



# 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, 2023

Client Code 220



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November 29, 2023

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, 2023. 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 finding, governance communication, and posted and passed audit adjustments. These communications are required by generally accepted auditing standards.

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

Respectfully submitted,

/S/

Joshua C. Gallion  
North Dakota State Auditor

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



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

Independent Auditor's Report

Members of the Legislative Assembly

State Board of Higher Education

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of business-type activities, fiduciary activities, and the aggregate discretely presented component units of the North Dakota University System, as of and for the year ended June 30, 2023, 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 29, 2023. 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. We identified a certain deficiency in internal control, described in the accompanying *Findings, Recommendations and Management's Responses as Finding 2023-01* that we considered to be a material weakness.

### **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 29, 2023

## Findings, Recommendations, and Management's Responses

### Finding 2023-01 – DSU – Lack of Internal Controls

#### Condition

During the audit, we noted various areas of lack of internal controls at Dickinson State University (DSU):

- Journal entries were not being approved.
  - We tested 32 journal entries and noted that 21 of those entries were not approved and were all made by one user.
  - The same user made a total of 253 journal entries in fiscal year 2023 totaling \$122.7 million and none of these were approved.
- The June 30, 2023 bank reconciliation was not being properly prepared.
  - During our testing, we noted in the reconciliation the bank balance for the clearing account did not agree to the confirmation we received from the bank, which led to a difference of \$1,117,007. We learned this amount was a deposit in transit, that was not properly shown as a reconciling item. This was receipted on June 29, 2023 but was not deposited into the bank until July 12, 2023. This amount should have been shown as a reconciling item in the reconciliation and deposited into the bank the next day.
  - There were \$2,558 of unreconciled amounts on the bank reconciliation and \$24,919 of reconciling items, some over a year old, that were not recorded on the general ledger in a timely manner.
- We noted transactions were posted back to fiscal year 2022 when that period already closed.

#### 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 approvals and reconciliations.

The North Dakota University System (NDUS) Accounting Manual states in part, all journal entries should be properly documented and recorded on the general ledger. For non-system generated journal entries, proper and sufficient supporting documentation and approval should be retained with the journal entry.

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 that all Business Office receipts must be deposited intact to the local clearing account daily.

COSO publication Internal Control – Integrated Framework states in part, external financial reporting qualitative characteristics frequently uses reliability. Reliability is necessary for the information to faithfully represent transactions. It also reflects the required level of precision and accuracy suitable for internal needs and transactions. The NDUS Accounting Manual states that no entries to the ledgers should be made after the year end close deadline unless prior approval is received from the North Dakota University System.

### **Effect**

Journal entries were not properly approved which could lead to incorrect entries made on the general ledger.

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. Without making daily deposits, it leads to an increased risk of mishandling of cash deposits.

Posting transactions back to fiscal year 2022 altered the audited fiscal year 2022 financial statements after they were publicly posted. By posting to prior fiscal year periods, financial statements become unreliable, and this could be a possible way to conceal transactions.

### **Cause**

The user was not properly set up in PeopleSoft to require their entries to flow through the workflow approval process and no manual approval process was used.

Dickinson State University did not reconcile the monthly bank statements to the general ledger cash balance. DSU did not assign a back-up employee to take the deposit to the bank and instead waited for eight business days until that employee returned to deposit the money.

DSU noticed that they had not been making all the necessary quarterly payments to the Office of Management and Budget and needed to make payments for 2022 and 2023. When making these payments, they opened fiscal year 2022 on PeopleSoft and posted transactions back to this fiscal year even though the payments were made in fiscal year 2024.

### **Recommendation**

We recommend that Dickinson State University properly implement and strengthen controls surrounding journal entry approval, bank reconciliation preparation, timely deposits, and post transactions in the proper period.

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

DSU agrees with the recommendations noted in the audit report. The items noted have already been addressed and acted upon, as noted below.

1. Journal Entry Approval – The University will ensure proper approvals for future journal entries.

2. Bank Reconciliations – This finding was due to being short staffed, the University is now working to complete monthly bank reconciliations.
3. Entries Posted in 2022 – The University believes this to be a singular event, however, is implementing an additional approval requirement for any proposed entries to a prior closed fiscal year.



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**Governance Communication**

November 29, 2023

State Board of Higher Education

Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the business-type activities, fiduciary activities, and the aggregate discretely presented component units of the North Dakota University System for the year ended June 30, 2023 and have issued our report thereon dated November 29, 2023. 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 11, 2023. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota University System are described in Note 1 to the financial statements. As described in Note 1, the North Dakota University System changed accounting policies related to subscription-based information technology arrangements by adopting Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, in fiscal year 2023. We noted no transactions entered into by the North Dakota University System during fiscal year 2023 for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Fair value of investments
- Useful lives of capital assets
- Pension liability – \$253.5 million
- OPEB liability - \$10.0 million
- Scholarship allowance - \$79.2 million
- Allowance for uncollectible receivables:
  - Accounts: \$8.9 million
  - Loans and notes: \$928,000

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

### ***Difficulties Encountered in Performing the Audit***

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

### ***Corrected and Uncorrected Misstatements***

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

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

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

### ***Disagreements with Management***

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

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 29, 2023.

### ***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>DSU</b>	Other long-term investments	1,500,000		To properly record investments between current and long term
	Investments - current		1,500,000	
<b>2</b>	<b>SFNP</b>			
<b>DSU</b>	Cash and cash equivalents, net	88,130		To properly move BTA funds out of fiduciary funds to BTA statements
	Grants and contracts receivable, net		88,130	
<b>3</b>	<b>SRECNP</b>			
<b>DCB</b>	Student tuition and fees	662,847		To record scholarship allowance
	Auxiliary enterprises	52,325		
	Scholarship and fellowships		715,172	
<b>4</b>	<b>SNP</b>			
<b>MASU</b>	Unrestricted net position	1,065,564		To properly classify net position per GASB 34
	Expendable capital projects		583,743	
	Net investment in capital assets		481,821	
<b>5</b>	<b>SNP</b>			
<b>WSC</b>	Unrestricted net position	143,428		To properly classify net position per GASB 34
	Expendable institutional	1,668,652		
	Net investment in capital assets		1,812,080	
<b>6</b>	<b>SNP</b>			
<b>UND</b>	Expendable capital projects	11,732,469		To properly classify net position per GASB 34
	Expendable debt services	345,529		
	Net investment in capital assets		12,077,998	
<b>7</b>	<b>SNP</b>			
<b>VCSU</b>	Net investment in capital assets	3,760,227		To properly record building accumulated depreciation
	Capital assets, net		3,760,227	
<b>8</b>	<b>SNP</b>			
<b>UND</b>	Investments - current	45,000,000		To properly record investments between current and long term
	Other long-term investments		45,000,000	
<b>9</b>	<b>SNP - Elimination entries</b>			
<b>NDUSO</b>	Unearned revenue	2,039,381		To eliminate Tier II and Tier II funding between campuses and system office
	Unrestricted net position		2,039,381	
	<b>SRECNP - Elimination entries</b>			
	State appropriations - capital assets	1,739,732		To properly report direct lending receipts and disbursements
	Net increase/decrease	2,039,381		
	General and special grant expenditures		3,779,113	
<b>10</b>	<b>SCF</b>			
<b>VCSU</b>	Direct lending receipts	3,737,631		To properly report direct lending receipts and disbursements
	Direct lending disbursements		3,737,631	

SNP – Statement of Net Position

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

SCF – Statement of Cash Flows

SFNP – Statement of Fiduciary Net Position

## Passed Audit Adjustments

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
<b>1</b>	<b>SNP</b>			
<b>UND</b>	Unrestricted net position	\$ 4,209,135		To project a likely error, based on a sample, for unrecorded payables.
	Accounts payable and accrued liabilities		\$ 4,209,135	
	<b>SRECNP</b>			
	Operating expenses	4,209,135		
	Net increase/decrease		4,209,135	
<b>2</b>	<b>BSC, SRECNP</b>			
<b>MASU</b>	Sales and services of educational departments	788,326		To properly eliminate interdepartmental revenues
	Operating expenses		788,326	
<b>3</b>	<b>SNP</b>			
<b>NDSU</b>	Unrestricted net position	445,289		To properly classify net position per GASB 34
	Net investment in capital assets		445,289	
<b>4</b>	<b>SFNP</b>			
<b>MASU</b>	Cash and cash equivalents	16,160		To properly move BTA funds out of fiduciary funds to BTA statements
	Accounts receivable, net	2,911		
	Deposits		19,071	
<b>5</b>	<b>SNP</b>			
<b>DSU</b>	Unrestricted net position	421,089		To properly record appropriation revenues and receivables
	Due from state general fund		421,089	
	<b>SRECNP</b>			
	State appropriations	421,089		
	State appropriations - capital assets	214,085		
	Net increase/decrease		635,174	
<b>6</b>	<b>SNP</b>			
<b>DSU</b>	Grants and contracts receivable, net	24,057,710		To post a likely projected error, based on a sample, for improperly recorded journal entries
	Cash and cash equivalents		24,057,710	
<b>7</b>	<b>SCFNP</b>			
<b>WSC</b>	Net increase/decrease	1,075		To properly move BTA funds out of fiduciary funds to BTA statements
	Salaries and wages		1,075	
<b>8</b>	<b>SFNP</b>			
<b>DSU</b>	Deposits	112		To properly move BTA funds out of fiduciary funds to BTA statements
	Accrued payroll	716		
	Cash and cash equivalents		112	
	Restricted for fiduciary funds net position		716	

SNP – Statement of Net Position

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

SFNP – Statement of Fiduciary Net Position

SCFNP – Statement of Changes in Fiduciary Net Position



NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

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