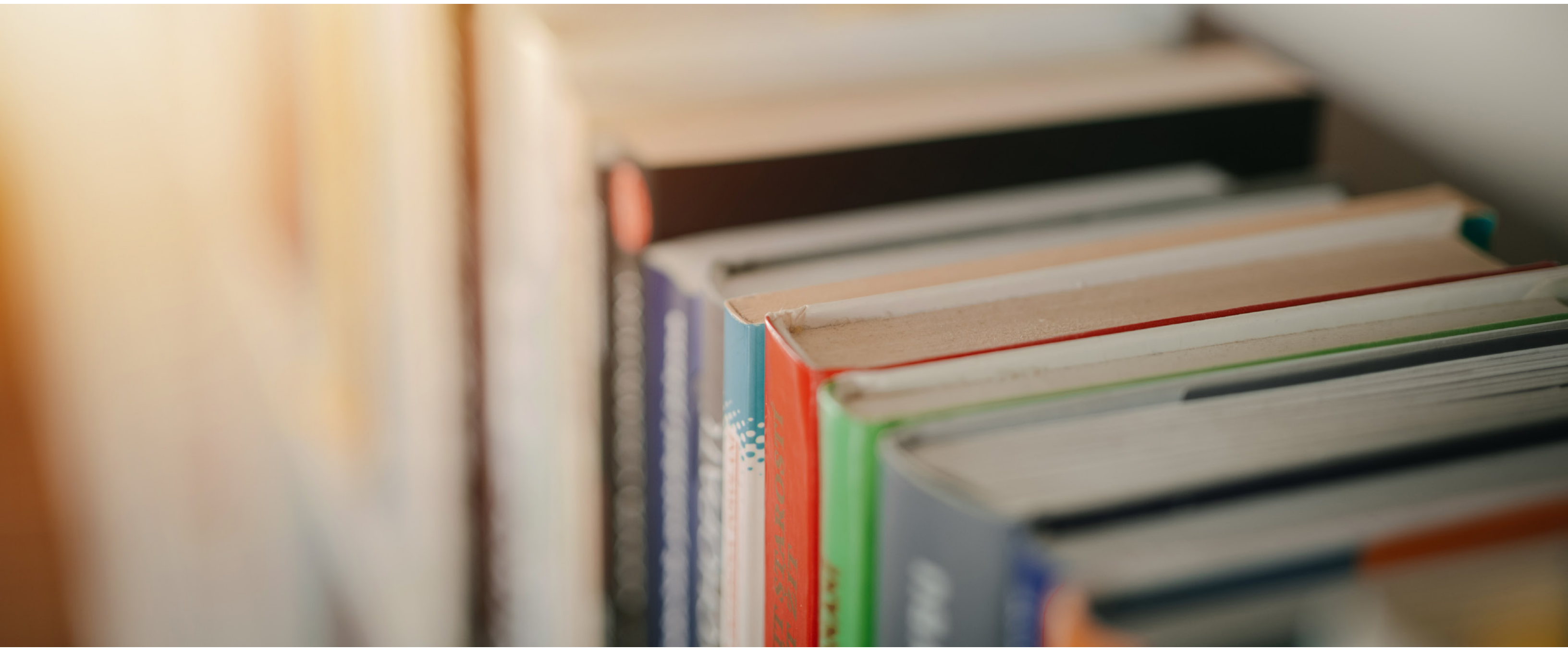
NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Valley City State University

Audit Report for the Biennium Ended June 30, 2025

Client Code 242



This audit has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10

Office of the State Auditor

REPORT HIGHLIGHTS

Valley City State University

Audit Report for the Biennium Ended June 30, 2025 | *Client Code 242*

WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenses are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND

Lack of Tuition Waiver Documentation and Approval

VSCU issued waivers without the required documentation or approvals.

Read more on page 4

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HAVE QUESTIONS? ASK US.

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Introduction

Valley City State University

June 2, 2026

We are pleased to submit this audit of the Valley City State University for the biennium that ended June 30, 2025. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase the responsiveness and effectiveness of state government.

Robyn Hoffmann, CPA was the audit manager on this engagement. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Valley City State University staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

ConnectND: The accounting system for North Dakota.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

CONCLUSION

Except for the finding identified in this report, no errors, internal control weaknesses, or potential violations of law were identified.

FINDING 2025-1

Lack of Tuition Waiver Documentation and Approval

Valley City State University (VCSU), did not consistently follow procedures regarding documentation and approval for the cultural diversity waiver and rural teacher support program waiver.

Cultural Diversity Waiver

VCSU awarded a total of $192,965 in cultural diversity waivers to 131 students during fiscal years 2024 and 2025. The purpose of the waiver is to recognize the educational benefit of having a culturally diverse student population as part of the VCSU academic community.

In order to be eligible, VCSU policy V820.01 required students to meet the following criteria:

Fiscal Year 2024 (Fall 2023 and Spring 2024 semesters):

- Complete an application.
- Maintain a 2.0 GPA.
- Be enrolled in at least 12 credits per semester.

Fiscal Year 2025 (Fall 2024 and Spring 2025 semesters):

- Submit an application.
- Maintain a 2.5 GPA.
- Submit an essay explaining how the student adds a unique perspective, identity, or experience to the campus or classroom.
- Meet each semester with the Director of Diversity and Inclusion.

Each student was eligible for up to 10 semesters until fiscal year 2025 when this was reduced to up to eight semesters.

Our team tested six waivers for each fiscal year to ensure eligibility requirements were met. We found the following errors:

Fiscal Year 2024:

- No evidence of completed waiver applications for all six students.
- Approval of each of the six waivers occurred after they were applied to student accounts. In all instances, waivers were applied to accounts at the beginning of the semester and not approved until the end of the semester.

Fiscal Year 2025:

- No evidence of completed waiver applications for all six students.
- No evidence of the essay required by policy for all six students.
- No evidence the annual meeting with the Director of Diversity and Inclusion was completed for the six students.
- No approval could be provided that the student was eligible to receive the waiver.

Proper internal controls should be in place to validate the accuracy of transactions (Committee of Sponsoring Organizations of the Treadway Commission's publication of Internal Control). In this instance, VCSU should maintain support to validate eligibility for waivers and have proper approvals in place prior to their issuance.

We inquired with VCSU, and the campus does not have documentation to support eligibility of all of these waivers. Our team is unable to determine if any of the students were eligible for the waiver.

Rural Teacher Support Program Waiver

VCSU awarded 64 students a total of $73,050 in rural teacher support program waivers during fiscal years 2024 and 2025. The purpose of the waiver is to assist current and aspiring teachers in rural communities. It provides rural teachers with graduate tuition waivers to pursue their initial license, certificate, endorsement, or Master's degree in programs with a focus on student learning, professional development and educator preparation. To be eligible, the student must meet the following criteria:

- Complete an application.
- Be enrolled in a program focusing on student learning, professional development, or educator preparation at least three credits per semester.
- Be employed at a North Dakota school district.

Our team tested five waivers to ensure eligibility requirements were met and found the following errors:

- No evidence of completed application for three of five waivers.
- No verification the student is employed with a North Dakota school district for four of five waivers.
- No approvals for three of five waivers.

The waivers with errors totaled $7,803.

Proper internal controls should be in place to validate the accuracy of transactions (Committee of Sponsoring Organizations of the Treadway Commission's publication of Internal Control). In this instance, VCSU should maintain support to validate eligibility for waivers and have proper approvals in place prior to their issuance.

Our team is **unable to determine** whether waivers were **given to eligible** students or met their **intended purpose.**

Because of the errors identified in both waivers, our team is unable to determine whether waivers were given to eligible students or met their intended purpose.

Waivers reduce the total amount of tuition owed by a student. For all waivers given, the university must find another source of revenue which could include general fund appropriations to make up for the tuition that was waived. This means taxpayers of North Dakota could be unnecessarily supplementing tuition for waivers that don't have proper procedures, guidance, and monitoring being completed at the campus level.

RECOMMENDATION

We recommend Valley City State University ensure these waivers are given to eligible students and all documentation to support eligibility is maintained.

We also recommend that approval be made for these waivers before they are disbursed to a student.

VALLEY CITY STATE UNIVERSITY RESPONSE

VCSU agrees with the recommendation of the state auditor. In accordance with the recommendation, VCSU will implement a centralized location maintaining documentation of approvals and eligibility requirements prior to the posting of waivers. Along with the set-up of the centralized location beginning Fall 2026 we would like to note that the Cultural Diversity Waiver was discontinued in Fall 2025.

Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Verified that bank reconciliations were performed in a timely manner and that an appropriate individual approved the reconciliation.
- Determined that tuition waivers were awarded and properly approved by the financial aid committee.
- Examined that expenses were properly approved.
- Examined that employment was authorized and pay was properly supported and approved.
- Ensured tuition and fees were properly approved by the State Board of Higher Education, Valley City State University, or the appropriate authorized party.

Deficiencies were identified surrounding approvals of tuition waivers (see Finding 2025-1).

SCOPE

Valley City State University's sole location is its campus located in Valley City, which was included in the audit scope

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Observed the Valley City State University's processes and procedures.
- Analyzed financial data in ConnectND to determine areas of risk.
- Inspected documentary evidence.
- Used non-statistical random sampling and the results were projected to the population. Where applicable, populations were stratified for efficiency and to ensure the population was adequately represented in the samples.
- Reviewed state contract from North Dakota Department of Public Instruction for fiscal years 2025 and 2024 to provide tuition assistance through the Teacher Shortage Pathway Grant to individuals pursuing a degree in teacher education. Grant funding was used to provide scholarships to assist individuals pursuing a teaching degree in the areas of art, business, elementary, English, health, history, mathematics, music, physical education, Spanish, social science, technology education, special education, early childhood, kindergarten and K-12 ELL endorsements. These students must also be employed as a part-time paraprofessional or a part-time substitute teacher in a North Dakota school. We judgmentally selected a sample of students who received the grant to ensure the students met the eligibility requirements.
- Determined that Tier II ($109,137 of the $309,137 authorized) and Tier III ($500,000) funds from the capital building fund were used for extraordinary repairs and deferred maintenance projects for academic and student housing facilities and were reported to the appropriations committee of the legislative assembly (2021 Senate Bill 2003, Chapter 31, Section 6).
- Determined that one-time funding had been spent on

the following projects:

- Osmon Fieldhouse (authority of $20 million, $427,193 spent).
- Student Center (authority of $2 million, $0 spent).
- McCarthy Hall Renovation (authority of $13.5 million, $13.1 million spent).

(2023 House Bill 1003, Chapter 3, Section 2).

- Determined that Tier II ($463,705) and Tier III ($500,000) funds from the capital building fund were used for extraordinary repairs and deferred maintenance projects for academic and student housing facilities (2023 House Bill 1003, Chapter 3, Section 11 and N.D.C.C. 15-54.1-02).

- Determined that carryover funds were properly reported to the appropriations committees of the legislative assembly (2023 House Bill 1003, Chapter 3, Section 36).

- Ensured that Valley City State University did not increase tuition rates for resident students during 2023-2024 and 2024-2025 academic years and for high-cost undergraduate tuition programs tuition rates increased by up to one percent for the 2023-2024 and 2024-2025 academic years (2023 House Bill 1003, Chapter 3, Section 45).

- Selected a judgmental sample of higher dollar payroll, special payroll, and faculty payroll to ensure that earnings were properly calculated for employee's pay.

- Selected a judgmental sample of para-to-teacher distance fee waivers, student talents and academic recognition scholarship (STARS) waivers, athletic tuition waivers, president's discretionary waivers, veteran's dependent tuition waivers, cultural diversity tuition waivers, Wyoming online tuition waivers, College of DuPage online tuition waivers, rural partnership waivers, rural teacher support program waivers and teacher leadership waivers to ensure that the waivers were awarded to an eligible student for the correct amount based on compliance with the waiver criteria.

- Judgmentally selected a sample of noncredit course fees and camp fees to ensure proper coding and proper amount was charged based on supporting documentation.

- Selected a judgmental sample of higher expense vouchers and a random sample of the remaining vouchers to ensure supporting documentation was valid, expense was properly coded, charged to proper fiscal year and was reasonable.

- Selected a judgmental sample of tuition and fees rates to ensure the correct amounts were charged to students.

- Judgmentally selected a sample of fiscal year 2025 bank reconciliations to verify a proper reconciliation had been completed to a zero-dollar difference, amounts agreed to bank statement, verified outstanding reconciling items were timely addressed, and reconciliation agreed to general ledger.

- Judgmentally selected a sample of purchases for the press box replacement project, McCarthy Hall renovation and the stadium turf replacement project that were subject to procurement rules to ensure they were in compliance with procurement laws and procedures (N.D.C.C. 48-01.2, N.D.C.C. 54-44.1, N.D.C.C. 54-44.7, State Board of Higher Education Policy 803.1, North Dakota University System Procedure 803.1).

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota Insurance Department has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Financials

Revenues, Expenses and Changes in Net Position

REVENUES AND OTHER ADDITIONS	JUNE 30, 2025	JUNE 30, 2024
State Appropriations	$ 14,056,990	$ 13,431,681
Student Tuition and Fees	7,303,432	7,007,996
Auxiliary Enterprises	3,148,264	3,008,610
Federal Grants and Contracts	2,975,242	2,651,258
State Appropriations - Capital Assets	2,124,595	1,710,938
Gifts	1,746,717	1,877,238
Capital Grants and Gifts	1,255,466	16,272
Sales and Services of Educational Departments	1,058,081	1,070,495
Endowment and Investment Income	919,565	919,953
State Grants and Contracts	264,915	153,421
Nongovernmental Grants and Contracts	105,928	67,872
Other	3,777	7,471
Total Revenue and Other Additions	**$ 34,962,972**	**$ 31,923,205**

Source: North Dakota University System Annual Financial Report

Continued on the following page

Financials

Revenues, Expenses and Changes in Net Position

EXPENSES AND OTHER DEDUCTIONS	JUNE 30, 2025	JUNE 30, 2024
Salaries and Wages	$ 21,693,212	$ 20,684,741
Operating Expenses	6,429,555	5,987,701
Depreciation	3,427,943	3,467,126
Scholarships and Fellowships	1,083,300	1,021,123
Information Technology	593,328	653,351
Costs of Sales and Services	466,246	443,798
Interest on Capital Asset-Related Debt	369,909	367,790
Other Nonoperating Expenses	36,280	422
Loss on Disposal of Capital Assets	11,652	3,937
HEERF Act Aid to Students	-	(4,850)
Total Expenses and Other Deductions	**$ 34,111,425**	**$ 32,625,139**
Revenues Over (Under) Expenses	**$ 851,547**	**$ (701,934)**

NET POSITION	JUNE 30, 2025	JUNE 30, 2024
Net position-beginning of the year, as restated	$ 73,867,895	$ 64,288,009
Net position-end of the year	**$ 74,719,442**	**$ 63,586,075**

Source: North Dakota University System Annual Financial Report

Appropriations

For the Biennium Ended June 30, 2025

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Expenses by Line Item			
Operating Expenses	$ 70,230,340	$ 70,230,340	$ -
Capital Assets	36,364,142	10,748,012	25,616,130
Capital Assets - Carryover	997,809	997,809	-
Capital Proj-Off System - Carryover	22,722,264	222,264	22,500,000
Capital Building Fund	4,161,629	3,079,638	1,081,991
Operating Carryover	13,933	13,933	-
Totals	**$ 134,490,117**	**$ 85,291,996**	**$ 49,198,121**
Expenses by Source			
General Fund Authority	$ 29,673,692	$ 29,165,847	$ 507,845
Special Fund Authority	104,816,425	56,126,149	48,690,276
Totals	**$ 134,490,117**	**$ 85,291,996**	**$ 49,198,121**

Source: ConnectND Financials

Status of Prior Recommendations

Improper Account Coding (Finding 2023-01)

Implemented

Recommendation: We recommend Valley City State University correct accounting errors that are discovered subsequent to the issuance of the financial statements as a prior period adjustment in compliance with GASB standards.

Status: Implemented. Valley City State University provided sufficient and appropriate evidence to support all elements of the recommendation.

Office of the State Auditor

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