



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota University System Governance Communication Including the Report on Internal Control, Compliance, and Other Matters

Audit Report for the Year Ended June 30, 2022

Client Code 220



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NORTH DAKOTA OFFICE OF THE STATE AUDITOR

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December 19, 2022

Members of the North Dakota Legislative Assembly

State Board of Higher Education

I am pleased to submit our report on internal control and compliance for the North Dakota University System. This report relates to the audit of the North Dakota University System's financial statements for the year ended June 30, 2022. This report on internal control and compliance has been completed in accordance with Government Auditing Standards, as issued by the Comptroller General of the United States.

Also enclosed you will find the audit findings, governance communication, and posted and passed audit adjustments. These communications are required by generally accepted auditing standards.

The audit manager for this audit was Robyn Hoffmann, CPA. Inquiries or comments relating to this audit may be directed to Ms. Hoffmann by calling (701) 239-7291. I wish to express our appreciation to the North Dakota University System for the courtesy, cooperation, and assistance they provided to us during the audit.

Respectfully submitted,

/S/

Joshua C. Gallion
North Dakota State Auditor

cc: Legislative Audit and Fiscal Review Committee
Toby Mertz, Legislative Council Fiscal Analyst



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**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

Independent Auditor's Report

Members of the Legislative Assembly

State Board of Higher Education

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of business-type activities, fiduciary activities, and the aggregate discretely presented component units of the North Dakota University System, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the North Dakota University System's basic financial statements, and have issued our report thereon dated December 19, 2022. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Dakota University System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota University System's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota University System's internal control.

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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that

a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying *Findings, Recommendations and Management's Responses* as Findings 2022-01 and 2022-02 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota University System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Dakota University System's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor
Bismarck, ND
December 19, 2022

Findings, Recommendations, and Management's Responses

Finding 2022-01 – MISU, NDSU, VCSU and WSC – Improper Classification of Fiduciary Funds

Condition

Minot State University (MISU), North Dakota State University (NDSU), Valley City State University (VCSU), and Williston State College (WSC) did not properly classify fiduciary funds and improperly recorded business-type activities (BTA) and component unit activity as fiduciary fund activity. Specifically, we noted:

- MISU recorded third party tuition and fee refunds as fiduciary fund revenues and expenses.
- NDSU recorded component unit and ASI flex activity as fiduciary fund activity.
- VCSU recorded student fees for the fitness facility as fiduciary fund activity.
- WSC did not remove all business-type activities (BTA) funds and foundation fund activity that was reported in fiduciary funds.

Criteria

GASB Statement 84 paragraph 20 states in part that the Statement of Fiduciary Net Position should be used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of custodial funds.

GASB Statement 84 paragraph 23 states in part that the Statement of Changes in Fiduciary Net Position should be used to report additions to and deductions from custodial funds.

GASB Statement 84 paragraph 11 states in part that the activity is a fiduciary activity if the assets associated with the activity are not derived solely from the government's own-source revenues.

The North Dakota University System (NDUS) Accounting Manual states that institution payroll and payroll related funds are not a fiduciary activity. Also, foundation funds are owned and controlled by a related foundation or alumni association. Since assets and liabilities of foundations and alumni associations are presented separately in the NDUS financial statements, they are not included in the institution's financial statements or the institution portion of the NDUS financial statements.

Effect

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position are misstated and do not provide accurate information to the users of the financial statements.

Cause

MISU, NDSU, VCSU, and WSC did not implement proper procedures to ensure that only fiduciary activities were reported in the fiduciary statements.

Recommendation

We recommend that MISU, NDSU, VCSU, and WSC properly use fiduciary funds in accordance with GASB 84 and the NDUS Accounting Manual.

North Dakota University System Response/Corrective Action Plan:

MiSU: Agree. In FY2022, MiSU left its Remittance fund in the fiduciary range. In FY2023, a new BTA fund was created for this fund and the fiduciary fund was inactivated.

NDSU: Agree. NDSU agrees the Fiduciary Net Position was misstated, but NDSU does have proper procedures to ensure new fiduciary activity is reported properly. The improper recording of the component unit and ASI flex activity as fiduciary fund activity was a carry-over error from the implementation of GASB 84 Fiduciary Activities during fiscal year 2021. NDSU utilized proper procedures to identify fiduciary activities on all new activity during fiscal year 2022. These procedures will continue to be utilized in future fiscal years.

VCSU: Agree. VCSU will move the fund holding the fitness facility fee to a BTA fund by June 30, 2023.

WSC: Agree. Williston State College agrees with the recommendation and will properly classify business-type activities (BTA) funds and foundation fund activity going forward.

Finding 2022-02 – CTS – Insufficient Monitoring of Service Organizations

Condition

There was insufficient monitoring of the service organization control report for Nelnet by Core Technology Services (CTS). The service organization control report was not utilized by the user entity and the applicable complementary user entity controls were insufficiently monitored and documented to ensure they were in place and operating effectively.

Criteria

Complementary entity user controls, as defined by Statement on Standards for Attestation Engagements, section 320, are controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary to achieve the control objectives stated in management's description of the service organization's system.

Effect

Due to not utilizing the service organization control report and monitoring the complementary user entity controls, the risk that was passed onto the service organization has increased.

Cause

CTS incorrectly addressed a different service organization control report's complementary user entity controls rather than those stated in the Nelnet service organization control report.

Recommendation

We recommend that the service organization control report for Nelnet is utilized by the proper personnel to monitor and document how all the applicable complementary user entity controls are in place and operating effectively.

North Dakota University System Response/Corrective Action Plan:

Agree: CTS will monitor and document how all applicable complementary user entity controls from Nelnet are in place and operating effectively by April 30, 2023.



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Governance Communication

December 19, 2022

State Board of Higher Education

Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the business-type activities, fiduciary activities, and the aggregate discretely presented component units of the North Dakota University System for the year ended June 30, 2022 and have issued our report thereon dated December 19, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 6, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota University System are described in Note 1 to the financial statements. As described in Note 1, the North Dakota University System changed accounting policies related to leases by adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in fiscal year 2022. We noted no transactions entered into by the North Dakota University System during fiscal year 2022 for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on the management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the North Dakota University System's financial statements were:

- Fair value of investments
- Useful lives of capital assets
- Pension liability – \$90.6 million
- OPEB liability - \$4.6 million
- Scholarship allowance - \$69.6 million
- Allowance for uncollectible receivables:
 - Accounts: \$7.5 million
 - Loans and notes: \$1.9 million

The estimate for the fair value of investments is based on using quoted prices in active markets and discounted cash flow models. Management’s estimate of the useful lives is based on the history of capital assets on each campus and is used to compute depreciation on capital assets. The estimate for the pension and OPEB liability is based on an actuary’s calculation in accordance with employment contracts. 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 third parties making payments on behalf of students. The estimate for allowance for uncollectible receivables is based on aging categories and history. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The Posted Audit Adjustments schedule, as listed in the table of contents, lists material misstatements detected as a result of audit procedures that were corrected by management.

The Passed Audit Adjustments schedule, as listed in the table of contents, summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though in our judgment, such as uncorrected misstatements are immaterial to the financial statements under audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the

financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the North Dakota University System's financial statements or a determination of the type of auditor's opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the North Dakota University System auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions for pensions, the Schedule of Employer's Share of Net OPEB Liability and the Schedule of Employer Contributions for OPEB which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Financial Statements, Statement of Financial Position – Non-Major Component Units, Statement of Activities – Non-Major Component Units, and Schedule of Bonds Payable and Certificates of Participation - Primary Institution, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the

supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on Financial Information for Revenue Producing Buildings, which accompany the financial statements but are not RSI. Such information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Legislative Audit and Fiscal Review Committee, the State Board of Higher Education, and management of the North Dakota University System is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Robyn Hoffmann, CPA
Audit Manager

Posted Audit Adjustments

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
1. SNP				
WSC	Unrestricted net position	6,932,562		To properly classify net position per GASB 34
	Net investment in capital assets		6,932,562	
2. SNP				
UND	Expendable debt service	18,318,191		To correct BOND_PROC journal entry for net position due to incorrect funds being used
	Expendable capital projects	33,192,795		
	Net investment in capital assets	14,874,604		
	Expendable debt service		18,318,191	
	Expendable capital projects		33,192,795	
	Net investment in capital assets		14,874,604	
3. SNP				
UND	Expendable capital projects	62,679,793		To properly classify net position per GASB 34
	Expendable debt service	40,918,013		
	Net investment in capital assets			
	Expendable capital projects		62,679,792	
	Net investment in capital assets		26,043,409	
	Unrestricted net position		14,874,604	
4. SRECNP				
DSU	Federal grants and contracts	4,000,000		To properly classify revenues for ARPA, Tier II and Tier III funding
	Gifts	1,268,862		
	Federal grants and contracts stimulus		4,000,000	
	State appropriations - capital assets		1,268,862	
5. SCF				
MASU	Direct lending receipts	3,868,158		To properly record direct lending receipts and disbursements
	Direct lending disbursements		3,868,158	
6. SFNP				
NDSU	Accounts payable and accrued liabilities	29,382		To remove funds that are not considered fiduciary funds per GASB 84 to business-type activities (BTA) funds
	Accrued payroll	214,014		
	Deposits	17,471		
	Cash and cash equivalents		260,867	

SNP – Statement of Net Position

SRECNP – Statement of Revenues, Expenses and Changes in Net Position

SCF – Statement of Cash Flows

SFNP – Statement of Fiduciary Net Position

Passed Audit Adjustments

DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
1. SNP			
MASU Unrestricted net position	1,070,779		To properly classify net position per GASB 34
Expendable capital projects		588,958	
Net investment in capital assets		481,821	
2			
BSC, DCB, SRECNP			
MASU, MISU Student tuition and fees	1,889,975		To project a likely error, based on a sample, for scholarship allowance
NDSU, UND, Auxiliary enterprises	23,841		
VCSU, WSC Scholarships and fellowships		1,913,816	
3. SNP			
BSC, DSU, Notes receivable, net - current	487,598		To correct loans receivable balances
MASU Unrestricted net position	536		
Notes receivable, net - noncurrent		488,134	
SRECNP			
Operating expenses	536		
Net increase/decrease		536	
4 SNP			
NDSU, UND Lease receivable - current	317,919		To properly record lease receivable
Lease receivable - noncurrent	177,994		
Deferred inflows of resources		495,913	
5 SFNP			
WSC Accounts receivable, net	9,470		To move business-type activities (BTA) funds and one foundation fund out of the SFNP
Deposits	2,286		
Restricted for fiduciary funds net position	1,075		
Cash and cash equivalents		9,746	
Accounts payable and accrued liabilities		3,085	
6 SFNP			
MISU Cash and cash equivalents	14,131		To post a likely projected error, based on a sample, for fiduciary expenses that were recorded for tuition and fees that should remain in BTA funds
Restricted for fiduciary funds net position		14,131	
SCFNP			
Net increase/decrease	14,131		
Operating expenses		14,131	
7 SCFNP			
UND Operating expenses	57,777		To post a likely projected error, based on a sample, for refunds incorrectly coded
Sales and services of educational departments		57,777	
8 SCFNP			
BSC Auxiliary enterprises	106,647		To post a likely projected error, based on a sample, to properly classify sales and services of educational department revenues
Sales and services of educational departments		106,647	
9 SFNP			
MISU Restricted for fiduciary funds net position	24,715		To post a likely projected error, based on a sample, to eliminate the recording of revenue in fiduciary funds for that should remain in a BTA fund
Cash and cash equivalents		24,715	
SCFNP			
Sales and services of educational departments	24,715		
Net increase/decrease		24,715	

SNP – Statement of Net Position

SRECNP – Statement of Revenues, Expenses and Changes in Net Position

SFNP – Statement of Fiduciary Net Position

SCFNP – Statement of Changes in Fiduciary Net Position

(continued)

Passed Audit Adjustments - Continued

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
10	SFNP			
VCSU	Deposits	5,669		To properly move BTA funds out of fiduciary funds to BTA statements
	Cash and cash equivalents		38	
	Accounts receivable, net		2,877	
	Restricted for fiduciary funds net position		2,753	
	SCFNP			
	Student tuition and fees	25		
	Net increase/decrease	1,566		
	Salaries and wages		255	
	Scholarships and fellowships		1,337	
11	SNP			
DSU, LRSC,	Due to others	1,425,093		To post a likely projected error, based on a sample, to correctly record leases payable, right-of-use assets, and amortization expense
MASU, MISU,	Prior period net position adjustment	449,610		
NDSU, UND	Capital assets, net		1,874,703	
	SRECNP			
	Net increase/decrease	439,108		
	Depreciation expense		439,108	

SNP – Statement of Net Position

SRECNP – Statement of Revenues, Expenses and Changes in Net Position

SFNP – Statement of Fiduciary Net Position

SCFNP – Statement of Changes in Fiduciary Net Position



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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