North Dakota State Board of Higher Education
Audit Committee
Meeting Notice and Agenda
Friday, April 10, 2015

The State Board of Higher Education Audit Committee will meet Friday, April 10, 2015 at 10:30 a.m. CDT, Bismarck State College, NECE building, ECG 335, 1200 Schafer Street, Bismarck, ND 58506.

Call to Order

1. Approval of Agenda
2. Executive Session regarding March 20, 2015, Draft NDUS Waivers and Stipends Performance Audit Report.

According to North Dakota Century Code section 54-10-26, this March 20, 2015, Draft Performance Audit Report by the state auditor and now released to the SBHE Audit Committee is a confidential document, and will be confidential until the final audit report is issued or work ceases on the audit. As a confidential document, it may be considered by the governing body (including a SBHE committee acting under authority delegated by the SBHE) only in an executive session, in accordance with North Dakota Century Code section 44-04-19.2. At this time, the Audit Committee will convene in executive session, in order to discuss this Draft Performance Audit Report, its recommendations therein, and the NDUS responses; and further, the executive session shall be limited to members of the Audit Committee, the chancellor and staff, representatives of the state auditor's office, and invited campus officials.

NOTE: The governing body may hold an executive session after first convening in an open meeting and either entering into a confidential meeting if so required, or passing a motion to hold an executive session if the governing body has discretion over whether to enter into an executive session, and further stating the topic or topics to be discussed and the legal authority for holding the executive session. The executive session must be recorded and the topic or topics discussed must be limited to those for which the executive session is authorized and previously announced. Final action, if any, concerning the topic or topics discussed or considered must be taken in an open meeting, unless final action is required by law to be taken in a closed or confidential meeting.

3. Reconvene

Call to Order

4. Recommend Approval of the March 20, 2015 NDUS Waivers and Stipends Performance Audit Report, NDUS Responses
5. Approval of January 29, 2015 Meeting Minutes
6. Discuss and Recommend Approval Process of Draft Audit Reports

Adjourn
DRAFT
North Dakota State Board of Higher Education
Audit Committee
Meeting Notice and Agenda
Thursday, January 29, 2015

The State Board of Higher Education Audit Committee met on Thursday, January 29, 2015 at 8:00 a.m. CT, Bismarck State College, NECE building, Room 303, 1200 Schafer Street, Bismarck, ND 58506.

Ms. Neset called the meeting to order at 8:00 a.m. CT.

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

NDUS staff participating:
  Mr. Murray Sagsveen, Chief of Staff and Director of Legal Services
  Dr. Sonia Cowen, Interim Vice Chancellor for Academic and Student Affairs
  Ms. Linda Donlin, Vice Chancellor of Strategic Planning
  Dr. Lisa Feldner, Vice Chancellor for Institutional Technology and Research
  Ms. Laura Glatt, Vice Chancellor Administrative Affairs
  Ms. Tracy Kolb, Assistant General Counsel
  Ms. Robin Putnam, Director of Financial Reporting
  Ms. Kristie Hetzler, Executive Assistant to the State Board of Higher Education

Others participating:
  Mr. John Grettum, State Auditor Office
  Ms. Robin Hoffman, State Auditor Office
  Mr. Mark Scott, State Auditor Office
  Nick Core Technology System Office
  Mr. Greg Ross, BSC
  Ms. Laurie Furuseth, WSC
  Ms. Cynthia Prom, WSC
  Mr. Gary Wawers, NDSU
  Mr. Mark Lowe, DSU
  Ms. Janet Reisenauer, DSU
  Ms. Jonelle Watson, MiSU
  Ms. Lora Feist, DCB
  Mr. Mick Pytlik

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

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

Morton moved, Melicher seconded, to hold an executive session: According to NDCC section 44-04-19.2, the SBHE Audit Committee shall hold an executive session to consider and discuss the draft NDUS FY2014 financial statement audit report recommendations and NDUS responses; further, the executive
session shall be limited to members of the board, the chancellor and staff, representatives of the state auditor's office, and invited campus officials.

Note: The draft financial statement audit may be considered or discussed only in executive session. According to NDCC section 54-10-26, a draft audit report released by the state auditor to the governing body or management of the audited entity is confidential until the final audit report is issued or work ceases on the audit. As provided in NDCC section 44-04-19.2, a governing body (including a SBHE committee acting under authority delegated by the SBHE) may hold an executive session to consider or discuss closed or confidential records.

The governing body may hold an executive session after first convening in an open meeting and passing a motion to hold an executive session, stating the topic or topics to be discussed and legal authority for holding the executive session. The executive session must be recorded and the topic or topics discussed must be limited to those for which the executive session is authorized and previously announced. Final action concerning the topic or topics discussed or considered must be taken in an open meeting, unless final action is required by law to be taken in a closed or confidential meeting.

Melicher, Morton, and Neset voted yes. Motion carried

Executive session began at 8:07 a.m. CT.

Morton moved, Melicher seconded, to adjourn at 9:20 a.m. CT.

Ms. Neset reconvened the SBHE Audit meeting at 9:40 a.m. CT.

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

NDUS staff participating:
  Mr. Murray Sagsveen, Chief of Staff and Director of Legal Services
  Ms. Linda Donlin, Vice Chancellor of Strategic Planning
  Dr. Lisa Feldner, Vice Chancellor for Institutional Technology and Research
  Ms. Laura Glatt, Vice Chancellor Administrative Affairs
  Ms. Tracy Kolb, Assistant General Counsel
  Ms. Robin Putnam, Director of Financial Reporting
  Ms. Kristie Hetzler, Executive Assistant to the State Board of Higher Education

Others participating:
  Mr. John Grettum, State Auditor Office
  Ms. Robin Hoffman, State Auditor Office
  Mr. Greg Ross, BSC
  Mr. Gary Wawers, NDSU
  Mr. Mark Lowe, DSU
  Dr. Ray Nadolny, WSC
  Ms. Sharon Loiland, UND
Melicher moved, Morton seconded, to approve the North Dakota University System (NDUS) FY2014 draft financial statement audit report and NDUS responses to the report.

Melicher, Morton, Neset voted yes. Motion carried.

Preliminary Audit Findings
Ms. Glatt stated that auditor communication with the SBHE Audit Committee is important and beneficial; however, there are concerns regarding the SBHE Audit Committee receiving the draft reports from State Auditor's office (SAO) prior to NDUS receiving them:

- The potential issues identified in the audit status updates distributed to the Audit Committee by the SAO have not always been reviewed with the institutions, CTS or System Office first.
- The potential issues identified in the updates are preliminary and may be modified or removed entirely in the final audit report based on additional information provided to the SAO by the NDUS.
- The updates provided to the Audit Committee do not include any background or context, which is important to determine significance, magnitude and priority.
- Senior campus officials, such as the President, Vice President and others primarily responsible for operations do not receive the updates.

Mr. Morton stated the audit function and committee is extremely important and would like to continue receiving communications from the SAO. Ms. Neset agreed, stating that recently communications between the SAO and the SBHE Audit committee has greatly improved and she would like that to continue.

Meeting Minutes
Morton moved, Melicher seconded, the approval of August 21, 2014, meeting minutes.

Melicher, Morton, Neset voted yes. Motion carried.

Compliance and Risk Management Plan
Chair Neset stated that a compliance and risk management plan has been one of the Audit Committee’s top priorities and thanked Ms. Kolb for continuing to develop the compliance plan for NDUS. Ms. Kolb reviewed the draft Compliance – risk management plan. She explained how important it is to have an action plan that ensures and enhances the NDUS office compliance and ethics; including but not limited to:

- Ethical Conduct in the Workplace
- Conflicts of Interest
- Relations with Media, Government, and Others
- Records and Information
- Contracts
- Health and Safety
- Reporting

Ms. Kolb has researched other educational settings and explained that it was common to follow the federal sentencing guidelines as a foundation to the plan. She explained that this is a draft and that compliance plans are able to be flexible and can be tailored to different entities. Dr. Skogen indicated that one of his six goals as Interim Chancellor was to create a compliance plan, and this is the first draft. He stated that this plan will establish exactly what measures we already have in place and what measures we need to take as we move forward in the action plan. Ms. Neset requested that the compliance officer
attend the SBHE Audit Committee meetings to continue to address open meeting laws and it would also be helpful for the new Chancellor coming on Board. Ms. Kolb drafted a compliance and ethics standards of conduct guide by combining the current compliance plan and integrating current SBHE policies and procedures regarding compliance. Ms. Kolb stated that this is only a draft and subject to input before it is a final plan.

Dr. Skogen indicated the next step in finalizing the compliance plan is to vet it with the campuses and integrates their input in a final document. The committee agreed that the campuses should have input before moving forward to the full board for approval. There will also be future discussions regarding the reporting structure of the compliance officer.

Dr. Skogen stated that due to current legislation action to move the NDUS auditor positions to the State Auditor’s office (SAO), the committee should decide if they would like to move forward in filling the NDUS Chief Auditor position or consider other options until legislation concludes. The committee discussed whether the position would remain truly independent, be more cost effective, and whether other state agencies use the SAO for auditing purposes. The committee is concerned about the quality of candidates they would attract due to the change in status of the position and whether the SAO can perform both internal and external auditing. Ms. Glatt stated the internal auditor is more an advisory role on a day-to-day basis and acts in a proactive role; external auditors act in a reactive manner. Committee members inquired on hiring an outside consultant until legislation has determined where the auditors will be employed at or if a current NDUS auditor has the expertise to temporarily step into the chief auditor role.

Melicher motioned, Morton seconded, to present two options to the full Board; recommend a current NDUS auditor as an extension assignment as chief auditor, or recommend contacting the SAO to inquire if they would have staff for a temporary independent assignment.

Morton, Melicher, Neset voted yes. Motion carried.

Mr. Sagsveen informed the committee that he is in the process of amending Policy 611.10, employee responsibility and activities: theft, fraud, abuse and waste that will go to full Board at its February meeting.

Morton moved to adjourn, Melicher seconded, SBHE Audit committee adjourned at

 Adjourn
Policies and Procedures

SBHE Policies

SUBJECT: 300s: Governance and Organization  EFFECTIVE: February 27, 2014
Section: 302.2 Audit Committee

1. PURPOSE

To assist the State Board of Higher Education (Board) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the North Dakota University System’s (NDUS) process for monitoring compliance with laws, policies, regulations and the code of conduct.

2. AUTHORITY

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

a. Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
b. Resolve any disagreements between management and the auditor regarding financial reporting.
c. Pre-approve all auditing and non-audit services.
d. Retain independent counsel and request appointment of legal counsel by the attorney general as a special assistant attorney general, accountants, or others to advise the committee or assist in the conduct of an investigation.
e. Seek any information it requires from employees (all of whom are directed to cooperate with the committee’s requests) or external parties.
f. Meet with officers, external auditors, or outside counsel, as necessary.

3. COMPOSITION

The Audit Committee will consist of three voting members of the Board. The Board president will appoint committee members and the committee chair and may also appoint additional SBHE faculty and staff advisors, as ex-officio non-voting members. Each committee member will be both independent and financially literate.

4. MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via teleconference or videoconference. The committee will invite members of management, auditors or others
to attend meetings and provide pertinent information, as necessary. It may hold executive sessions in compliance with law. In compliance with law, meeting agendas will be prepared, and provided in advance to members, along with appropriate briefing materials. In compliance with law, minutes will be prepared.

5. RESPONSIBILITIES

The committee will carry out the following responsibilities:

a. Financial Statements:

   i. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

   ii. Review with management and the external auditors the results of the audit, including any difficulties encountered.

   iii. Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.

   iv. Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.

   v. Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing Standards.

   vi. Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

   vii. Review interim financial reports with management and the external auditors and consider whether they are complete and consistent with the information known to committee members.

b. Internal Control:

   i. Consider the effectiveness of the university system's internal control system, including information technology security and control.

   ii. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

c. Internal Audit:

   i. Approve an internal audit charter.

   ii. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief auditor.

   iii. Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.

   iv. Review with the chief auditor the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.

   v. At least once per year, review the performance of the chief auditor and recommend the annual compensation and salary adjustment.

   vi. Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
vii. On a regular basis, meet with the chief auditor to discuss relevant matters.

d. External Audit:

   i. Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
   ii. Review the performance of the external auditors.
   iii. On an ‘as-needed’ basis, meet with the external auditors to discuss relevant matters.

e. Compliance:

   i. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
   ii. Review the findings of any examinations by regulatory agencies, and any auditor observations.
   iii. Review the process for communicating the code of conduct to Board members and university system personnel, and for monitoring compliance therewith.
   iv. Obtain regular updates from management and Board and university system legal counsel regarding compliance matters.

f. Reporting Responsibilities:

   i. Regularly report to the Board about committee activities, issues, and related recommendations.
   ii. Provide an open avenue of communication between internal audit, the external auditors, and the Board.
   iii. Review any other reports the company issues that relate to committee responsibilities.

g. Other Responsibilities:

   i. Perform other activities related to this policy as requested by the Board.
   ii. Institute and oversee special investigations as needed.
   iii. Review and assess the adequacy of the committee policy annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law, policy or regulation.
   iv. Confirm annually that all responsibilities outlined in this policy have been carried out.
   v. Evaluate the committee's and individual members' performance on a regular basis.

History:
New Policy, SBHE Minutes, February 27, 2014.

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Policies and Procedures

SBHE Policies

SUBJECT: 800s: Financial Affairs  EFFECTIVE: March 27, 2014
Section: 802.8 Internal Audit Charter

1. INTRODUCTION:
   Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the North Dakota University System (NDUS). It assists NDUS in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

2. ROLE:
   The internal audit activity is established by the State Board of Higher Education (Board). The internal audit activity's responsibilities are defined by the Board and the Audit Committee as part of their oversight role.

3. PROFESSIONALISM:
   a. The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
   b. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to relevant Board policies and procedures and the internal audit activity's standard operating procedures manual.

4. AUTHORITY:
   The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all NDUS (and affiliated organizations) records, physical properties, and personnel pertinent to carrying out any engagement. All NDUS (and affiliated organizations) employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board and Audit Committee.

5. ORGANIZATION:
   The Chief Auditor (CAE) will report functionally to the Board and administratively (i.e. day to day operations) to the Chancellor.
   a. The Board and Audit Committee will:
i. Approve the internal audit charter.
ii. Approve the risk based internal audit plan.
iii. Approve the internal audit budget and resource plan.
iv. Receive communications from the CAE on the internal audit activity's performance relative to its plan and other matters.
v. Make decisions regarding the appointment and removal of the CAE.
vi. Recommend and approve the remuneration of the CAE.
vii. Make appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations.

b. The CAE will communicate and interact directly with the Board and Audit Committee, including in executive sessions and between Board meetings as appropriate.

6. INDEPENDENCE AND OBJECTIVITY:
   a. The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
   b. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
   c. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
   d. The CAE will confirm to the Board, at least annually, the organizational independence of the internal audit activity.

7. RESPONSIBILITY:
The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:
   a. Evaluating risk exposure relating to achievement of the organization's strategic objectives.
   b. Evaluating the reliability and integrity of information and the means used to identify, classify, and report such information.
   c. Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
   d. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
   e. Evaluating the effectiveness and efficiency with which resources are employed.
   f. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
   g. Monitoring and evaluating governance processes.
   h. Monitoring and evaluating the effectiveness of the organization's risk management processes.
   i. Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
   j. Performing consulting and advisory services related to governance, risk management and internal control as appropriate for the organization.
   k. Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
   l. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
   m. Evaluating specific operations at the request of the Board or Chancellor, or institution presidents, as appropriate.
History:
Amendment SBHE Minutes, September 26, 2012.
Amendment, SBHE Minutes, March 27, 2014.

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