



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## North Dakota State University

Audit Report for the Biennium Ended June 30, 2019

Client Code 235





### WHAT WE LOOKED AT

Our team audited North Dakota State University which included reviewing financial transactions, expenditures, and blanket bond coverage. We also looked at faculty contracts and the NDSU trademark licensing program.

### WHY WE LOOKED AT THIS

North Dakota state law (N.D.C.C. 54-10-01) requires that our team performs a post-audit of all financial transactions of state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts. We looked at the faculty contracts due to the high number of faculty and potential risk for error and the trademark licensing program due to the popularity of the NDSU logo and the multiple vendors using the logo.

### AUDIT REPORT HIGHLIGHTS

#### Lacking Personnel Documentation



Faculty members are lacking proper evaluations, and not all documentation is in one central file. Also, we found that some contracts were incomplete and not valid.

*Read more on page 4*

#### Not Monitoring Trademark Program



The money received for trademark royalty revenues is not being properly monitored.

*Read more on page 7*

#### Lack of RFQ Documentation for Construction Projects



Request for Qualifications were not kept for large-scale construction projects. Because of this, there is not support to check if contracts were awarded properly.

*Read more on page 9*

#### Lack of Policy for Royalty Revenues



There is presently no policy on the distribution of royalty revenues earned from the sale of licensed merchandise.

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## HAVE QUESTIONS? ASK US.

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# Introduction

## North Dakota State University

June 8, 2020

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**W**e are pleased to submit this audit of the North Dakota State University for the biennium ended June 30, 2019. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness 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 courtesies, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/s/

**JOSHUA C. GALLION**  
**NORTH DAKOTA STATE AUDITOR**

## TERMS USED IN REPORT

**Appropriation:** An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

**Blanket Bond Coverage:** Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

**Conflict of Interest:** Situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.

**ConnectND:** The accounting system for North Dakota.

**Default:** Failures to do something required by duty or law.

**Internal Control:** Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

**Noncompliance:** Failure to act in accordance with a wish or command.

**North Dakota Century Code (N.D.C.C.):** Collection of all the statutes passed by the North Dakota Legislative Assembly.

**Performance Audit:** Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

**Request for Qualifications (RFQ):** A screening step used in the procurement process that establishes a pool of vendors that are qualified to bid on a project.

**Royalty:** A legally binding payment made to an individual for the ongoing use of his or her originally created assets, including copyrighted works, franchises, and natural resources.

**Session Laws:** Published after each regular and special legislative session and contain the laws enacted during that session.

**Trademark:** A symbol, word, or words legally registered or established by use as representing a company or product.



# Audit Results

## Faculty Contracts

### OBJECTIVE

Are faculty performing their job duties, receiving evaluations, and being compensated as required by their contracts?

FINDING  
2019-01

### Lack of Proper Documentation Surrounding Faculty Personnel Files

### CONCLUSION

We conclude that North Dakota State University was not in compliance due to the following issues noted during the testing of faculty contracts:

- North Dakota State University did not ensure that all faculty members were receiving proper evaluations as required by State Board of Higher Education policy and North Dakota State University policy manual.
- North Dakota State University did not ensure that all faculty members had complete and valid contracts.
- Faculty members did not have all required information included in their official personnel file, as required by state law.

Faculty records at North Dakota State University were located in multiple locations depending on who possessed the faculty information and personnel records. In addition, North Dakota State University did not fully understand all of the necessary parts that comprise a valid faculty contract.

Because of this, there was noncompliance with state law, State Board of Higher Education policy, and the North Dakota State University policies.

### BACKGROUND

North Dakota State University had approximately 676 faculty members during the period of July 1, 2017, to June 30, 2019. Our team tested 29 faculty member files. Official faculty personnel files were reviewed to determine if the faculty member:

- Had a centralized personnel file.
- Had a valid contract.
- Received student evaluations.
- Received an annual evaluation.
- Were being contractually compensated for their responsibilities.



In several instances, there was no documentation of **student input** being taken into consideration when an **annual evaluation** was conducted.

Of the 29 faculty contracts, we found the following areas of concern:

- The required documentation for 22 faculty members was either not completed or was not located in the official personnel file.
- 10 faculty members did not have a complete contract.
- Eight faculty members did not have proper annual evaluations performed.

State law (N.D.C.C. 54-06-21) states that the official

personnel file on each employee is the file maintained under the supervision of the agency head. The employer must acknowledge that the employee has read the material by signing the actual copy to be filed or an attachment to the actual copy to be filed, with the understanding that the signature merely signifies that the employee has read the material to be filed and does not necessarily agree with the content. The material must then be placed in the personnel file.

North Dakota State University policy (350.1, section 5) states that contracts must include:

- The letter offering the position.
- Annual notice of renewal terms.
- Current job description.
- Policies and procedures of North Dakota State University and the State Board of Higher Education.

During our testing, we found that there was a misunderstanding regarding what constitutes a complete and valid contract. North Dakota State University policy 350.1 outlines the forms that need to be completed and filed so faculty members have a valid contract. Multiple faculty members were missing one or more of these forms which resulted in an incomplete contract.

The department chair or head of an academic unit is required to ensure that all faculty have job descriptions that are periodically reviewed and updated. We also found that annual evaluations were based on criteria of job duties and goals, however, they were missing student input. The State Board of Higher Education policy (605.1, section 8) states that one of the requirements is that annual evaluations of faculty members must include significant student input. In several instances, there was no documentation of student input being taken into consideration when an annual evaluation was conducted. In addition, it was also noted that in many instances student evaluations were not kept in the faculty member's official personnel file.

The official personnel files of faculty members at North Dakota State University are maintained by the administrative office of the faculty member's department. Failure to keep all personnel file information together in one location is not a consistent practice with state law (N.D.C.C 54-06-21) as it outlines criteria and information for updating and maintaining personnel files.

#### **RECOMMENDATION**

We recommend that North Dakota State University properly administer contracts, maintain an official personnel file, and perform proper annual evaluations as required to ensure compliance with N.D.C.C., State Board of Higher Education policy, and North Dakota State University's policies surrounding faculty contracts.

#### **NORTH DAKOTA STATE UNIVERSITY RESPONSE**

NDSU will carefully review the recommendation and any associated internal processes and procedures, and will implement improvements where appropriate.

# Trademark Licensing Program

## OBJECTIVE

Did North Dakota State University collect trademark and licensing royalties according to the contract in place with Learfield - a trademark management company specializing in collegiate licensing and branding. Also, was monitoring in place to ensure accurate royalties are received, and royalty revenues are distributed according to North Dakota State University policy?

State University's legal interest in its trademarks, ensure the proper use of the trademarks, and to collect royalties on the use of the trademarks.

Originally, the program was monitored in-house by North Dakota State University athletics. In 2001, North Dakota State University contracted with an external licensing company (originally Licensing Resource Group, which then became Learfield for our audit period, and is now known as CLC) to license vendors and collect royalties on behalf of North Dakota State University. This contract has evolved over time as the external licensing company merged and acquired other companies, and North Dakota State University has grown in size and has gained national attention.

FINDING  
2019-02

## Inadequate Monitoring of the Trademark Licensing Program

### CONCLUSIONS

We conclude that North Dakota State University was not monitoring the revenues received under the contract and did not have a policy in place for the distribution of trademark royalty revenues.

We noted several instances, where North Dakota State University did not receive the proper compensation from Learfield and for two out of the four quarters tested, we were unable to verify the amounts received because we were not able to obtain all of the quarterly report documentation.

### BACKGROUND

North Dakota State University logos and mascots have become common fixtures on clothing, furniture, billboards, bumper stickers, and other products. With over 90,000 alumni as well as fans and supporters, the North Dakota State University logos can be seen throughout the United States. In order to protect the logo and mascot, North Dakota State University implemented a Trademark Licensing program that functions to protect North Dakota

All vendors that want to use North Dakota State University's logos must pay a licensing fee to Learfield in addition to a 12% royalty rate of the cost of licensed merchandise sold, as well as a 15% royalty rate if the heritage collection (vintage North Dakota State University icons) are used.



For the **biennium** ended June 30, 2019, North Dakota State University received over **\$1.3 million** in royalty revenues.

Learfield works to enforce the trademark, ensure quality control, and collect royalties from the licensees. For the work they do, Learfield earns a percentage of the total royalties collected. Learfield provides North Dakota State University a check at the end of every quarter for North Dakota State University's portion of the total royalties collected. For the biennium ended June 30, 2019, North



Dakota State University received over \$1.3 million in royalty revenues. We reviewed this royalty payment to ensure North Dakota State University:

- Collected trademark/licensing royalties according to the contract.
- Monitored the contract to ensure accurate royalties were received.
- Distributed royalty revenues in accordance with the set policy.

We found North Dakota State University did not collect the contractually obligated amount of royalties from Learfield. The contract splits the percentages between North Dakota State University and Learfield. As more merchandise is sold, the percentage that Learfield keeps gets incrementally smaller. Our team found that for a National Collegiate Athletic Association athletic conference called the Summit League, the royalties Learfield kept was 30% when the highest percentage that Learfield was contractually allowed was 27%.

North Dakota State University does not have an adequate process for monitoring its contract with Learfield. North Dakota State University keeps a spreadsheet of the royalty checks each quarter and compares them to the prior financial quarters. There were inconsistencies our team found in the monitoring spreadsheet. Halfway through the audit period, North Dakota State University switched from recording the royalty check received to recording the total royalties received. This number included both North Dakota State University's and Learfield's revenues combined. This makes comparing one quarter financials to the next quarter financials nearly impossible, as they are two completely different sets of data. We also found that North Dakota State University did not monitor the payment to Learfield to ensure the proper amount was received under the contract.

Without adequate monitoring, North Dakota State University may not be receiving accurate compensation

from its licensing partner Learfield.

#### **RECOMMENDATION**

We recommend that North Dakota State University adequately monitor its Trademark Licensing Program to ensure it is receiving accurate compensation in accordance with the contract from Learfield.

#### **NORTH DAKOTA STATE UNIVERSITY RESPONSE**

NDSU will carefully review the recommendation and any associated internal processes and procedures, and will implement improvements where appropriate.



FINDING  
2019-03

## Lack of Trademark Licensing Policy

### CONCLUSION

North Dakota State University does not presently have a policy regarding the distribution of royalty revenues and earned income from licensed merchandise.

### BACKGROUND

North Dakota State University has a policy surrounding the protection of trademarks however, there is presently no policy on the distribution of royalty revenues earned from the sale of licensed merchandise. To make sure royalty revenue are property and consistently distributed, a policy regarding royalty revenues should be implemented.

The Committee of Sponsoring Organizations of the Treadway Commission document Internal control - Integrated Framework principle 12 states in part: the organization deploys control activities through policies that establish what is expected and procedures that put policies into action. Management should periodically reassess policies and procedures and related control activities for continued relevance and effectiveness.

Our team also checked if North Dakota State University was distributing royalty revenues according to North Dakota State University policy. North Dakota State University has a policy in place (policy 190) regarding intellectual property which stipulates how patent and copyright revenues are to be distributed. This policy however does not stipulate how trademark revenues should be distributed. Currently, North Dakota State University Athletics retains all of the money from the trademark licensing program and deposits it into their Athletics Marketing and Promotion Fund. This money can then be spent at the discretion of the athletics department.



There is presently **no policy** on the distribution of **royalty revenues** earned from the sale of licensed merchandise.

### RECOMMENDATION

We recommend that North Dakota State University develop and document a policy on how to distribute royalty revenue earned from the sale of licensed merchandise.

### NORTH DAKOTA STATE UNIVERSITY RESPONSE

NDSU will carefully review the recommendation and any associated internal processes and procedures, and will implement improvements where appropriate.

# Other Results

## STATUTORY OBJECTIVE

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post-audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law and appropriation acts, and evaluating blanket bond coverage.

FINDING  
2019-04

## Lack of RFQ Documentation for Construction Projects

### CONCLUSION

We found that both the architect selection for a building expansion called Sudro Hall, as well as the engineer and construction manager for a steam tunnel replacement project did not have documentation of all submitted RFQs. Because only the winning RFQs were kept, there was not enough support to determine if contracts were awarded properly.

### BACKGROUND

When companies or institutions need certain jobs performed, many times they solicit vendors using a request for qualifications (RFQ). The RFQ determines the best fit for a job based on the qualifications and cost of the applying vendor.

North Dakota State University did not retain the non-winning RFQ submissions. Because of this, our team was not able to confirm that North Dakota State University followed state law (N.D.C.C. 54-46-05) in collecting and maintaining the records necessary to support the vendor selection for large scale building projects.

### RECOMMENDATION

We recommend that North Dakota State University properly retain Request for Qualifications documents to ensure compliance with N.D.C.C.

### NORTH DAKOTA STATE UNIVERSITY RESPONSE

NDSU has carefully reviewed the recommendation and implemented processes and procedures during 2019.



# Audit Procedures

## FACULTY CONTRACTS

### INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control environment component of internal control, specifically the principles correlated with the organization demonstrating a commitment to the developing competent individuals, the component of information and communication, specifically the principle related to the ability to obtain or generate, and use relevant quality information to support the function of internal control and the design of control activities and the implementation of the same. We also identified controls relating to the monitoring component of internal control, specifically the principle of performing monitoring activities.

### SCOPE

This audit of the North Dakota State University is for the biennium ended June 30, 2019.

North Dakota State University has several locations across Fargo including its main campus, a downtown campus, and several other locations and offices. All locations were included in the scope of the audit.

## METHODOLOGY

To meet this objective, we:

- Identified State Board of Higher Education policies and North Dakota State University policies for faculty contracts, evaluations, and compensation.
- Received queries for North Dakota State University from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the ConnectND queries.
- Interviewed appropriate agency personnel.
- 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 a random sample of faculty contracts, evaluations, and personnel files for compliance with N.D.C.C., State Board of Higher Education policy, and North Dakota State University policies regarding contracts, evaluations, and compensation.
- Tested internal controls — including faculty contracts — to check if they were demonstrating a commitment to develop competent individuals, if the faculty evaluations were completed, and if all information was kept in personnel files in order for relevant and quality information to be maintained.

## TRADEMARK LICENSING PROGRAM OBJECTIVE

### INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation of the same. We also identified controls relating to the monitoring component of internal control, specifically the principle of performing monitoring activities.

Considering both qualitative and quantitative factors, we identified two deficiencies in internal control that was significant within the context of our audit objectives and based upon the audit work performed. These deficiencies are identified in Findings 2019-02 and 2019-03.

### SCOPE

This audit of the North Dakota State University is for the biennium ended June 30, 2019.

North Dakota State University has several locations across Fargo including its main campus, a downtown campus, and several other locations and offices. All locations were included in the scope of the audit.

### METHODOLOGY

To meet this objective, we:

- Received queries for North Dakota State University from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the ConnectND queries.

- Interviewed appropriate agency personnel.

- 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 payments from Learfield for compliance with the contract and internal controls surrounding adequate monitoring.

- Reviewed State Board of Higher Education policy, North Dakota University System procedures, and North Dakota State University policy for Trademark revenue distribution.



## STATUTORY OBJECTIVE

### INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation of the same. We also identified controls related to the design activities for information systems.

### SCOPE

This audit of the North Dakota State University is for the ended June 30, 2019.

North Dakota State University has several locations across Fargo including its main campus, a downtown campus, and several other locations and offices. All locations were included in the scope of the audit.

### METHODOLOGY

To meet this objective, we:

- 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.
- 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.

- Interviewed appropriate agency personnel.
- Received queries from North Dakota State University from the ConnectND (PeopleSoft) system for data analysis and determined completeness. Significant evidence was obtained from the queries from ConnectND.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.
- Internal controls were tested including proper approvals of expenses, travel expenses, scholarships, waivers, and proper ConnectND controls were used for vendors with a potential conflict of interest.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a random sample of high-risk transactions, including expenses, procurement, travel expenses, conflict of interest vendors, authorization and awarding of architects, engineers and capital construction contracts and scholarships and waivers for further testing.

## STATUTORY CRITERIA

North Dakota State University management must establish and maintain effective internal control in accordance with the North Dakota University System procedure 802.6 and the North Dakota University System Accounting Manual.

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose of the use of one-time funding distribution. (2017 North Dakota Session Laws S.B. 2003, Chapter 28, Section 3)
- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose of the use of the Strategic Investment and Improvements Fund. (2017 North Dakota Session Laws H.B. 1015, Chapter 14, Section 6)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)
- Expenses were made for a public purpose (N.D.C.C. 44-08-05.1)
- Travel reimbursement in accordance with limits of state law. (N.D.C.C. 54-06-09, N.D.C.C. 44-08-04, N.D.C.C. 44-08-03)
- Goods, services, and public improvements procured in accordance with state law. (N.D.C.C. 54-44.4, N.D.C.C. 48-01.2)
- Scholarship expenses were proper. (N.D.C.C. 15-10-12, N.D.C.C. 15-10-18.2, N.D.C.C. 15-10-18.3, N.D.C.C. 15-10-18.4, N.D.C.C. 15-10-18.5, N.D.C.C. 54-12-35, N.D.C.C. 37-07.1)
- Capital Construction Contracts were authorized and

the contracts for architects and engineers were properly awarded. (N.D.C.C. 15-10-12.1, N.D.C.C. 48-01.2, N.D.C.C. 54-44.7)

## AUTHORITY AND STANDARDS

This biennial audit of the North Dakota State University has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are published in the Committee of Sponsoring Organizations of the Treadway Commission publication Internal Control – Integrated Framework.



# Responses to LAFRC Audit Questions

## **1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?**

The financial statements for the 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 *Lack of Proper Documentation Surrounding Faculty Contracts*, *Lack of RFQ Documentation for Construction Projects*, and *Inadequate Monitoring of Trademark Licensing Program*, 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 findings addressing *Inadequate Monitoring of the Trademark Licensing Program* and *Lack of Trademark Licensing Policy*, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

## **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 PRIOR AUDIT REPORTS?**

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

## **6. WAS A MANAGEMENT LETTER ISSUED? IF SO, PROVIDE A SUMMARY BELOW, INCLUDING ANY RECOMMENDATIONS AND THE MANAGEMENT RESPONSES.**

No, a management letter was not issued.



# LAFRC Audit Communications

## **7. IDENTIFY ANY SIGNIFICANT CHANGES IN ACCOUNTING POLICIES, ANY MANAGEMENT CONFLICTS OF INTEREST, ANY CONTINGENT LIABILITIES, OR ANY SIGNIFICANT UNUSUAL TRANSACTIONS.**

There were no 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 for North Dakota State University include the useful lives of capital assets, allowance for doubtful accounts, scholarship allowance, fair value of investments, net pension liability and other post-employment benefits 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. The estimate for scholarship allowance is based on the difference between the tuition rates and charges and the amount actually paid by students and/or parties making payments on behalf of students. The estimate for fair value of investments is based on quote prices in active markets and discounted cash flow models. The net pension liability and other post-employment benefits liability is based on the actuary's calculation based on plan provision and census data for plan participants. We evaluated the key factors and assumptions used to develop the estimated useful lives, allowance for doubtful accounts, scholarship allowance, fair value of investments, net pension liability and OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

## **9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.**

Significant audit adjustments were not necessary.

## **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.

*Continued on following page*

**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 Capital Management (HCM) and Campus Solutions are high-risk information technology systems critical to the North Dakota State University. No exceptions were identified related to the operations of an information technology system.



# Financial Statements

## Statement of Revenues, Expenses, and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2019	JUNE 30, 2018
Student Tuition & Fees	\$ 118,209,698	\$ 120,082,759
State Appropriations	115,371,328	112,020,735
Federal Grants & Contracts	52,681,239	52,658,955
Auxiliary Enterprises	40,934,016	45,258,273
Services and Sales of Educational Departments	35,448,034	32,691,045
Capital Grants and Gifts	16,753,002	2,684,232
Gifts	14,661,558	15,039,830
Nongovernmental Grants & Contracts	11,493,520	12,109,851
State Grants & Contracts	8,270,257	8,675,385
Federal Appropriations	5,029,495	7,482,072
Endowment & Investment Income	4,110,410	4,624,558
State Appropriations - Capital Assets	2,582,442	2,293,803
Other	515,258	378,524
Insurance Proceeds	503,763	326,531
Tax Revenues	500,000	500,000
<b>Total Revenues and Other Additions</b>	<b>\$ 427,064,020</b>	<b>\$ 416,826,553</b>

Continued on following page

Source: North Dakota University System Annual Financial Report

# Financial Statements

## Statement of Revenues, Expenses, and Changes in Net Position

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2019	JUNE 30, 2018
Salaries & Wages	\$ 275,004,047	\$ 273,804,949
Operating Expenses	88,241,976	86,028,908
Depreciation Expense	25,787,635	25,425,451
Scholarships & Fellowships	7,065,578	6,958,150
Cost of Sales & Services	6,706,689	8,821,329
Data Processing	4,823,385	3,908,912
Interest on Capital Asset - Related Debt	3,829,694	3,930,168
Transfers to North Dakota Industrial Commission	285,790	268,642
Loss on Disposal of Capital Assets	235,682	133,891
Other	-	1,284,562
<b>Total Expenses and Other Deductions</b>	<b>\$ 411,980,476</b>	<b>\$ 410,564,962</b>
<b>Revenue over Expenses</b>	<b>\$ 15,083,544</b>	<b>\$ 6,261,591</b>

NET POSITION	JUNE 30, 2019	JUNE 30, 2018
Net Position-beginning of the year, as restated	\$ 462,509,923	\$ 456,248,334
Net Position-end of the year	\$ 477,593,467	\$ 462,509,925

Source: North Dakota University System Annual Financial Report

# Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENSES BY LINE ITEM	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Operating Expenses	\$ 733,208,460	\$636,541,329	\$ 96,667,131
Capital Assets	35,799,104	7,275,028	28,524,076
Capital Assets - Carryover	1,218,586	1,187,432	31,154
Capital Improvements - Off System	84,449,500	69,438,821	15,010,679
Capital Projects - Off System - Carryover	6,734,880	4,445,526	2,289,354
<b>Totals</b>	<b>\$ 861,410,530</b>	<b>\$ 718,888,136</b>	<b>\$ 142,522,394</b>

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
General Fund	\$ 157,592,566	\$ 129,253,830	\$ 28,338,736
Special Fund	703,817,964	589,634,306	114,183,658
<b>Totals</b>	<b>\$ 861,410,530</b>	<b>\$ 718,888,136</b>	<b>\$ 142,522,394</b>

Source: ConnectND Financials



# Status of Prior Recommendations

## Noncompliance with Procurement Rules (Finding 2017-2)

Implemented

**Recommendation:** We recommend that North Dakota State University properly procure commodities and services in compliance with N.D.C.C. and North Dakota University System requirements.

**Status:** Implemented. Our testing of procurement has determined that North Dakota State University is properly procuring commodities and services in compliance with N.D.C.C. and North Dakota University System requirements.

## Inadequate Controls Over Disclosed Conflicts of Interest (Finding 2017-3)

Implemented

**Recommendation:** We recommend that North Dakota State University develop and implement controls to ensure that no conflict of interest exists with any transactions with a disclosed conflict of interest.

**Status:** Implemented. Our testing of conflicted vendors has determined that North Dakota State University does not have any conflict of interest transactions with vendors that have a disclosed conflict of interest.



NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

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