

NORTH DAKOTA UNIVERSITY SYSTEM

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

For the Year Ended
June 30, 2017

JOSHUA C. GALLION
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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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 30, 2017

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, 2017. 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 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 operating agreements for all affiliated organizations in compliance with SBHE Policy 340.2. [2013, 2014, 2015 and 2016 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 four 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. WSC – Incomplete Bank Reconciliation
2. NDUS – Improper Termination Benefits Note Template
3. BSC, DCB, DSU, MASU, NDSCS & CTS – Improper Classification of Auxiliary Revenues
4. NDUS – 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.*

There were no significant changes in accounting policies, 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 2017 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
- Scholarship allowance: \$60.4 million
- Allowance for uncollectible receivables:
 - Accounts: \$6.8 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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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, 2017, 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 30, 2017. 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 material weakness.

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 Systems 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

Bismarck, North Dakota

November 30, 2017

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 process of being dissolved and a settlement agreement was signed on June 20, 2017. The financial data was not included in NDUS financial statements for fiscal year 2017, therefore a qualified opinion was issued for the Aggregate Discretely Presented Component Units;
- Four out of the 29 affiliated organizations did not have a signed operating agreement between the affiliated organization and the institution; and
- Seven out of the 25 affiliated organizations, where an operating agreement existed, were either not updated or did not contain the required information.

Effect:

There is noncompliance with SBHE policy 340.2 regarding written operating agreements.

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 4, states, agreements shall be reviewed annually by the institution and the nonprofit affiliate, and updated as necessary. In addition, new or updated agreements shall be reviewed by institution or NDUS counsel and a copy of the most recent agreement shall be filed with the Chancellor or the Chancellor's designee.

Recommendation:

We recommend the NDUS ensure operating agreements exist for all affiliated organizations, operating agreements are reviewed annually, updated in a timely manner, and the agreements are filed with the proper personnel.

University System Response/Planned Corrective Actions:

Agree. SBHE Policy 340.2 was revised effective July 1, 2017. The approved changes enhance oversight of foundations and related operating agreements. The new policy was shared with all foundations and affiliated organizations. The NDUS System Office is coordinating a process to ensure compliance with the operating agreement requirement for FY18.



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Governance Communication

November 30, 2017

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, 2017, and have issued our report thereon dated November 30, 2017. 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 7, 2017. 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 fiscal year 2017. 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
- Scholarship allowance: \$60.4 million
- Allowance for uncollectible receivables:
 - Accounts: \$6.8 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 30, 2017.

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 2017 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 30, 2017

Audit Adjustments

Posted Audit Adjustments

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
1. SNP				
DSU	Accounts payable and accrued liabilities Due from state general fund	3,100,000	3,100,000	To reverse receivable not authorized until FY18 per 17 SB 2003, section 18.
	Unrestricted net position Due to component unit	3,100,000	3,100,000	To record payable to component unit pursuant to FY17 court ordered settlement.
	SRECNP			
	Other nonoperating expense Net increase/decrease	3,100,000	3,100,000	
2. SNP				
NDSU	Due to others - current	1,310,000		To reclassify Research Technology Park refunded bonds on NDSU's general ledger.
	Due to others - noncurrent	16,045,000		
	Due to component unit - current		1,310,000	
	Due to component unit - noncurrent		16,045,000	
3. SNP				
VCSU	Unrestricted net position	1,369,010		To record payables for the heat plant in the proper year and capitalize to construction in progress.
	Accounts payable and accrued liabilities		829,901	
	Contracts payable - retainage		539,109	
	Construction in progress Invested in capital assets	1,369,010	1,369,010	
4. SRECNP				
NDUS	Prior period adjustment for net position	2,562,246		To reverse prior period adjustment for Student Loan Service Center change in estimate of allowance for doubtful notes.
	Gifts	4,909		
	Operating expense		47,824	
	Federal grants and contracts		4,032	
	Other nonoperating revenue		2,515,299	
5. SRECNP				
MISU	Loss on disposal of capital assets	1,643,337		To reverse prior period adjustment and record loss on asset impairment for Beaver Lodges.
	Depreciation expense		165,891	
	Prior period adjustment for net position		1,477,446	

SNP – Statement of Net Position

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

(continued)

Posted Audit Adjustments – continued

	DESCRIPTION	DR	CR	EXPLANATION/DISPOSITION
6.	SFP (Major)			
NDSU RTP	Receivable from institution	1,067,911		To reclassify Research Technology Park refunded bonds.
	Due from primary institution - capital lease	14,830,206		
	Net investment in direct financing leases - current		1,067,911	
	Net investment in direct financing leases - noncurrent		14,830,206	
7.	SFP (Non Major)			
MISU	Deposits	3,184,035		To reclassify Deposits to Investments held on behalf of institution to agree to NDUS statements.
Dev Fndn	Investment held on behalf of institutions		3,184,035	

SFP – Statement of Financial Position (Component Unit)

Passed Audit Adjustments

DESCRIPTION		DR	CR	EXPLANATION/DISPOSITION
1. SNP				
MASU	Cash and cash equivalents	3,406,031		To project error for scholarships and fellow ships tested.
MISU	Unrestricted net position		3,406,031	
UND				
	SRECNP			
	Net increase/decrease	3,406,031		
	Scholarships and fellow ships		3,406,031	
2. SNP				
MASU	Unrestricted net position	2,360,120		To project error for FY17 expenses posted to FY18.
NDSU	Accounts payable and accrued liabilities		2,360,120	
UND				
	SRECNP			
	Cost of sales and services	2,360,120		
	Net increase/decrease		2,360,120	
3. SNP				
CTS	Unrestricted net position	501,598		To reclassify net position to comply with GASB 34.
	Invested in capital assets		501,598	
4. SNP				
MASU	Expendable debt service	578,100		To reclassify net position to comply with GASB 34.
	Unrestricted net position		578,100	
5. SRECNP				
BSC	Building improvement capitalized	3,006,221		To project error of noncapitalized expenses that should have been capitalized.
	Operating expenses		3,006,221	
6. SNP				
NDSU	Invested in capital assets	946,849		To project error of retainages payable.
	Accounts payable and accrued liabilities		946,849	
	Other capital payments	946,849		
	Net increase/decrease		946,849	

SNP – Statement of Net Position

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

Management Letter

November 30, 2017

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, 2017. 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 30, 2017.

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. WSC – Incomplete Bank Reconciliation

Condition:

WSC is preparing a monthly bank reconciliation, however, it is not being reconciled to a zero-difference monthly, is not investigating all differences fully and making the proper adjustments in a timely manner.

Effect:

If cash is not reconciled fully every month, errors or misappropriations may occur and not be detected in a timely manner.

Cause:

Adjustments are not being made in a timely manner due to a lack of time to investigate the issues and a lack of understanding of PeopleSoft.

Criteria:

Proper internal control reduces the risk of asset loss and helps ensure the reliability of the financial statements. To adequately safeguard cash and ensure the reliability of the financial statements, reconciliations of bank balances to the general ledger are imperative.

Recommendation:

We recommend that WSC reconcile cash bank and general ledger balances to a zero-difference monthly and isolate and investigate all differences fully so that the appropriate general ledger adjustments can be made in a timely manner.

University System Response/Planned Corrective Actions:

Agree. WSC is committed to performing timely reconciliations. WSC will prioritize full investigation and adjustment of all differences as they are identified either daily or monthly. WSC will continue to expand our understanding of PeopleSoft to allow for timely adjustments. Beginning with the December 2017 reconciliation, the cash accounts will be reconciled to zero.

2. NDUS – Improper Termination Benefits Note Template

Condition:

The termination benefits template has been updated to better comply with GASB 47, however, there were multiple inconsistencies among the institutions on how the termination benefits are 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 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 that all institutions report their termination benefits in compliance with GASB 47.

University System Response/Planned Corrective Actions:

Agree. Significant modifications were made to the template in FY17 to align it more closely with the GASB 47 requirements. Prior to the FY18 year-end close, a review of the template will be done and any necessary modifications will be made to the template. Additional instructions will be added to the year-end close instructions that are distributed to the institutions, CTS and the system office.

3. BSC, DCB, DSU, MASU, NDSCS and CTS – Improper Classification of Auxiliary Revenues

Condition:

BSC, DCB, DSU, MASU, NDSCS and CTS improperly coded auxiliary revenues to non-auxiliary accounts and/or improperly coded non-auxiliary revenues to auxiliary revenues.

Effect:

Improper coding of auxiliary and non-auxiliary revenues could cause the financial statements to be misstated.

Cause:

The institutions did not reallocate auxiliary and non-auxiliary revenues to ensure the proper account was used.

Criteria:

NDUS accounting manual auxiliary services section states in part: before the end of the fiscal year, there is an automated allocation process to be run to recategorize revenue transactions within auxiliary services when auxiliary revenue account codes were not utilized and to recategorize revenue transactions within non-auxiliary services when auxiliary revenue account codes were utilized.

GASB 34 section 87 states in part: governmental fund revenues should be classified in the statement of revenues, expenditures, and changes in net position by major revenue source.

Recommendation:

We recommend the institutions ensure proper classification of auxiliary revenues to auxiliary accounts and non-auxiliary revenues to non-auxiliary accounts.

University System Response/Planned Corrective Actions:

Agree. Beginning in FY18, BSC, DCB, DSU, MaSU, NDSCS and CTS will run the PeopleSoft allocation process to properly categorize revenue transactions between auxiliary and non-auxiliary accounts before finalizing the fiscal year-end close.

4. NDUS – Insufficient Monitoring of Service Organizations

Condition:

There was insufficient monitoring of the Service Organization Control (SOC) report for TouchNet, a service organization of NDUS. The SOC report was not fully utilized by the user entity, but rather obtained for the user auditors. The SOC report was not reviewed for deficiencies and the applicable complimentary user entity controls were insufficiently monitored and documented to ensure they were in place and operating effectively.

Effect:

Due to not utilizing the SOC reports and monitoring the complimentary user entity controls:

- Risk that was passed onto the service organizations has increased; and
- Deficiencies could exist jeopardizing the integrity, security, and privacy of data processed by the service organizations.

Cause:

NDUS was unaware of the importance and significance of the SOC report and why the complimentary user entity controls need to be monitored to ensure their effectiveness.

Criteria:

Complimentary user controls, as defined by Statement on Standards for Attestation Engagements, section 801.07, are controls that management of the service organization assumes, in the design of the service provided by the service organization, will be implemented by user entities, and which, if necessary to achieve the control objectives stated in management's description of the service organization's system, are identified as such in that description.

Recommendation:

We recommend that the TouchNet SOC report is utilized by the proper personnel to ensure there are no deficiencies noted that would affect the NDUS and the NDUS monitor and document the results of how the applicable complimentary user entity controls are in place and operating effectively.

University System Response/Planned Corrective Actions:

NDUS Core Technology Services agrees with the recommendation. A CTS team will be formed by March 31, 2018 to regularly review, monitor and adjust controls regarding the TouchNet SOC.

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/