



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, 2020

Client Code: 220



Office of the
State Auditor

KEY PERSONNEL

State Auditor's Office Staff

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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 25, 2020

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, 2020. 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 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
State Auditor

cc: Legislative Audit and Fiscal Review Committee
Chris Kadrmas, Legislative Council Fiscal Analyst

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 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?

Yes.

4. Were there any indications of a 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?

Yes.

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

No.

LAFRC Audit Communications

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

There were no significant changes in accounting policies. 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 2020 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: \$109.4 million
- OPEB liability: \$7.0 million
- Scholarship allowance: \$67.4 million
- Allowance for uncollectible receivables:
 - Accounts: \$7.2 million
 - Notes: \$4.0 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.

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 financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

We are pleased to report that there were no significant disagreements 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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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, 2020, 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 25, 2020. 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*, and accordingly, this report does not include reporting on the internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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 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

Bismarck, North Dakota

November 25, 2020



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Governance Communication

November 25, 2020

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, 2020 and have issued our report thereon dated November 25, 2020. 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 29, 2020. 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. No new accounting policies were adopted, and the application of existing policies was not changed during the year. 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:

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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 25, 2020.

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.

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

November 25, 2020

Audit Adjustments

Posted Audit Adjustments

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
1. SNP				
WSC	Restricted cash and cash equivalents	3,408,163		To properly restrict cash for the energy improvement project
	Cash and cash equivalents		3,408,163	
2. SNP				
WSC	Net investment in capital assets	5,318,949		To properly record net position for energy improvement project
	Unrestricted net position		4,195,127	
	Expendable capital projects		1,123,822	
3. SNP				
VCSU	Restricted investments	3,156,544		To record investments with fiscal agent for 2020 series refunding bonds
	Expendable debt service		3,156,544	
	SRECNP			
	Net increase/decrease	3,156,544		
	Other nonoperating revenues		3,156,544	
4. SNP				
VCSU	Net investment in capital assets	3,075,000		To record bonds payable for the 2010 bonds that will be refunded on 7/1/2020 with the investments with fiscal agent from the 2020 series refunding bonds
	Due to others - current		3,075,000	
	SRECNP			
	Other nonoperating revenues	3,075,000		
	Net increase/decrease		3,075,000	

SNP – Statement of Net Position

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

Passed Audit Adjustments

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
1. SNP				
NDSU	Unrestricted net position	426,998		To properly record unearned revenue for summer school
	Unearned revenue		426,998	
SRECNP				
	Student tuition and fees	508,588		
	Salaries and wages		72,632	
	Scholarships and fellowships		8,957	
	Net increase/decrease		426,988	
2. SRECNP				
WSC	Sales and services of educational departments	660,929		To project a likely error for refunds of board plans from sales and services of educational departments to auxiliary enterprises
	Auxiliary enterprises		660,929	
3. SRECNP				
BSC, DCB,	Student tuition and fees	141,872		To properly record the bad debt expense reclassification
DSU	Sales and services of educational departments	289,581		
MASU	Auxiliary enterprises	18,227		
NDSCS	Federal grants and contracts nonoperating	30,697		
NDSU	Gifts	20,818		
UND	Other nonoperating revenues	264,182		
VCSU	Federal grants and contracts operating	1,884		
	Operating expenses		767,261	
4. SRECNP				
DSU, MASU	Federal grants and contracts operating	512,656		To reclassify federal operating grants and contracts to federal nonoperating grants and contracts for TEACH, SEOG and Pell grants
UND, WSC	Federal grants and contracts nonoperating		512,656	

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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