State Board of Higher Education
Audit Committee
August 21, 2014

The State Board of Higher Education (SBHE) Audit Committee met on August 21, 2014, at Barry Hall, Eide Bailly Boardroom, 811 2nd Avenue North, Fargo, ND, 58102, at 1:00 p.m. CST.

Ms. Neset called the meeting to order at 1:00 p.m.

SBHE Audit Committee members participating:
Ms. Kathleen Neset, Chair
Mr. Don Morton
Dr. Kirsten Diederich

NDUS staff participating:
Mr. Tim Carlson, Chief Auditor
Ms. Kirsten Franzen, Chief Compliance Officer
Dr. Lisa Feldner, Chief Information Officer
Mr. Murray Sagsveen, Chief of Staff
Ms. Laura Glatt, Vice Chancellor for Administrative Affairs
Ms. Robin Putnam, Director of Financial Reporting
Ms. Kristie Hetzler, Executive Assistant to SBHE

Approval of Agenda
Diederich moved, Morton seconded to approve the agenda.

Diederich, Morton, and Neset voted yes. Motion carried.

Approval of July 9, 2014 Minutes
Diederich moved, Morton seconded to approve the July 9, 2014 minutes.

Diederich, Morton, and Neset voted yes. Motion carried.

Affordable Care Act
Ms. Glatt gave the committee an update on the Affordable Care Act (ACA) implementation. The ACA is a new federal mandate and the regulations are written for private sector business, but there is not much guidance on the public sector. The state will consider themselves as one large employer who is for the implementation of ACA. There will be two separate members within the state, state government is one, and higher education is the other. Because of the structure we will have to track number of hours worked for employees that cross state government and the North Dakota University System (NDUS). That is important because we have a number of students that work for the summer and then come work for NDUS for the school year. We will have to have in place a mechanism that allows us to track the number of hours worked across all of state government. The state has asked that we complete implementation by Sept. 30, 2014 and the implementation team is working diligently to meet the deadline.
Chair Neset agreed with Ms. Glatt on the importance of meeting the deadline to avoid any penalty fees. The Audit Committee’s assistance was offered to Ms. Glatt and her department, if needed, Chair requested notification prior to September 5, 2014.

Records Retention Policy Update
Dr. Lisa Feldner indicated the state records management office is working on a new general records retention schedule that provides for all state agencies, including cities and counties. With that, each agency has the ability to adopt an agency specific one, in addition to the general. Dr. Feldner recommended that the University System adopt the States general records retention schedule and each campus can then adopt more campus specific ones if needed. She believes the interim legislative IT committee already has a draft bill indicating the NDUS adopt it. She stated some of the advantages are:

- Maintaining consistency throughout the institutions
- State Management office would be responsible to federal regulation changes
- State Management office will review and audit the forms annually
- State Management office will provide training to the campuses
- It will significantly benefit IT with security and storage

Dr. Lisa Feldner stated there have been updates in the IT department. The enterprise scanning tools has been updated; it scans for vulnerability and abnormalities within the system. ITD installed the intrusion detection devices on the network; they have three of the four quadrants completed. She indicated the security policies are currently being updated; policy 1901.3 has been flagged by SAO for being too vague. Ms. Neset requested an update be brought to the Audit Committee at their next meeting.

Chair Neset requested Dr. Feldner forward the draft records retention policy as soon as it is available due to it being time sensitive; a special Audit Committee meeting may have to be held. She would like to see this policy, along with an update on 1901.3 on the full Boards next agenda.

Informational Technology update
Three employees have been put on administrative leave following the security investigation. Core Technology System (CTS) office will be doing some restructuring and conducting more training CTS and across the system. State Auditor’s office (SAO) and CTS will be doing an assessment at each of the institutions.

Dr. Feldner stated a report (http://www.ndus.edu/uploads/resources/3952/13.-recommendations-combined-es-fin-hr-2.pdf) on data inconsistencies within PeopleSoft components that was presented to the Board last year. The list was prioritized by level of importance and the top components were campus solutions, financial systems, and human capital management. She stated that by the beginning of September those components will be in synched to help eliminate data inconsistencies. She also noted that data inconsistencies can affect the new funding model.

She state that personal/bio-demo data, including names, addresses, telephone numbers, email addresses, and more will be integrated among the following three systems:
• Campus Solutions
• Financials
• Human Resources

Common Data Definition
Mr. Carlson briefed the committee on the advantages of having common data definitions, common chart of accounts, and the need for a more efficient, systemic process for financial reporting. He stated it is important for the Board of Higher Education to see financial statements more than once a year. Committee members agreed, adding the financials would be significantly helpful with their fiduciary responsibilities and should be placed on the dashboard that is currently being created. Ms. Glatt stated that there is not enough NDUS and/or campus staff in the financial departments to accommodate the committees request for immediate access to financials. Committee members suggested hiring temporary employees to provide assistance to the budget and finance department during the process of creating a common chart of accounts. They noted that NDUS already has an extremely great, complex software system, PeopleSoft, which can be used in the process. After system has the process in place and it is being followed system wide, the need for additional staffing should be eliminated.

Ms. Neset proposed to have the SBHE Audit committee delegate the Chancellor and Vice Chancellor for Administrative Affairs to create a common set of data definitions and common chart of accounts by July 1, 2015. Ms. Glatt indicated that she will send the committee members the existing chart of accounts that is already in place and the common data dictionary for them to review. Ms. Neset agreed, stating that if this has already been done, the next step would be to implement utilizing them system wide.

Diederich moved, Morton seconded, to delegate the Chancellor and Vice Chancellor of Administrative Affairs to develop and implement common data definitions and a common chart of accounts with a goal date of implementation by July 1, 2015.

Diederich, Morton, and Neset voted yes. Motion carried.

Legislative Language regarding Internal Audit Work Paper
Mr. Carlson suggested that a request go to legislation, to exclude draft working papers for audit is subject to open record laws. The work would be open to the public once the work is completed. He is concerned that work papers become public before the final report is complete. This would help protect the tools and techniques that auditors use to identify inappropriate behavior. Mr. Sagsveen indicated that draft legislative language will be brought to the full Board prior to the pre-filing deadline of December 4, 2014.

Shared Services Update
Mr. Carlson updated committee members on WSC’s shortage in staff. He stated it is important to look into alternative approaches to assist WSC with their staffing issues. Some of the options were to outsource, share services with other institutions, or work study programs that would work address the staff shortage. He stated that there is a taskforce that has been formed under the direction of President Bresciani to look into centralizing payroll processing.
SBHE Agenda Memorandum

Mr. Sagsveen presented the Audit Committee members a memorandum that includes ten areas (listed below) of importance that the full Board agenda items should include in a short summary outline. The background information will be hyperlinked to this memorandum with more details regarding the agenda item for Board members that would like more information on the agenda item. Members of the committee agreed with the new proposed process for distribution of the Board agenda and materials.

1. Issue: [One sentence]
2. Proposed motion: [Exact language for the minutes.]
3. Background: [Explanation of the reason for the proposed action by the SBHE.]
4. Financial implications: [Explain the financial implications of the proposal, if any.]
5. Academic implications: [Explain the academic/student implications of the proposal, if any.]
6. Legal/policy issues: [Explain the legal/policy issues, if any.]
7. Review Process: [List the councils and individuals who have reviewed the proposal.]
8. Enclosures: [List any enclosures.]
9. Contact person: [State name, email address and telephone number of individual who may be contacted for additional information about proposal.]
10. Chancellor’s Recommendation: [The chancellor will add his recommendation.]

Diederich moved, Morton seconded, to approve the summary of proposed action outline as the new process in the distribution of the Board agenda and materials.

Diederich, Morton, and Neset voted yes. Motion carried.

Compliance

Chair Neset requested an update regarding the status of the compliance program that the full Board requested on June 26, 2014. The Chief Compliance Officer, Ms. Kirsten Franzen stated that there is a variety compliance programs and how they operate. The one common factor throughout the different compliance programs is that the compliance officer works independently. In order for the Board to have an effective compliance officer, it is important for that individual to work independently from the organizations management. Management makes the decision and the compliance officer is there to verify that management’s decision is doing the will of the Board. If compliance officer is also reporting to management it creates an inherent conflict. Ms. Franzen indicated that the compliance program is the duty of the Board and her concern is that the current structure does not allow her to investigate complaints without approval from the Chancellor.

Mr. Murray Sagsveen stated compliance is a Board policy and should be clearly defined by the full Board; it is necessary to clarify the role and responsibility of the Chief Compliance, along with the reporting structure. Committee members discussed if it would be appropriate for compliance to be within the scope of SBHE audit committee rather than the full Board. Chair Neset requested legal review and/or draft a policy regarding compliance, similar to the audit charter, 302.2.

Chief Auditor Performance

Ms. Kathleen Neset stated Tim Carlson’s performance review and salary adjustment (annual) letter states his appointment continues as the position of Chief Auditor continuing through June 30, 2016. The appointment is subject to review and extension on an annual basis, on or about July 1st of each year. The Chief Auditor is a non-broad banded and is subject to the policies of the State Board of Higher Education,
but is exempt from policy 608.2. Effective July 1, 2014, his salary will be $139,050 annually, plus benefits. Salary adjustments will occur annually each year on July 1, to coincide with the new fiscal year. His compensation is subject to payroll deductions as provided by law and policy.

Morton moved, Diederich seconded to approve Tim Carlson’s performance review and salary adjustment.

Diederich, Morton, and Neset voted yes. Motion carried.

Diederich motioned, Morton seconded, to adjourn. Motion carried.