The State Board of Higher Education Academic Committee met on Wednesday, March 6, 2013, at 11:00 a.m. CT, in Room 433, National Energy Center of Excellence, Bismarck State College, Bismarck, ND.

Committee members present:
- Mr. Duaine Espegard, Chair
- Dr. Terry Hjelmstad
- Ms. Kathleen Neset
- Ms. Kari Reichert

Staff present:
- Dr. Hamid Shirvani, Chancellor
- Ms. Laura Glatt, Vice Chancellor for Administrative Affairs
- Ms. Robin Putnam, Director of Financial Reporting, by phone
- Ms. Claire Holloway, General Counsel
- Ms. Linda Donlin, Director of Communications and Media Relations
- Mr. Noah Brisbin, Special Assistant to the Chancellor
- Mr. Bill Eggert, Director of Internal Audit and Risk Assessment
- Ms. Kirsten Franzen, Chief Compliance Officer

NDUS FY2012 financial statement audit report
Ed Nagel, Paul Steussy, and John Grettum appeared on behalf of the State Auditor’s Office. Mr. Grettum gave an overview of the NDUS FY12 financial statement audit report recommendations.

One recurring recommendation regarded internal control and training; the SAO recommends that the NDUS provide sufficient resources to enable client personnel to produce materially correct year-end GAAP financial statements. Chairman Espegard verified that some of the ongoing concerns were minor in nature. He noted his satisfaction that there were fewer concerns under this recommendation than in years prior, and urged the Board and NDUS presidents to prioritize working together to address the remaining concerns.

Another recurring recommendation addressed comprehensive fraud and control risk assessment. The SAO recommends that the University System require a comprehensive fraud and control risk assessment by each institution; the establishment of appropriate internal controls policies and procedures to detect, deter, and avoid potential fraudulent activity and risks relevant to the preparation of financial statements; formal continuing training on proper internal control techniques and systems to ensure all personnel are aware of institutional and Board policies and procedures; and, where available, internal audit staff be directed to test and report on the effectiveness of such policies and procedures, once established.

Ms. Glatt indicated that she would work with President Nadolny to look for solutions at Williston State College, which is a high-risk campus due in part to its campus-wide difficulty in
recruiting and retaining employees. She explained the previous and ongoing efforts undertaken to ameliorate WSC’s personnel difficulties with respect to financial reporting.

A third recurring systemwide recommendation was the SAO’s recommendation that all internal audit shops obtain peer reviews in compliance with industry standards and attend sufficient training to meet IIA CPE requirements.

After Mr. Grettum concluded his report, Ms. Glatt described some of the results of NDUS implementations of SAO recommendations in the last three years. In 2010, the NDUS established a fraud hotline, updated its controller training, incorporated audit issues into presidents’ evaluations, and reviewed its internal audit staff at the NDSU, UND, and NDSU, finding that 4 additional positions were needed. In 2011, the NDUS reduced component units, established a year-end checklist for the controllers’ group, and improved its financial statement preparation system, which it continues to try to automate that process through, but it was not able to engage an external firm to aid in year-end financial processing, and met resistance when it tried to implement periodic book closings. In 2012, the NDUS reviewed its internal audit staff, finding a need for more positions, and revised auditors’ reporting relationships.

The committee recessed for the day at 12:14 p.m. On Thursday, March 7, the committee reconvened at 11:00 a.m.

**NDUS Office 2012 performance audit report**

Chairman Espegard explained that the legislature requested a performance audit of the system office’s operations. He continued, describing that the now-finished process took the better part of a year, and asking Claire Holloway to review the audit report with the committee.

Ms. Holloway stated that the Legislative Fiscal and Audit Review Committee has requested an audit of the NDUS office to determine if its staffing level was appropriate. She noted that a hearing on the audit results was scheduled for March 12, with the State Auditor’s Office to present the report and take questions on it.

The audit, Ms. Holloway continued, presents five recommendations regarding staffing, and additional recommendations for improvement that are generally incorporated.

The performance audit report’s first recommendation noted that the NDUS system office does not have adequate resources or staffing to perform its required duties. The report, Ms. Holloway noted, recommends determining whether monetary or FTE resources can be allocated from campuses to ameliorate that need.

The report’s second recommendation is for the system office to have a systemwide monitoring function to ensure compliance with internal policies and external law—a standard best practice. Ms. Holloway noted that the NDUS hired Kirsten Franzen as its chief compliance officer to implement a system compliance program. That program will require ongoing monitoring, a key component to an effective compliance program, and, as the auditors noted, may necessitate additional FTEs.
Ms. Holloway explained that the report’s third recommendation was to ensure that a unified system exists. The report supports the Board’s vision for a unified higher education system, as codified in the North Dakota Century Code. The report noted several areas that, with additional system-level positions or unified personnel, had potential for greater efficiency. These areas included human resources, internal audit, financial aid, and admissions.

The fourth and fifth recommendations of the report, Ms. Holloway summarized, state that the system needs strategic planning development in human resources issues, to ensure well-defined roles for employees and the system office and an allocation of resources that allows the office to achieve its expectations. With respect to overall planning and vision, it would also be advisable to put strategic planning into a document that fully sets forth the system office’s vision and role within the system structure. The recommendations also advise goal-making to ensure compliance and the effective alignment of resources, recognizing that this will require office-level internal planning.

Ms. Holloway noted some additional potential system office improvements included in the report. One was to ensure compliance with SBHE Policy 703.1 regarding authorized payments for early retirements. Another area for improvement is the process of approving campus assessments regarding FTEs, in response to issues with documentation for the approval of last year’s assessment, timing with the finalization of budgets, and the use of assessments for the purpose charged. Chairman Espegard clarified that money from assessments had been used for early retirement payments to Pat Seaworth.

Ms. Holloway continued explaining additional potential system office improvements. These included modifications to the internal audit reporting structure and the establishment of an internal audit charter, which is currently being drafted. The report also called for a review of SBHE policies and NDUS procedures, which Ms. Holloway stated was already underway. Another item was to ensure compliance with the Indian Scholarship program, working with the current infrastructure to handle those scholarships in the same way as those for other programs. Another recommendation for improvement is to ensure the provision of accurate data; Ms. Holloway noted that a Research and Validation Workgroup has been established to address this point. Also recommended is the maintenance of records management programs, for which there are multiple potential sources to consult for assistance, such as ITD consulting services and best practices.

Chairman Espegard noted the detail of the performance audit report. He also asked if there were comparisons made to illustrate the need for system office staffing. Ms. Holloway responded that there were comparisons made to other systems in the region, and that the SAO looked at the requirements and responsibilities of the NDUS office and those of similar institutions. Chairman Espegard verified that the auditors included SITS in their review. Chancellor Shirvani noted that SITS employees are sometimes needed in Bismarck, and that it would go too far to require all SITS employees to be based in Grand Forks, due to concerns about location and accessibility.

President Kelley asked if the performance auditors interacted with campus administrative leadership, and noted that the report’s language suggests transferring funds from campuses to the NDUS to implement its recommendations in several places. Ms. Holloway replied that the
auditors did not go to campus administration. Mr. Eggert described a campus survey that was distributed regarding the unification of the system.

Chairman Espegard asked where the report suggested allocating dollars from campuses to the system. Ms. Holloway answered that the portion of the report that described the unification of services as practiced by other systems would use campus money to unify those services within the NDUS. Mr. Morton noted that the Board decides what should be centralized, and that discussion with presidents would be helpful to determine which functions are essential, such as data collection and reporting.

Chairman Espegard expressed his appreciation for the performance audit’s thoroughness and reporting.

**Recommend approval of NDUS Office 2012 performance audit responses**

It was moved by Neset, seconded by Reichert, to recommend approval of the NDUS Office 2012 performance audit responses. Hjelmstad, Neset, Reichert, and Espegard voted yes. The motion carried.

**Recommend approval of responses to NDUS FY2012 financial statement audit report**

It was moved by Neset, seconded by Reichert, to recommend approval of the responses to the NDUS FY2012 financial statement audit report. Neset, Reichert, Hjelmstad, and Espegard voted yes. The motion carried.

The meeting adjourned at 11:30 a.m.