

NORTH DAKOTA UNIVERSITY SYSTEM

Governance Communication Including the Report on Internal Control, Compliance, and Other Matters

For the Year Ended
June 30, 2018

**Joshua C. Gallion
State Auditor**

Office of the State Auditor
Division of State Audit

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Primary NDUS Contacts

Tammy Dolan, Chief Financial Officer
Robin Putnam, Director of Financial Reporting

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

November 29, 2018

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, 2018. 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 our audit finding, governance communication, posted and passed audit adjustments, and management letter. 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
State Auditor

Executive Summary

Responses to LAFRC Audit Questions

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state institutions:

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

Unmodified on the Business-Type Activities and Qualified on the Aggregate Discretely Presented Component Units.

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

Yes.

3. Was internal control adequate and functioning effectively?

No. We noted one internal control matter which needs to be addressed and corrected:

- NDUS – Inadequate Internal Controls over Affiliated Organizations

For additional commentary see *Prior Recommendation Not Implemented and University System Response* as listed in the table of contents.

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 the prior audit?

No. One pre-fiscal year 2014 prior recommendation was not implemented as follows:

- NDUS management had not obtained or updated operating agreements and had not obtained a timely audit for all affiliated organizations in compliance with SBHE Policy 340.2. [2013, 2014, 2015, 2016 and 2017 audits]

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

Yes. We made the following three informal recommendations to which management responded and agreed to implement. For additional commentary and management responses, see the management letter as listed in the table of contents.

1. BSC, DSU, MISU, NDSCS, NDSU and UND – Improper Termination Benefits Note Template
2. WSC – Inadequate Reconciliation of Accounts Receivable
3. BSC and CTS – Insufficient Monitoring of Service Organizations

LAFRC Audit Communications

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

The most significant change in accounting policies is related to the adoption of the provisions of Governmental Accounting Standards Board (GASB) 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. There were no management conflicts of interest or significant unusual transactions noted. The NDUS's commitments and contingent liabilities are reported in the notes to the financial statements, as listed in the table of contents of the fiscal year 2018 NDUS Annual Financial Report.

2. *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.*

Accounting estimates are an integral part of the financial statements prepared by management and are based on 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 financial statements:

- Fair value of investments
- Useful lives of capital assets
- Pension liability: \$157.1 million
- OPEB liability: \$7.4 million
- Scholarship allowance: \$63.5 million
- Allowance for uncollectible receivables:
 - Accounts: \$6.9 million
 - Loans and notes: \$5 million

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.

3. *Identify any significant audit adjustments.*

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.

4. *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.*

We are pleased to report that no significant disagreements arose during the course of our audit.

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

None.

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

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

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

None.

8. *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 Systems (HCM), and Campus Solutions are the most high-risk information technology systems critical to the North Dakota University System. None of the exceptions noted were directly related to the operation of an information technology system.



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FARGO, NORTH DAKOTA 58103

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 the 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 the 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, 2018, and the related notes to the financial statements, which collectively comprise the North Dakota University System's financial statements, and have issued our report thereon dated November 29, 2018. Our report was qualified because management did not include the financial data for one of the reporting entity's discretely presented component units. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the North Dakota University System's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota University System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota University'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of *Prior Recommendation Not Implemented and University System Response*, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota University System's financial statements are free from 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 determination of financial statement amounts. 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*.

North Dakota University System's Response to Findings

The North Dakota University System's response to the findings identified in our audit are described in the accompanying schedule of *Prior Finding Not Implemented and University System Response*. The North Dakota University System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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

Fargo, North Dakota
November 29, 2018

Prior Recommendation Not Implemented and University System Response

Prior recommendation not implemented and client response, item #5 of the Special Comments Requested by the Legislative Audit and Fiscal Review Committee.

NDUS – INADEQUATE INTERNAL CONTROLS OVER AFFILIATED ORGANIZATIONS

Condition:

During the 2013 and subsequent audits, we recommended the NDUS, as part of its governance responsibility, direct the impacted foundations to improve operations and reporting to obtain GAAP compliant financial statements as required by SBHE Policy 340.2 and review all institution affiliated organizations operating agreements annually.

Current Status:

We noted:

- The DSU Foundation is in the final stages of being dissolved. Once the IRS has reviewed all applicable tax returns, a final receiver's report can be filed obtaining court approval of the final distribution process. The financial data was not included in the NDUS financial statements for fiscal year 2018, therefore a qualified opinion was issued for the Aggregate Discretely Presented Component Units;
- 2 out of the 29 affiliated organizations, did not have a signed operating agreement between the affiliated organization and the institution;
- 8 out of the 27 affiliated organizations where an operating agreement existed, were either not updated or did not contain the required information; and
- 4 out of the 20 affiliated organizations where an audit was required, could not obtain an audit on time or not at all.

Effect:

There is noncompliance with SBHE policy 340.2 regarding written operating agreements and obtaining an annual financial statement audit.

Cause:

There are inadequate internal controls by the NDUS to ensure the affiliated organizations comply with the applicable SBHE policy.

Criteria:

SBHE policy 340.2, section 3, in part states, a nonprofit affiliate is a private legal entity separate from the institution and must be governed accordingly to protect the nonprofit affiliate's private, independent status. However, because the SBHE is responsible for ensuring the integrity and reputation of the NDUS, it must be assured of the manner in which any nonprofit affiliate will operate. Therefore, each institution and each nonprofit affiliate shall negotiate and maintain a written operating agreement.

SBHE policy 340.2, section 3e, in part states, a requirement to provide the institution an annual GAAP audit of the nonprofit affiliate, or a draft of an audited financial statement submitted for but pending nonprofit affiliate board approval by September 15 each year.

SBHE policy 340.2, section 4, states, agreements shall be reviewed annually by the institution and the nonprofit affiliate and updated as necessary.

Recommendation:

We recommend the NDUS ensure operating agreements exist for all affiliated organizations, the operating agreements are reviewed annually and updated in a timely manner, and the operating agreement requirements are adhered by obtaining an annual financial statement audit by September 15 of each year.

University System Response/Planned Corrective Actions:

Agree. SBHE Policy 340.2 was revised effective July 1, 2017. The System Office will continue to work with the institutions and legal counsel to ensure compliance with policy 340.2. The institutions, in turn, will work directly with their affiliated organizations, which are not governed by the SBHE, on compliance with policy 340.2. We strive to ensure the operating agreements are compliant and continue to identify ways to address the issues presented in the audit findings.



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Governance Communication

November 29, 2018

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, 2018 and have issued our report thereon dated November 29, 2018. 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 12, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 to the financial statements, the North Dakota University System changed accounting policies related to other postemployment benefits by adopting Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in fiscal year 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Revenues, Expenses and Changes in Net Position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on 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 financial statements:

- Fair value of investments
- Useful lives of capital assets
- Pension liability: \$157.1 million
- OPEB liability: \$7.4 million

- Scholarship allowance: \$63.5 million
- Allowance for uncollectible receivables:
 - Accounts: \$6.9 million
 - Loans and notes: \$5 million

We evaluated the key factors and assumptions used to develop these estimates in determining 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.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 29, 2018.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We issued a qualified opinion on the aggregate discretely presented component units for fiscal year 2018 because the financial data for Dickinson State University Foundation was not included with the aggregate discretely presented component units in the North Dakota University System's financial statements.

Other Matters

With respect to the supplementary information accompanying the financial statements, 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, except the Financial Information for Revenue Producing Buildings, to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of North Dakota State Board of Higher Education, the Legislative and Fiscal Review Committee, 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,



Robyn Hoffmann, CPA
Audit Manager, Division of State Audit

November 29, 2018

Audit Adjustments

Posted Audit Adjustments

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
1. SNP				
DSU	Restricted cash and cash equivalents	3,836,963		To restrict cash in escrow for energy improvement savings project.
	Cash and cash equivalents		3,836,963	
2. SNP				
NDUSO	Due from other state agencies	652,000		To record revenue due from the Student Loan Trust fund for the Professional Student Exchange Program, the Tribal Community Colleges and Dual-credit course pilot program.
	Unrestricted net position		652,000	
	SRECNP			
	Net increase/decrease	652,000		
	Other nonoperating revenue		652,000	
3. SNP				
UND	Due from other state agencies	7,528,000		To record revenue due from the Student Loan Trust fund for the UND Medical School residency program.
	Unrestricted net position		7,528,000	
	SRECNP			
	Net increase/decrease	7,528,000		
	State appropriations		7,528,000	
4. SNP				
CTS	Due from other state agencies	269,000		To record revenue due from the Student Loan Trust fund for ConnectND campus solutions.
	Unrestricted net position		269,000	
	SRECNP			
	Net increase/decrease	269,000		
	Other nonoperating revenue		269,000	
5. SCF				
UND	Direct lending receipts	34,196,311		To correct the amount of direct lending receipts and disbursements.
	Direct lending disbursements		34,196,311	

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. SNP				
DSU	Cash and cash equivalents Due from State general fund	375,000	375,000	To reverse receivable for cash received in fiscal year 2018.
2. SNP				
BSC	Notes receivable - noncurrent Notes receivable - current	533,325	533,325	To reclass notes receivable - current to notes receivable - noncurrent for the Innovation Foundation.
3. SNP				
CTS	Unrestricted net position Invested in capital assets	1,355,876	1,355,876	To restrict net position per GASB 34.
4. SNP				
MASU	Expendable debt service Unrestricted net position	670,087	670,087	To restrict net position per GASB 34.
5. SNP				
WSC	Accounts receivable Unrestricted net position	435,021	435,021	To correct accounts receivable to agree to the subsidiary ledger.
	SRECNP			
	Net increase/decrease Prior period adjustment	435,021	435,021	
6. SNP				
BSC	Unrestricted net position	741,892		To project error for expenses recorded in the wrong fiscal year.
NDSU	Accounts payable		741,892	
	SRECNP			
	Operating expenses Net increase/decrease	741,892	741,892	
7. SRECNP				
NDUS	Other nonoperating revenue State grants and contracts	946,849	946,849	To correct the Student Loan Service Center elimination entry.
8. SNP				
NDSU	Unrestricted net position	1,638,675		To project error for expenses recorded in the wrong fiscal year.
UND	Accounts payable		1,638,675	
	SRECNP			
	Operating expenses Net increase/decrease	1,638,675	1,638,675	

SNP – Statement of Net Position

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

(continued)

Passed Audit Adjustments - Continued

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
9.	SNP			
DSU	Notes receivable - noncurrent	753,547		To correct current and noncurrent notes receivable.
	Notes receivable - current		753,547	
10.	SNP			
UND	Due from component unit - current	1,693,279		To correct revenues and expenses for training devices with UND Aerospace Foundation.
	Due to component unit - current		1,693,279	
	SRECNP			
	Operating expenses	1,693,279		
	Other operating revenues		1,693,279	
11.	SRECNP			
DCB	Building improvement capitalized	796,319		To project error for operating expenses that should have been capitalized.
	Operating expenses		796,319	
12.	SRECNP			
UND	Student tuition and fees	435,277		To correct scholarship allowance based on calculation.
	Scholarships and fellow ships		435,277	

SNP – Statement of Net Position

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

Management Letter

November 29, 2018

Ms. Robin Putnam
Director of Financial Reporting
North Dakota University System
600 East Boulevard Avenue, 10th Floor
Bismarck, ND 58505-0230

Dear Ms. Putnam:

The Office of the State Auditor has completed its financial audit of the North Dakota University System for the year ended June 30, 2018. As part of our examination, we gained an understanding of the internal control over financial reporting and tested compliance with laws and regulations to the extent we considered necessary. We have issued our report on internal control over financial reporting and compliance and other matters dated November 29, 2018.

Our audit procedures are designed primarily to enable us to report on the internal control over financial reporting and compliance with laws and regulations as they relate to the financial statements, and may not bring to light all deficiencies in internal control or noncompliance with laws and regulations that may exist. We aim, however, to use our knowledge gained during our work to make comments and suggestions, which we hope will be useful to you.

In connection with the audit, we noted certain conditions that we did not consider reportable within the context of your audit report. These matters, which do not have a material effect on the financial statements, involve control deficiencies and/or instances of noncompliance with laws and regulations. The recommendations presented below are intended to improve or correct control deficiencies and noncompliance with laws and regulations. During future audit engagements, we will review the status of these recommendations to ensure that procedures have been initiated to address these recommendations. If no action has been taken, we will consider the appropriate course of action. Action could consist of inclusion in future audit reports.

I would encourage you to contact our Fargo office if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Robyn Hoffmann, CPA
Audit Manager, Division of State Audit

1. BSC, DSU, MISU, NDSCS, NDSU and UND - Improper Termination Benefits Note Template

Condition:

There were several inconsistencies at BSC, DSU, MISU, NDSCS, NDSU and UND on how the termination benefits were being reported on the note disclosure template.

Effect:

There is noncompliance with GASB 47 and therefore, the institutions may not be appropriately recording and disclosing termination benefits.

Cause:

There is a lack of understanding of GASB 47 disclosure requirements.

Criteria:

GASB 47 paragraph 8 states that an employer should account for termination benefits in accordance with the measurement and recognition requirements of paragraphs 9 through 16 of this Statement, as applicable, and should include as part of the cost of termination benefits any fringe benefits related to the termination benefits and any directly resulting changes in the estimated costs of other employee benefits such as compensated absences, if reliably measurable.

GASB 47 paragraph 9 states that an employer should measure the cost of healthcare related termination benefits, including healthcare continuation under COBRA, by calculating the discounted present value of expected future benefit payments.

GASB 47 paragraph 10 states that an employer should measure the cost of termination benefits that are not healthcare related if the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare related termination benefits should be calculated as the discounted present value of expected future benefit payments, including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits.

Recommendation:

We recommend BSC, DSU, MISU, NDSCS, NDSU and UND report their termination benefits in compliance with GASB 47.

University System Response/Planned Corrective Actions:

Agree. Going forward, greater care will be taken in the preparation of the template. The campuses and NDUSO will work together to ensure the template is correctly prepared.

2. WSC - Inadequate Reconciliation of Accounts Receivable

Condition:

WSC is not adequately reconciling the subsidiary accounts receivable ledger (Student Finance) to the general ledger. The result is a variance between the accounts receivable subsidiary ledger and the general ledger of \$435,021. Without adequate reconciling items or adjustments, the financial statements appear to be understated.

Effect:

There is an understatement of accounts receivable in the financial statements.

Cause:

WSC did not reconcile the accounts receivable subsidiary ledger to the general ledger to a zero balance.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication *Internal Control - Integrated Framework* states that reconciliations compare two or more data elements and, if differences are identified, action is taken to bring the data into agreement. Reconciliations generally address the completeness and/or accuracy of processing transactions.

Recommendation:

We recommend that WSC reconcile the accounts receivable subsidiary ledger to the general ledger to a zero difference, and isolate and investigate all differences fully so that the appropriate general ledger or accounts receivable adjustments can be made in a timely manner.

University System Response/Planned Corrective Actions:

Agree. Williston State College will complete the reconciliation between the AR Ledger in Student Finance to the General Ledger by June 30, 2019. WSC CFO and Controller have identified the differences between the AR Ledger in Student Finance and the General Ledger and are working on the resolution and will have it completed by June 30, 2019.

3. BSC and CTS - Insufficient Monitoring of Service Organizations

Condition:

There was insufficient monitoring of the Service Organization Control (SOC) report for TouchNet and BankMobile at CTS and BSC, respectively. The SOC report was not fully 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.

Effect:

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

Cause:

Institutions were unaware of the importance of why all the complementary user entity controls need to be monitored to ensure their effectiveness.

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.

Recommendation:

We recommend that the SOC reports for TouchNet and BankMobile are utilized by the proper personnel to monitor and document how all the applicable complementary user entity controls are in place and operating effectively.

University System Response/Planned Corrective Actions:

BSC: Agree. BSC has been monitoring the controls. However, starting in FY19, we will use a more comprehensive template that utilizes the SOC report more closely to conduct and document our review.

CTS: Partially disagree. CTS currently utilizes the SOC reports and applicable user entity controls. Documentation outlining user entity controls of the SOC is in place and on file at CTS. CTS will do a better job of ensuring that the controls are followed at the campus level and will continue to serve as a resource for all NDUS campuses in their implementation and utilization of Touchnet and user entity controls.

You may obtain reports by contacting the
Division of State Audit
at the following address:

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060
(701) 328-2241

Reports are also available on the internet at:
www.nd.gov/auditor/