



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota University System Office

Audit Report for the Two-Year Period Ended June 30, 2024

Client Code 215





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This included 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.

Additionally, we performed testing to determine if supplier setups and changes are being done by the appropriate personnel and according to North Dakota University System processes. There have been several instances recently of fraudulent payments made within the Supplier Administration Center database, totaling approximately \$5.6 million. Fortunately, the North Dakota University System was able to recover most of these funds. Because of this high-risk area, we reviewed the process to ensure supplier setups and changes are adequately and appropriately approved to prevent any further fraudulent payments being made.

WHAT WE FOUND

We did not find any areas of concern.

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HAVE QUESTIONS? ASK US.

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Introduction

North Dakota University System Office

August 8, 2025

We are pleased to submit this audit of the North Dakota University System Office for the two-year period ended June 30, 2024. 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 the North Dakota University System Office 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.

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

Workflow: An approval process on ConnectND which allows authorized users to approve additions and changes to supplier information.



Audit Results

PRIMARY OBJECTIVE

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

CONCLUSION

No errors, internal control weaknesses, or potential violations of law were identified.

Audit Results

▼ SECONDARY OBJECTIVE

Are supplier setups and changes done by the appropriate personnel according to North Dakota University System processes?

CONCLUSION

We found that supplier setups and changes were done by the appropriate personnel according to North Dakota University System processes.

BACKGROUND

Core Technology Services (CTS) is part of the North Dakota University System Office and provides secure information management and technology services to the entire North Dakota University System (NDUS) which includes ConnectND. CTS has built a shared supplier database, Supplier Administration Center, to pay suppliers in a more streamlined and efficient systematic way for the NDUS, which includes all eleven campuses and the system office.

One critical component of this process is the responsibility to perform supplier verification duties to help ensure only reputable and legit suppliers are being paid with institution funds while mitigating the risk of fraudulent payments. This is especially true to NDUS in part because there have been several instances of fraudulent payments made to fake suppliers and/or payments to bank accounts controlled by fraudsters over the last few years. These fraudulent transactions added up to almost \$5.6 million, but fortunately most of these payments were recovered by the NDUS.

Due to the heightened risk of fictitious acts, fraud, and theft attempts on the NDUS, we wanted to test the supplier database, specifically on the areas of new supplier setups and supplier changes to ensure the process and controls are in place when performing these tasks in the Supplier Administration Center.

When a payment is made by any institution of the NDUS, this shared supplier database is used to make the payment to the correct supplier. CTS is responsible for managing this supplier database. They have created instructions for the NDUS on how to use the database along with the safeguards to be followed. The NDUS is responsible for following the instructions for the information that is entered into the database. These three different instructions that are required to be followed based on what type of supplier activity is being performed:

- *How to Add New Suppliers*
- *New Supplier Registration*
- *Supplier Change Request*

Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation 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 expenses were properly approved.
- Verified that general and special grant expenses were properly approved.
- Verified that journal entries were properly approved.

There were no deficiencies identified.

SCOPE

The North Dakota University System Office has operations in the following locations. Each location was included in the audit scope:

- Bismarck office in the State Capitol.
- Core Technology Services in Fargo and Grand Forks.

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.

- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Used non-statistical 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 sample.
- Reviewed the North Dakota University System Office's processes and procedures.
- Determined that in fiscal year 2024, one-time funding was expended properly for the portion that was spent:
 - Higher education challenge grants (authority of \$20 million, \$17.95 million spent).
 - Dakota Digital Academy (authority of \$450,000, \$125,290 spent).
 - Financial aid software (authority of \$1,669,354, \$506,296 spent). (2023 House Bill 1003, Chapter 3, Section 2).
- Determined that \$367,000 from the prior biennium was transferred to the operations line for North Dakota State University by August 1, 2023 and institutions were not assessed to recover the costs (2023 House Bill 1003, Chapter 3, Section 6).
- Determined that the State Board of Higher Education developed guidance and reporting requirements for the economic diversification research grants (2023 House Bill 1003, Chapter 3, Section 16 and N.D.C.C. 6-09-53(3 and 4)).
- Determined that carryover funds were properly reported to the appropriations committees of the sixty-ninth legislative assembly (2023 House Bill 1003, Chapter 3, Section 36).

- Determined that \$475,000 of state fiscal recovery funds was properly spent on the Dakota Digital Academy (2021 Senate Bill 2345, Chapter 550, Section 1(18)).
- Selected a random sample of rates charged to entities and verified that they were properly coded and billed for the proper amount.
- Selected a judgmental sample of journal entries to ensure supporting documentation was valid and properly coded.
- Selected a random sample of expenses to ensure that the supporting documentation was valid, expense was properly coded, charged to proper fiscal year, and made for a lawful and official purpose (N.D.C.C. 44-08-05.1).
- Selected a random sample of general and special grant expenses to determine whether the transaction was properly coded and in compliance with the grant for eligibility, purpose, and restrictions.
- Verified unclaimed property report was submitted on an annual basis and in compliance with state law. (N.D.C.C. 47-30.2).

SECONDARY 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 at the campus level, the employees who are given the access roles 'requestors' and

'reviewers' are knowledgeable and in the appropriate position to be performing those duties.

- Verified proper segregation of duties existed at the campus level between the requester (individuals who perform the supplier setup/change and the reviewer (individual who approves the request at the campus level).
- Verified the responsibilities for the approval function performed at Core Technology Services (supplier registry specialist) were segregated from those who at the campus level initiate the supplier setup/change as well as separated from those having the reviewer role.

There were no deficiencies identified.

SCOPE

The scope for this objective was new suppliers and supplier changes entered on ConnectND from July 1, 2022 through December 31, 2024. The instructions on new suppliers and supplier changes were revised in May 2024, therefore we extended our audit scope to ensure the new instructions were being followed. The new supplier and supplier changes occurred at all the institutions of the North Dakota University System, plus the North Dakota University System Office and Core Technology Services.

METHODOLOGY

To meet this objective, we:

- Interviewed Core Technology Services personnel.
- Observed the Core Technology Services' processes and procedures relating to supplier setups and changes.
- Inspected documentary evidence.
- Analyzed supplier data in ConnectND to determine areas of risk.

- Selected a random sample of supplier setups to ensure compliance with NDUS ConnectND *How to Add New Suppliers* and *New Supplier Registration*.
- Selected a random sample of supplier changes to ensure compliance with NDUS ConnectND *Supplier Change Request*.

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota University System Office 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, 2024		JUNE 30, 2023	
State Appropriations	\$	85,287,387	\$	58,710,042
Other Nonoperating Revenues		26,159,074		2,763,166
Student Tuition and Fees		4,743,693		4,856,554
Sales and Services of Educational Departments		1,810,082		1,605,646
Federal Grants and Contracts		371,385		542,016
Endowment and Investment Income		134,001		64,496
Nongovernmental Grants and Contracts		12,500		5,000
Auxiliary Enterprises		3,000		8,500
Gifts		1,000		6,700
Total Revenues and Other Additions	\$	118,522,122	\$	68,562,120

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, 2024		JUNE 30, 2023	
General and Special Grant Expenditures	\$	38,832,075	\$	21,270,583
Salaries and Wages		21,001,022		19,276,603
Scholarships and Fellowships		19,561,691		17,179,510
Operating Expenses		9,427,980		9,326,794
Transfers to North Dakota Industrial Commission		6,094,689		6,063,099
Depreciation Expenses		4,515,072		4,397,740
Data Processing		2,974,160		3,232,934
Interest on Capital Asset - Related Debt		267,667		164,745
Loss on Disposal of Capital Assets		6,287		-
Total Expenses and Other Deductions	\$	102,680,643	\$	80,912,008
Revenues Over Expenses	\$	15,841,479	\$	(12,349,888)

NET POSITION	JUNE 30, 2024		JUNE 30, 2023	
Net Position - Beginning of the Year, as Restated	\$	7,402,034	\$	19,816,923
Net Position - End of Year	\$	23,243,513	\$	7,467,035

Source: North Dakota University System Annual Financial Report

Appropriations

For the Biennium Ended June 30, 2023

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Expenses by Line Item			
Capital Assets	\$ 13,385,264	\$ 13,329,707	\$ 55,557
Tier III Capital Building Fund	555,556	555,556	-
Student Financial Assistance Grants	24,874,091	24,469,281	404,810
Veterans Assistance Programs	277,875	277,875	-
Scholars Program	2,277,384	1,844,610	432,774
Nursing Education Consortium	1,356,000	1,356,000	-
Native American Scholarships	578,420	572,295	6,125
Math Pathways	150,000	76,545	73,455
Technology	63,150,426	56,439,282	6,711,144
Education Challenge Fund	11,150,000	11,150,000	-
Education Incentive Program	260,000	260,000	-
Tribal Community College Grants	1,000,000	1,000,000	-
Academic and Technical Education Scholarships	16,639,027	15,205,250	1,433,777
Student Exchange	5,209,720	3,992,099	1,217,621
NASA EPSCoR	342,000	342,000	-
Student Mental Health	353,874	180,933	172,941
Competitive Research Program	5,685,750	5,685,750	-
Biennium Carryover	866,849	494,397	372,452
Dual-Credit Program	1,500,000	1,500,000	-
System Governance	11,806,099	10,686,932	1,119,167
Shared Campus Services	820,714	685,034	135,680
Totals	\$ 162,239,049	\$ 150,103,546	\$ 12,135,503

Source: ConnectND Financials

Continued on the following page

Appropriations

For the Biennium Ended June 30, 2023

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Expenses by Source			
General Funds	\$ 133,081,117	\$ 128,496,641	\$ 4,584,476
Special Funds	25,757,035	18,577,393	7,179,642
Federal Funds	3,400,897	3,029,512	371,385
Totals	\$ 162,239,049	\$ 150,103,546	\$ 12,135,503

Source: ConnectND Financials

Appropriations

For the Year Ended June 30, 2024

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Expenses by Line Item			
Capital Assets	\$ 11,197,896	\$ 6,094,690	\$ 5,103,206
Student Financial Assistance Grants	30,322,116	14,943,117	15,378,999
Veterans Assistance Programs	454,875	454,875	-
Scholars Program	2,239,889	935,951	1,303,938
Nursing Education Consortium	1,356,000	1,356,000	-
Native American Scholarships	1,006,125	437,468	568,657
Math Pathways	73,455	-	73,455
Technology	71,988,917	32,459,769	39,529,148
Education Challenge Fund	20,000,000	17,991,038	2,008,962
Education Incentive Program	260,000	260,000	-
Tribal Community College Grants	1,400,000	700,000	700,000
Academic and Technical Education Scholarships	18,650,526	7,394,637	11,255,889
Student Exchange	4,916,963	1,841,015	3,075,948
NASA EPSCoR	342,000	171,000	171,000
Student Mental Health	457,340	184,154	273,186
Competitive Research Program	5,685,750	2,842,875	2,842,875
Biennium Carryover	651,736	430,647	221,089
Dual-Credit Program	1,500,000	600,000	900,000
System Governance	12,858,949	5,571,386	7,287,563
Shared Campus Services	935,681	342,750	592,931
Dakota Digital Academy	450,000	125,290	324,710
Totals	\$ 186,748,218	\$ 95,136,662	\$ 91,611,556

Source: ConnectND Financials

Continued on the following page

Appropriations

For the Year Ended June 30, 2024

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATIONS
Expenses by Source			
General Funds	\$ 159,866,888	\$ 85,287,387	\$ 74,579,501
Special Funds	26,509,944	9,477,889	17,032,055
Federal Funds	371,386	371,386	-
Totals	\$ 186,748,218	\$ 95,136,662	\$ 91,611,556

Source: ConnectND Financials



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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