551
Capital assets, net	466,766,399	437,961,985
Total assets	\$ 651,270,532	\$ 625,199,354
Deferred outflows of resources	\$ 12,132,571	\$ 5,370,010
LIABILITIES:		
Accounts payable	\$ 13,256,960	\$ 17,453,434
Due to other NDUS institutions	124,044	94,993
Due to component units	32,325,138	33,860,321
Accrued payroll	14,585,857	12,476,550
Unearned revenue	9,481,661	7,720,096
Deposits	1,524,645	1,541,626
Pension liability	32,875,560	24,058,074
Other noncurrent liabilities	226,014	74,593
Due to others	97,425,182	100,776,612
Total liabilities	\$ 201,825,061	\$ 198,056,299
Deferred inflows of resources	\$ 3,308,327	\$ 3,016,333
NET POSITION:		
Invested in capital assets	\$ 355,980,725	\$ 323,338,473
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	512,215	509,719
Expendable:		
Scholarships and fellowships	1,480,215	1,386,826
Research	5,650,863	6,846,949
Institutional	1,405,619	1,060,565
Loans	7,543,672	7,210,910
Capital projects	534,284	43,275
Debt service	1,885,544	2,091,574
Unrestricted	83,276,578	87,008,441
Total net position	\$ 458,269,715	\$ 429,496,732

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2017	June 30, 2016
REVENUES AND OTHER ADDITIONS:		
Student tuition and fees	\$ 120,304,338	\$ 114,588,546
Federal appropriations	7,301,633	6,488,330
Federal grants and contracts	51,034,375	50,201,968
State and local grants and contracts	7,280,406	8,797,216
Nongovernmental grants and contracts	11,920,273	11,485,461
Sales and services of educational departments	33,495,287	33,882,633
Auxiliary enterprises	43,999,768	44,101,630
Other	788,636	2,466,102
State appropriations	124,986,789	128,742,010
Gifts	13,685,854	11,932,176
Endowment and investment income	2,932,732	2,909,945
Insurance proceeds	749,234	18,641
Gain on disposal of capital assets		426,549
Tax revenues	500,000	511,634
State appropriations - capital assets	5,982,158	27,691,136
Capital grants and gifts	26,169,822	14,234,418
Inter-institutional transfers		54,459
Total revenues and other additions	\$ 451,131,305	\$ 458,532,854
EXPENSES AND OTHER DEDUCTIONS:		
Salaries and wages	\$ 284,840,699	\$ 278,899,097
Operating expenses	87,103,803	91,310,659
Data processing	4,614,515	4,278,001
Depreciation	24,514,315	23,141,528
Scholarships and fellowships	6,632,512	1,659,601
Costs of sales and services	8,745,804	9,798,711
Interest on capital asset-related debt	4,090,426	4,970,901
Loss on capital assets	668,029	
Transfer to Industrial Commission		204,157
Other	1,148,220	
Total expenses and other deductions	\$ 422,358,323	\$ 414,262,655
Revenue over expenses	\$ 28,772,982	\$ 44,270,199
NET POSITION:		
Net position-beginning of the year, as restated	\$ 429,496,733	\$ 385,226,533
Net position-end of the year	\$ 458,269,715	\$ 429,496,732

Statement of Cash Flows

	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 120,836,597	\$ 116,537,069
Grants and contracts	61,169,933	61,319,570
Payments to suppliers	(106,352,768)	(102,683,573)
Payments to employees	(279,849,318)	(278,164,257)
Payments for scholarships and fellowships	(6,632,511)	(1,659,601)
Loans issued to students	(1,469,671)	(1,518,825)
Collection of loans to students	1,207,949	1,293,935
Auxiliary enterprise charges	43,805,204	44,027,200
Sales and service of educational departments	33,264,723	34,011,752
Cash received (paid) on deposits	(44,432)	154,116
Other receipts	623,302	6,426,376
Net cash used by operating activities	\$ (133,440,992)	\$ (120,256,238)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	\$ 119,923,474	\$ 128,867,027
Local appropriation	7,301,633	6,488,330
Grants and gifts received for other than capital purposes	23,722,390	22,010,987
Direct Lending Receipts	56,662,324	53,644,907
Direct Lending Disbursements	(56,658,944)	(52,567,857)
Agency fund cash increase (decrease)	139,237	(96,502)
Transfers to Industrial Commission		(204,157)
Tax revenues	500,000	511,634
Net cash flows provided by noncapital financing activities	\$ 151,590,114	\$ 158,654,369
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt	\$ 29,505,288	
Capital appropriations	6,431,543	\$ 31,521,012
Capital grants and gifts received	26,829,527	15,030,582
Proceeds from sale of capital assets		640,000
Purchases of capital assets	(50,825,082)	(71,393,534)
Insurance proceeds	842,506	18,641
Principal paid on capital debt and lease	(8,254,573)	(6,347,299)
Deposits with capital debt payment trustees	(28,075,000)	
Interest paid on capital debt and lease	(4,951,059)	(5,025,542)
Net cash used by capital and related financing activities	\$ (28,496,850)	\$ (35,556,140)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	\$ 16,084,297	\$ 23,062,369
Interest on investments	2,727,580	2,967,341
Purchase of investments	(12,060,422)	(14,811,592)
Net cash provided by investing activities	\$ 6,751,455	\$ 11,218,118
Net increase (decrease) in cash	\$ (3,596,273)	\$ 14,060,109
CASH BEGINNING OF YEAR	\$ 56,428,575	\$ 42,368,465
CASH END OF YEAR	\$ 52,832,302	\$ 56,428,574

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**RECONCILIATION OF NET OPERATING EXPENSES
TO NET CASH USED BY OPERATING ACTIVITIES:**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Operating loss	\$ (157,752,572)	\$ (155,251,473)
Adjustment to reconcile net loss to net cash used by operating activities		
Depreciation expense	24,514,315	23,141,528
Other nonoperating revenues	(67,985)	4,796,935
Change in assets and liabilities		
Accounts receivable adjusted for interest receivable	454,590	1,921,355
Grant & contract receivables	1,059,207	927,870
Inventories	29,175	(198,701)
Notes receivable	(198,045)	(186,853)
Other assets	(101,481)	782,692
Accounts payable and accrued liabilities adjusted for interest payable	(6,312,250)	2,815,795
Pension liability	8,817,486	1,340,654
Net change in deferred outflows	(6,078,147)	(76,359)
Net change in deferred inflows	292,174	(1,502,619)
Accrued payroll	2,109,075	399,728
Compensated absences	(149,528)	548,573
Deferred revenue	(12,574)	130,521
Deposits	(44,432)	154,116
Net cash used by operating activities	<u>\$ (133,440,992)</u>	<u>\$ (120,256,238)</u>

**SUPPLEMENTAL DISCLOSURE ON NON-CASH
TRANSACTIONS:**

Assets acquired through capital lease	\$ 1,150,444	\$ 315,475
Expenses paid by capital lease/special assessment	1,222,821	167,390
Gifts of capital assets	10,000	70,393
Net increase in value of investments	198,921	6,870
Total non-cash transactions	<u>\$ 2,582,186</u>	<u>\$ 560,128</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

NORTH DAKOTA STATE UNIVERSITY

Expenses by line item:	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating Expenses	\$ 154,678,296	\$(10,654,616)	\$ 144,023,680	\$ 144,023,680	
Capital Assets	14,332,244	(5,489,946)	8,842,298	8,407,120	\$ 435,178
Capital Assets Carryover		21,091,859	21,091,859	21,060,706	31,153
Capital Improvements - Off System					
Aquatic Ctr Bonding		11,000,000	11,000,000	10,946,135	53,865
Capital Off System - Carryover					
CCAST		4,202,728	4,202,728	3,298,125	904,603
SHAC		17,568,272	17,568,272	17,147,829	420,443
Minard Hall collapse		828,957	828,957	9,510	819,447
Totals	\$ 169,010,540	\$ 38,547,254	\$ 207,557,794	\$ 204,893,105	\$ 2,664,689

Expenses by source:					
General fund	\$ 157,410,540	\$ 14,912,443	\$ 172,322,983	\$ 171,856,652	\$ 466,331
Federal fund		4,202,728	4,202,728	3,827,753	374,975
Special fund	11,600,000	19,432,083	31,032,083	29,208,700	1,823,383
Totals	\$ 169,010,540	\$ 38,547,254	\$ 207,557,794	\$ 204,893,105	\$ 2,664,689

FOREST SERVICE

Expenses by line item:	Original Appropriation	Adjustments	Final Appropriation	Expenses	Unexpended Appropriation
Operating expenses	\$ 6,556,634	\$ (328,014)	\$ 6,228,620	\$ 5,127,463	\$ 1,101,157
Capital assets	101,210		101,210	101,210	
Biennium carryover		500,233	500,233	294,474	205,759
Totals	\$ 6,657,844	\$ 172,219	\$ 6,830,063	\$ 5,523,147	\$ 1,306,916

Expenses by source:					
General fund	\$ 5,007,844	\$ 172,219	\$ 5,180,063	\$ 4,754,216	\$ 425,847
Special fund	1,650,000		1,650,000	768,931	881,069
Totals	\$ 6,657,844	\$ 172,219	\$ 6,830,063	\$ 5,523,147	\$ 1,306,916

Expenditures without Appropriations of Specific Amounts:

All funds, in addition to those above are appropriated pursuant to 2015 HB 1003 section 31.

UPPER GREAT PLAINS TRANSPORTATION INSTITUTE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Transportation Institute	\$ 23,022,756	\$ (181,206)	\$ 22,841,550	\$ 17,498,532	\$ 5,343,018
Totals	<u>\$ 23,022,756</u>	<u>\$ (181,206)</u>	<u>\$ 22,841,550</u>	<u>\$ 17,498,532</u>	<u>\$ 5,343,018</u>

Expenses by source:					
General fund	\$ 4,847,099	\$ (181,206)	\$ 4,665,893	\$ 4,107,933	\$ 557,960
Federal fund	12,162,945		12,162,945	10,738,196	1,424,749
Special fund	6,012,712		6,012,712	2,652,403	3,360,309
Totals	<u>\$ 23,022,756</u>	<u>\$ (181,206)</u>	<u>\$ 22,841,550</u>	<u>\$ 17,498,532</u>	<u>\$ 5,343,018</u>

EXTENSION SERVICE

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
NDSU - Extension Service	\$ 54,402,096	\$ (1,871,689)	\$ 52,530,407	\$ 47,811,590	\$ 4,718,817
Soil Conservation Committee	1,212,800	(79,438)	1,133,362	1,133,362	
Totals	<u>\$ 55,614,896</u>	<u>\$ (1,951,127)</u>	<u>\$ 53,663,769</u>	<u>\$ 48,944,952</u>	<u>\$ 4,718,817</u>

Expenses by source:					
General fund	\$ 29,788,188	\$ (1,951,127)	\$ 27,837,061	\$ 27,837,061	
Special fund	25,826,708		25,826,708	21,107,891	\$ 4,718,817
Totals	<u>\$ 55,614,896</u>	<u>\$ (1,951,127)</u>	<u>\$ 53,663,769</u>	<u>\$ 48,944,952</u>	<u>\$ 4,718,817</u>

MAIN RESEARCH STATION

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Main Research Center	\$ 137,166,137	\$ (3,368,791)	\$ 133,797,346	\$ 121,433,814	\$ 12,363,532
Totals	<u>\$ 137,166,137</u>	<u>\$ (3,368,791)</u>	<u>\$ 133,797,346</u>	<u>\$ 121,433,814</u>	<u>\$ 12,363,532</u>

Expenses by source:					
General Fund	\$ 59,067,612	\$ (3,368,791)	\$ 55,698,821	\$ 55,123,128	\$ 575,693
Special Fund	78,098,525		78,098,525	66,310,686	11,787,839
Totals	<u>\$ 137,166,137</u>	<u>\$ (3,368,791)</u>	<u>\$ 133,797,346</u>	<u>\$ 121,433,814</u>	<u>\$ 12,363,532</u>

DICKINSON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Dickinson Research Center	\$ 7,358,162	\$ (261,483)	\$ 7,096,679	\$7,811,181	\$ (714,502)
Totals	\$ 7,358,162	\$ (261,483)	\$ 7,096,679	\$7,811,181	\$ (714,502)

Expenses by source:

General fund	\$ 3,992,095	\$ (261,483)	\$ 3,730,612	\$3,730,612	
Special fund	3,366,067		3,366,067	4,080,569	\$ (714,502)
Totals	\$ 7,358,162	\$ (261,483)	\$ 7,096,679	\$7,811,181	\$ (714,502)

CENTRAL GRASSLANDS RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Central Grasslands Research	\$ 3,682,567	\$ (150,788)	\$ 3,531,779	\$3,365,284	\$ 166,495
Totals	\$ 3,682,567	\$ (150,788)	\$ 3,531,779	\$3,365,284	\$ 166,495

Expenses by source:

General fund	\$ 2,302,107	\$ (150,788)	\$ 2,151,319	\$2,151,319	
Special fund	1,380,460		1,380,460	1,213,965	\$ 166,495
Totals	\$ 3,682,567	\$ (150,788)	\$ 3,531,779	\$3,365,284	\$ 166,495

HETTINGER RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Hettinger Research Center	\$ 5,251,187	\$ (164,421)	\$ 5,086,766	\$ 4,144,231	\$ 942,535
Totals	\$ 5,251,187	\$ (164,421)	\$ 5,086,766	\$ 4,144,231	\$ 942,535

Expenses by source:

General fund	\$ 2,510,254	\$ (164,421)	\$ 2,345,833	\$ 2,345,833	
Special fund	2,740,933		2,740,933	1,798,398	\$ 942,535
Totals	\$ 5,251,187	\$ (164,421)	\$ 5,086,766	\$ 4,144,231	\$ 942,535

LANGDON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Langdon Research Center	\$ 3,527,116	\$ (131,280)	\$ 3,395,836	\$ 2,807,157	\$ 588,679
Totals	\$ 3,527,116	\$ (131,280)	\$ 3,395,836	\$ 2,807,157	\$ 588,679

Expenses by source:

General fund	\$ 2,004,271	\$ (131,280)	\$ 1,872,991	\$ 1,872,991	
Special fund	1,522,845		1,522,845	934,166	\$ 588,679
Totals	\$ 3,527,116	\$ (131,280)	\$ 3,395,836	\$ 2,807,157	\$ 588,679

NORTH CENTRAL RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
North Central Research Center	\$ 5,186,941	\$ (142,728)	\$ 5,044,213	\$ 3,562,853	\$ 1,481,360
Totals	\$ 5,186,941	\$ (142,728)	\$ 5,044,213	\$ 3,562,853	\$ 1,481,360

Expenses by source:

General fund	\$ 2,179,057	\$ (142,728)	\$ 2,036,329	\$ 2,036,329	
Special fund	3,007,884		3,007,884	1,526,524	\$ 1,481,360
Totals	\$ 5,186,941	\$ (142,728)	\$ 5,044,213	\$ 3,562,853	\$ 1,481,360

WILLISTON RESEARCH CENTER

Expenses by line item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Williston Research Center	\$ 5,474,090	\$ (206,690)	\$ 5,267,400	\$ 5,261,811	\$ 5,589
Totals	\$ 5,474,090	\$ (206,690)	\$ 5,267,400	\$ 5,261,811	\$ 5,589

Expenses by source:

General fund	\$ 3,155,573	\$ (206,690)	\$ 2,948,883	\$ 2,948,883	
Special fund	2,318,517		2,318,517	2,312,928	\$ 5,589
Totals	\$ 5,474,090	\$ (206,690)	\$ 5,267,400	\$ 5,261,811	\$ 5,589

CARRINGTON RESEARCH CENTER

	Original		Final		Unexpended
Expenses by line item:	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Carrington Research Center	\$ 9,585,514	\$ (257,421)	\$ 9,328,093	\$ 9,306,396	\$ 21,697
Totals	<u>\$ 9,585,514</u>	<u>\$ (257,421)</u>	<u>\$ 9,328,093</u>	<u>\$ 9,306,396</u>	<u>\$ 21,697</u>

Expenses by source:

General fund	\$ 3,930,090	\$ (257,421)	\$ 3,672,669	\$ 3,672,669	
Special fund	5,655,424		5,655,424	5,633,727	\$ 21,697
Totals	<u>\$ 9,585,514</u>	<u>\$ (257,421)</u>	<u>\$ 9,328,093</u>	<u>\$ 9,306,396</u>	<u>\$ 21,697</u>

AGRONOMY SEED FARM

	Original		Final		Unexpended
Expenses by line item:	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Agronomy Seed Farm	\$ 1,521,007		\$ 1,521,007	\$ 1,334,202	\$ 186,805
Totals	<u>\$ 1,521,007</u>		<u>\$ 1,521,007</u>	<u>\$ 1,334,202</u>	<u>\$ 186,805</u>

Expenses by source:

Special fund	\$ 1,521,007		\$ 1,521,007	\$ 1,334,202	\$ 186,805
Totals	<u>\$ 1,521,007</u>		<u>\$ 1,521,007</u>	<u>\$ 1,334,202</u>	<u>\$ 186,805</u>

NORTHERN CROPS INSTITUTE

	Original		Final		Unexpended
Expenses by line item:	Appropriation	Adjustments	Appropriation	Expenses	Appropriation
Northern Crops Institute	\$ 3,849,893	\$ (137,691)	\$ 3,712,202	\$ 3,480,960	\$ 231,242
Totals	<u>\$ 3,849,893</u>	<u>\$ (137,691)</u>	<u>\$ 3,712,202</u>	<u>\$ 3,480,960</u>	<u>\$ 231,242</u>

Expenses by source:

General fund	\$ 2,102,158	\$ (137,691)	\$ 1,964,467	\$ 1,964,467	
Special fund	1,747,735		1,747,735	1,516,493	\$ 231,242
Totals	<u>\$ 3,849,893</u>	<u>\$ (137,691)</u>	<u>\$ 3,712,202</u>	<u>\$ 3,480,960</u>	<u>\$ 231,242</u>

Expenditures without Appropriations of Specific Amounts:

All funds, in addition to those above are appropriated pursuant to 2015 HB 1020 section 3.

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of North Dakota State University's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls relating to compliance with the MAT bus contract provisions.
- Controls surrounding the Agricultural Experiment Station, Extension Service and Northern Crops Institute.

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

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota State University in a management letter dated July 13, 2018.

Inadequate Journal Entry Approval for the Agricultural Experiment Station and Extension Service (Finding 17-1)

Condition:

Journal entries were not properly approved at the NDSU Agricultural Experiment Station and Extension Service. Of the 32 items tested, 10 were not properly approved (31%).

Criteria:

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission's *Internal Control - Integrated Framework* states that control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals.

The NDUS accounting manual states in part the basic principles of internal control include a review of journal entries and should be documented with the initials or signature of the reviewer and the date reviewed. Additionally, the accounting manual lists acceptable formats for approval, and further states that typing an approver's name in a fillable form is not an acceptable approval.

Cause:

There is a misinterpretation of what constitutes approval.

Effect or Potential Effect:

Improper or erroneous entries could be made to the general ledger.

Recommendation:

We recommend that all journal entries are properly approved and that the approval is documented.

North Dakota State University Response:

NDSU agrees with the recommendation. However, there were no improper or erroneous entries. With support of CTS (Core Technology Services), NDSU plans to implement journal entry workflow in PeopleSoft by December 2018, which we anticipate will clearly demonstrate proper approval and will satisfy this audit recommendation.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested North Dakota State University's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- NDUS reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1003, chapter 3, section 2).
- The deferred maintenance funding pool was used for eligible projects that were identified in the campus master plan and space utilization studies (2015 HB 1003, chapter 3, section 25).
- Two dollars of matching funds were provided from operations or other sources for each one dollar of extraordinary repairs that were included in the capital asset line item (2015 HB 1003, chapter 3, section 38).
- The Main Research Center reported to the appropriations committee of the sixty-fifth legislative assembly on the use of one-time funding for the biennium ended June 30, 2017 (2015 HB 1020, chapter 20, section 2).
- Dickinson Research Center spent up to \$755,000 on operating expenses and any revenues in excess of \$755,000 were spent only on one-time expenses (2015 HB 1020, chapter 20, section 11).
- Williston Research Center reported to the sixty-fifth legislative assembly on amounts received and spent from mineral royalties, leases or easements for the bienniums ended June 30, 2015 and June 30, 2017 (2015 HB 1020, chapter 20, section 12).
- The Main Research Center and the Extension Service reported to the appropriation committees of the sixty-fifth legislative assembly on full-time equivalent positions for the biennium ended June 30, 2017 (2015 HB 1010, chapter 20, section 13).
- The Main Research Center reported to the budget section regarding the status of the flooded land study and spending related to the study for the biennium ended June 30, 2017 (2015 HB 1020, chapter 20, section 16).
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND Constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Scholarship expenses were proper (Article IX, Section 1 of the ND Constitution, NDCC 1-08-02, 15-10-12, 59-21).
- Fixed asset requirements were followed including surplus property, record keeping and lease analysis requirements (NDCC 54-44-04.6, 44-04-07, 54-27-21, 54-44.1-06, 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1, Article X, Section 12, subpart 2 of ND Constitution) and being within budgeted amounts (NDCC 54-44.1-09, Attorney General Opinion dated January 6, 1977).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5, 54-06-09).
- Purchasing including bidding and following sole source requirements (NDCC 54-44.4-01, 02, 05, 06, 54-44.7-02, 48-01.2, 44-08-01).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).

- Capital construction (NDCC 48-01.2-02, 04, 07, 09, 10, 54-44.7).
- Unclaimed property laws (NDCC 47-30.1-02.1, 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond revenues and reserves (NDCC 15-55-03, 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

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

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

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than these findings, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of North Dakota State University in a management letter dated July 13, 2018.

Noncompliance With Procurement Rules (Finding 17-2)

Condition:

NDSU had the following issues surrounding procurement:

- Eight sole source purchases for commodities and services (totaling \$680,203) did not adequately justify or exempt the purchase from the normal procurement process; and
- The Elan One credit card services program for study abroad was not properly procured. Total usage of the program card was \$1,042,132.

Criteria:

NDCC section 12.1-13-03, states in part, every public servant authorized to sell or lease any NDCC section 15-10-17 part 5, states in part, that the SBHE may determine policy for purchasing by the University System in coordination with OMB as provided by NDCC chapter 54-44.4 and NDCC section 44-08-01 part 3.

NDUS Procedure 803.1 parts 1 and 4, states in part that sole source purchases are unique and the vendor is the only vendor able to furnish the commodity or service. Sole source requests based on personal preference, cost or price, perceived quality, vendor performance, delivery time, trade-in allowance or no cost options or accessories or other special packages or deals are not permitted; rather, these items may be considered in evaluating bids or proposals.

Cause:

NDSU's purchasing policy does not include prudent information surrounding sole source purchases. The Elan One card program was not bid out because of the difficulties NDSU encountered in locating vendors that met their specific needs.

Effect or Potential Effect:

Without properly procuring commodities and services, there was noncompliance with NDUS procedures, and ultimately, noncompliance with NDCC chapter 54-44.4 and NDCC section 44-08-01 part 3.

Recommendation:

We recommend that NDSU properly procure commodities and services in compliance with NDCC and NDUS requirements.

North Dakota State University Response:

NDSU agrees with the recommendation but disagrees with the condition. Elan was the only vendor identified through an extensive search who could handle a faculty lead study abroad. OMB permitted NDSU the exemption from the state's procurement card. Card fees paid to Elan are below the threshold required for a competitive purchase. In the eight sole source purchases, NDSU achieved the best possible value. In some cases, the lowest price was selected from multiple quotes. In other cases a bid process was not appropriate. NDSU plans to propose a rewrite to the NDUS procedure to clarify these alternate procurement methods.

Inadequate Controls Over Disclosed Conflicts of Interest (Finding 17-3)**Condition:**

NDSU had conflicts of interest that were disclosed and a summary list was maintained by the Purchasing Department; however, the summary list was not communicated with other departments and purchases were made with disclosed conflicts of interest without any additional scrutiny.

Criteria:

NDCC section 12.1-13-03, states in part, every public servant authorized to sell or lease any property, or to make any contract in his official capacity, alone or in conjunction with other public servants, who voluntarily becomes interested individually in the sale, lease, or contract, directly or indirectly, is guilty of a class A misdemeanor.

Committee of Sponsoring Organization of the Treadway Commission (COSO), states in part, control activities specifically relate to those policies and procedures that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. Supervisory controls assess whether other transaction control activities are being performed completely, accurately, and according to policy and procedures. Control activities can be preventive or detective, preventive controls are designed to avoid an unintended event or result at the time of initial occurrence.

Cause:

There was a lack of communication between departments surrounding conflicts of interest.

Effect or Potential Effect:

There is noncompliance with NDCC section 12.1-13-03 and inadequate controls exist for purchases with disclosed conflicts of interest.

Recommendation:

We recommend NDSU develop and implement controls to ensure that no conflict of interest exists with any transaction with a disclosed conflict of interest.

North Dakota State University Response:

NDSU agrees with the recommendation. Department heads already approve conflict disclosures. However, as an extra step, NDSU Purchasing will summarize the reported conflict disclosures and provide a list to the department heads for further monitoring. In addition, we will inactivate the applicable supplier IDs in PeopleSoft to better flag future transactions to ensure department head approval on the transaction.

Operations

Our audit of North Dakota State University included a review of the MAT bus program.

Background:

In 2004, NDSU and the city of Fargo entered into a Joint Powers Agreement for transit support within the city to reduce traffic congestion. In return for the services, NDSU will make a payment to the city of Fargo each year. Also, an agreement (U-Pass) was entered into to enable students, faculty and staff to ride free of charge on any MAT bus by showing a valid identification.

In our audit for the biennium ended June 30, 2017, we identified the following areas of potential improvements to operations, as expressed by our operational objectives:

- Is NDSU ensuring compliance with the MAT bus contract provisions?
- Is the benefit of the MAT bus program worth the costs of operating the program?

The criteria used for each of the above were the agreements. We reviewed and determined the key controls to test. We also reviewed policies and procedures and financial reports.

We conclude on the operational objectives for the MAT bus program:

- NDSU was ensuring compliance with the agreements and,
- The MAT bus program was worth the costs of operating the program.

Management Letter (Informal Recommendations)

July 13, 2018

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

Dear Mr. Bollinger,

We have performed an audit of North Dakota State University for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of North Dakota State University's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

INADEQUATE MONITORING OF ACCESS ROLES

Condition:

For the human capital management environment of PeopleSoft for fiscal year 2017, NDSU ran the access roles and notations were made to remove access for certain employees; however, access was not removed for the four employees.

Criteria:

COSO states in part, a type of control activity that could be selected and developed would be supervisory controls - supervisory controls assess whether other transaction control activities (i.e. particular verifications, reconciliations, authorizations and approvals, etc.) are being performed completely, accurately, and according to policy and procedures.

NDUS Procedure 1912.1 identifies risks, success as access and security, and requires coordinators to review procedures, keep current on potential threats, conduct regular risk assessment and an annual evaluation to ensure ongoing compliance.

Cause:

Management did not verify that a request was made to ensure an employee's access was removed.

Effect:

There is noncompliance with COSO standards and NDUS procedure 1912.1.

Informal Recommendation #1:

We recommend NDSU verify the changes noted for access roles to the human capital management environment of PeopleSoft are made in a timely manner to ensure the proper level of access is granted and/or removed.

North Dakota State University Response:

NDSU agrees with the recommendation. NDSU will ensure the proper level of PeopleSoft access is granted and/or removed in a timely manner.

UNAPPROVED RESEARCH EXTENSION CENTERS PETTY CASH FUNDS

Condition:

NDSU Research Extension Centers maintained unapproved checking accounts for six of their petty cash funds and checks written on these accounts were to vendors not the Bank of North Dakota.

Criteria:

NDCC section 54-06-08.1, states in part, all institutions of the state may maintain, subject to approval of the state auditor and the state treasurer, in the Bank of North Dakota, or, if the state entity is located outside Bismarck, in another state or federally chartered financial institution, an account for clearing or cashing of checks and making change. Any check written on the account may be used only to transfer funds to the Bank of North Dakota or the state treasurer.

Cause:

NDSU stated there was some confusion on NDCC approval authority, mostly because the law covers petty cash, change funds, and clearing accounts.

Effect:

There was noncompliance with NDCC section 54-06-08.1, since no approval was sought from the state auditor and state treasurer to establish these six checking accounts.

Informal Recommendation #2:

We recommend that proper approval is sought for cash balances and they are used in compliance with NDCC.

North Dakota State University Response:

NDSU agrees with the recommendation. These Research Extension Center accounts have been in place for many years for the purpose of safeguarding cash. However, these accounts will be closed.

INADEQUATE CONTROLS OVER STORE CREDIT CARDS

Condition:

NDSU had the following issues for store credit cards:

- No administrator exists for store credit cards to ensure proper issuance of the cards, reconciliations, monitoring the usage and card limits;

- Store credit cards are issued to departments, not a specific cardholder, which allows for multiple individuals, including students, to use a single card; and
- The number of store credit cards issued and their respective credit limits are unknown.

Criteria:

COSO states in part, the establishment and adherence to a system of internal controls will provide the basis for reasonable assurance regarding the achievement of an entity's objectives, and help with the efficient use of an entity's assets and prevention of loss through waste, inefficiency, or poor business decisions.

NDSU's policy on purchasing, section 400, part 3.1, states in part, NDSU employees authorized by their respective department or unit can make a single non-repetitive purchase of a good or service in the amount of \$5,000 or less.

Cause:

The use of store credit cards allows departments to send students or employees to the stores who don't have a purchase card.

Effect:

Without written policies and procedures surrounding the issuance and use of store credit cards, it's difficult to conclude that risk is mitigated to an acceptable level. By issuing store credit cards to the departments and not to individuals, responsibility and accountability are decreased, in addition to the decreased liability protection issued by the store credit card. There is noncompliance with NDSU's purchasing policy, as the purchasing policy only authorizes employees to make purchases, not students. Further, without knowing the number of store credit cards issued, one cannot be assured that they can be all accounted for when an employee changes departments, resigns, or is terminated.

Informal Recommendation #3:

We recommend that internal controls be developed and implemented over store credit cards to closely resemble that of the purchase card or the approved purchase card is used instead.

North Dakota State University Response:

NDSU agrees with the condition but disagrees with the recommendation. We will develop procedures that document internal controls on store card usage, but those guidelines may not resemble the purchasing card rules. A local store may provide a store card to an NDSU department for tracking charges. The card provides assurance the purchases are authorized by the department. Departments are in the best position for controlling their department's store card, rather than the central Purchasing Office. These purchases are within the \$5,000 authorization threshold delegated to departments. We will continue to encourage the use of the state's Pcard when appropriate.

NONCOMPLIANCE WITH THE UNCLAIMED PROPERTY ACT

Condition:

NDSU is submitting checks to Unclaimed Property before they are presumed abandoned without receiving written consent to do so.

Criteria:

NDCC section 47-30.1-02.1 part 1 states in part that any checks held, issued, or owing in the ordinary course of the holder's business which remain uncashed by the owner for more than two years after becoming payable are presumed abandoned.

NDCC section 47-30.1-17 part 4 states in part that the report and property must be delivered by November first of each year for property deemed abandoned as of the preceding June thirtieth.

NDCC section 47-30.1-27 part 2 states in part that a holder, with the written consent of the administrator and upon conditions and terms prescribed by the administrator, may report and deliver property before the property is presumed abandoned.

Cause:

NDSU believed that this practice was adequate because the Department of Trust Lands accepted the checks.

Effect:

NDSU is not in compliance with NDCC.

Informal Recommendation #4:

We recommend that NDSU submit to Unclaimed Property checks that have been uncashed or shown no interest in for more than two years after becoming payable as of the fiscal year end.

North Dakota State University Response:

Agreed. Effective immediately, NDSU will adjust the timing of submitting outstanding unclaimed checks to comply with the requirements.

I encourage you to call me at 701-239-7291, if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Robyn Hoffmann".

Robyn Hoffmann, CPA
Audit Manager

You may obtain audit reports on the internet at:

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Division of State Audit

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