



# 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, 2024

Client Code 220



# TABLE OF CONTENTS

<b>TRANSMITTAL LETTER</b>	<b>1</b>
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>2</b>
<b>FINDINGS, RECOMMENDATIONS, AND MANAGEMENT’S RESPONSES</b>	<b>4</b>
<b>GOVERNANCE COMMUNICATION</b>	<b>8</b>
<b>AUDIT ADJUSTMENTS</b>	<b>12</b>
Posted Audit Adjustments	12
Passed Audit Adjustments	14



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November 26, 2024

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, 2024. 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  
Grant Gader, 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 and the aggregate discretely presented component units of the North Dakota University System, as of and for the year ended June 30, 2024, 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 November 26, 2024. 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 *Schedule of Findings, Recommendations and Management's Responses* as Finding 2024-01 and Finding 2024-02 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  
November 26, 2024



## Findings, Recommendations, and Management's Responses

### Finding 2024-01 – UND – Insufficient Monitoring of Service Organizations

#### Condition

The University of North Dakota (UND) used a service organization, BM Technologies, Inc. (BMTX), to process student refunds in fiscal year 2024. There was insufficient monitoring of the service organization. We found:

- Monitoring did not occur throughout the fiscal year. UND did not acquire BMTX's Service Organization Controls (SOC) report or adequate bridge letters to ensure compliance during the audit period. Without this, UND was unable to evaluate their own internal control structure to ensure Complementary User Entity Controls (CUEC) are in place and are operating effectively.
- The latest bridge letter from BMTX was valid through December 31, 2023, which does not cover the entire fiscal year leaving a gap in coverage and no assurance there hasn't been any material changes in internal controls with BMTX.

#### Criteria

CUEC 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 obtaining and utilizing the service organization control report and monitoring the CUEC, the risk that was passed onto the service organization has increased. There was approximately \$54.7 million of transactions processed by BMTX in fiscal year 2024 for UND.

#### Cause

UND did not obtain the BMTX's SOC report or bridge letters until November 2024 after requested by the State Auditor's Office. UND requested the 2024 documents from BMTX previously in June 2024 and September 2024, but received no response from BMTX due to UND's discontinuation of the use of the service organization starting with fiscal year 2025.

#### Recommendation

We recommend UND sufficiently monitor service organization controls by utilizing the proper documentation to provide assurance that complimentary user entity controls are in place and operating effectively.

#### North Dakota University System Response/Corrective Action Plan:

Agree, UND is now using Nelnet to process refunds for UND students. UND will monitor service organization controls by utilizing the proper documentation to provide assurance that complimentary user entity controls are in place and operating effectively. Nelnet's SOC report and Bridge Letter will be requested and evaluated at the beginning of every calendar year provided that proper documentation is provided in a timely manner.

## Finding 2024-02 – DSU, UND, and WSC – Improper Bank Reconciliations

### Condition

We found various issues while auditing the bank reconciliations at Dickinson State University (DSU), the University of North Dakota (UND) and Williston State College (WSC).

#### DSU:

We tested three consecutive months of bank reconciliations in fiscal year 2024 (April, May and June) and found:

- April reconciliation:
  - \$2,443,798 of April general fund and tier fund drawdowns were not recorded until June.
  - Unreconciled difference of \$25,140.
- May reconciliation:
  - The same \$2,443,798 of April drawdowns noted above were not addressed timely and not recorded until June. These drawdowns not being recorded caused the cash on the general ledger to be negative at May 31, 2024 in the amount of \$1,849,147.
  - Unreconciled difference of \$3,597.
- June reconciliation:
  - \$971,900 of June general fund drawdowns were not recorded timely and in the proper fiscal year, which lead to an audit adjustment to properly show the cash in fiscal year 2024.
  - Unreconciled difference of \$6,826.

#### UND:

We tested the June 2024 reconciliation and found:

- \$475,682 reconciling item from April was not recorded until July 2024. This amount was an audit adjustment.
- Unreconciled difference of \$47,875.

#### WSC:

We tested the June 2024 reconciliation and found:

- Three bank accounts totaling \$2,783 were not included in the reconciliation.
- \$243,225 was shown as cash on the bank reconciliation and general ledger but should have been classified as an investment because the maturity was greater than three months.
- Unreconciled difference of \$198,891.

All these issues at the three campuses demonstrate that a monthly reconciliation to a zero-dollar difference was not being completed.

### Criteria

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control – Integrated Framework states in part, control activities are those actions that help ensure responses to assessed risk are carried out properly and in a timely manner. Control

activities include reconciliations. To adequately safeguard cash and ensure the reliability of the financial statements, monthly reconciliations of bank balances to the general ledger are imperative.

The NDUS Accounting Manual states in part, a monthly reconciliation between the balance per the financial institution's bank statement(s) and the balance per the general ledger must be completed. The account(s) must be reconciled to zero on a monthly basis with reconciling items identified and resolved in a timely manner.

The NDUS Accounting Manual states in part, investments of original maturities of three months or less meet the definition of cash.

### **Effect**

If cash is not reconciled fully and reviewed every month, errors or misappropriations may occur and may not be detected in a timely manner. Further, the general ledger and ultimately the financial statements may be misstated.

### **Cause**

DSU did not have proper procedures in place to ensure monthly bank reconciliations were done and that transactions were recorded timely.

Due to department restraints this past year, UND did not complete monthly reconciliations but instead did several months in one reconciliation.

WSC had a lack of staffing needed to reconcile to a consistent number.

### **Recommendation**

We recommend that DSU, UND and WSC record transactions as they occur and prepare monthly bank reconciliations, in a timely manner, to a zero-dollar difference.

### **North Dakota University System Response/Corrective Action Plan:**

Agree.

DSU does have procedures in place, however, the University lost both its accountant and controller in late 2023, early 2024 leaving only the Chief Operating Officer and the Accounts Payable Tech in the Business Affairs Office. DSU contracted with UND to perform the university's general accounting function and assist with the bank reconciliations. We expect all bank accounts to be reconciled with no unlocated differences by June 30, 2025.

UND understands the importance of monthly bank reconciliations and has filled vacant positions within Treasury to accomplish this. For the audit period July 1, 2023 – June 30, 2024, UND reconciled monthly thirteen of the fifteen separate UND bank accounts. Two bank accounts were completed annually instead of monthly. Beginning July 1, 2024, monthly bank reconciliations are being completed for all fifteen UND bank accounts.



WSC conducted extensive research into the unreconciled cash balance over the last several years. In 2024, WSC engaged the services of UND to conduct further research and to assist in developing processes for timely and accurate reconciliations. After these exhaustive efforts, we have decided to move forward with a prior period adjustment. The timely completion of reconciliations has been negatively impacted by significant turnover of accounting staff in past years. WSC is now completing bank reconciliations on a timely basis and expects to have all reconciliations up to date by December 31, 2024.



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**Governance Communication**

November 26, 2024

State Board of Higher Education

Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the North Dakota University System for the year ended June 30, 2024 and have issued our report thereon dated November 26, 2024. 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 June 26, 2024. 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. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2024. We noted no transactions entered into by the North Dakota University System during fiscal year 2024 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:

- Useful lives of capital assets
- Pension liability – \$171.8 million
- OPEB liability – \$8.4 million
- Scholarship allowance - \$87.9 million
- Allowance for uncollectible receivables:
  - Accounts: \$9.0 million
  - Loans and notes: \$960,000

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 November 26, 2024.

## ***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 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

Robyn Hoffmann, CPA  
Audit Manager

## Posted Audit Adjustments

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
<b>1</b>	<b>SNP</b>			
<b>NDUSO</b>	Unrestricted net position	\$ 613,260		To properly classify net position per GASB 34
	Net investment in capital assets		\$ 613,260	
<b>2</b>	<b>SNP</b>			
<b>MASU</b>	Unrestricted net position	920,079		To properly classify net position per GASB 34
	Expendable capital projects		920,079	
<b>3</b>	<b>SNP</b>			
<b>MASU</b>	Unrestricted net position	701,660		To properly classify net position per GASB 34
	Net investment in capital assets		649,766	
	Expendable institutional		40,960	
	Expendable research		10,934	
<b>4</b>	<b>SNP</b>			
<b>UND</b>	Expendable debt services	656,598		To properly classify net position per GASB 34
	Net investment in capital assets		634,530	
	Unrestricted net position		22,068	
<b>5</b>	<b>SRECNP</b>			
<b>BSC</b>	Capital grants and gifts	24,477,721		To properly classify State and Local Fiscal Recovery Funds revenue
	Federal grants and contract stimulus		24,477,721	
<b>6</b>	<b>SRECNP</b>			
<b>UND</b>	Sales and services of educational departments	486,290		To properly record admission application fees
	Student tuition and fees		486,290	
<b>7</b>	<b>SNP</b>			
<b>UND</b>	Expendable debt service	543,075		To properly classify net position per GASB 34
	Unrestricted net position		543,075	
<b>8</b>	<b>SNP</b>			
<b>UND</b>	Grants and contracts receivable, net	2,218,941		To properly record a grant and contracts receivable and classify net position per GASB 34 for research projects
	Unrestricted net position	5,368,165		
	Expendable research		7,587,106	
	<b>SRECNP</b>			
	Net increase/decrease	2,218,941		
	Federal grants and contracts		2,218,941	
<b>9</b>	<b>SNP</b>			
<b>UND</b>	Investments	707,014		To properly record investment value and remove accounts receivable for interest
	Accounts receivable, net		707,014	
<b>10</b>	<b>SNP</b>			
<b>UND</b>	Cash and cash equivalents	475,682		To record cash from April that was not recorded until July in order to be in the proper fiscal year
	Unrestricted net position		475,682	
	<b>SRECNP</b>			
	Net increase/decrease	475,682		
	Operating expenses		475,682	

SNP – Statement of Net Position

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

(continued)



## Posted Audit Adjustments - Continued

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
<b>11</b>	<b>SNP</b>			
<b>DSU</b>	Cash and cash equivalents	\$ 971,900		To properly record June general fund appropriations
	Due from state general fund		\$ 971,900	
<b>12</b>	<b>SRECNP - Elimination entries</b>			
<b>NDUS</b>	State appropriations - capital assets	2,039,381		To properly report beginning net position
	Net position - beginning of year		2,039,381	for the elimination column
<b>13</b>	<b>SCF</b>			
<b>MISU</b>	Federal stimulus revenues - capital	13,249,393		To properly report federal stimulus
	Federal stimulus revenues		13,249,393	revenues for construction as Capital and Related Financing Activities
<b>14</b>	<b>SCF</b>			
<b>BSC</b>	Federal stimulus revenues - capital	25,259,029		To properly report federal stimulus
	Federal stimulus revenues		25,259,029	revenues for construction as Capital and Related Financing Activities
<b>15</b>	<b>SCF</b>			
<b>UND</b>	Federal stimulus revenues - capital	33,314,778		To properly report federal stimulus
	Federal stimulus revenues		33,314,778	revenues for construction as Capital and Related Financing Activities

SNP – Statement of Net Position

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

SCF – Statement of Cash Flows

## Passed Audit Adjustments

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
1 DSU	<b>SNP</b>			
	Accounts receivable net	\$ 1,334,299		To project a likely error, based on a sample for unsupported and incorrect journal entries.
	Cash and cash equivalents		\$ 1,334,299	
	<b>SRECNP</b>			
	Endowment and investment income	1,334,299		
	Student tuition and fees		1,334,299	

SNP – Statement of Net Position

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



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NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

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