



# 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



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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.



Office of the  
State Auditor

NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

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