North Dakota State Board of Higher Education
Audit Committee
June 8, 2015

The State Board of Higher Education Audit Committee will meet Monday, June 8, 2015 at 8:30 a.m. CDT, via Conference Call, at the Department of Public Instruction Conference Room, 10th floor of the State Capitol, 600 E. Boulevard Ave., Bismarck, ND. *

Call to Order

1. Approval of Agenda
2. Approval of Minutes
   • April 10, 2015
   • April 14, 2015

3. Executive Session regarding the fiscal year 2013/2014, draft NDUSO and CTS Operational Audit Report and the North Dakota University System’s proposed Responses to the Report and its Recommendations.

According to North Dakota Century Code section 54-10-26, the fiscal year 2013/2014, draft NDUSO and CTS Operational 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 Operational Audit Report, its recommendations therein, and the NDUS proposed responses, and further, the executive session shall be limited to members of the SBHE Audit Committee and chancellor and staff.

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.

4. Reconvene in open meeting.

Call to Order

5. Recommend approval of the NDUS proposed Responses to the draft fiscal year 2013/2014 NDUSO and CTS Operational Audit Report, as discussed in Executive Session.
7. Discussion on Audits and Audit Process

9. Update on Status of Compliance Plan

10. Update on Audit Tracking Site – Laura Ann Schratt

Adjourn

*This meeting has been changed from a conference call to a face-to-face meeting due to changes in Board members travel arrangements.*
The State Board of Higher Education Audit Committee met on Friday, April 10, 2015 at 10:30 a.m. CDT, Bismarck State College, NECE building, ECG 335, 1200 Schafer Street, Bismarck, ND 58506.

Ms. Neset called the meeting to order at 10:30 a.m. CDT.

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

NDUS staff participating:
   Dr. Lisa Feldner, Vice Chancellor for Institutional Technology and Research
   Ms. Cynthia Goulet, General Counsel
   Ms. Laura Glatt, Vice Chancellor Administrative Affairs
   Ms. Laura Schratt, Special Projects Assistant
   Ms. Kristie Hetzler, Executive Assistant to the State Board of Higher Education

Others participating:
   Mr. Robert Peterson, State Auditor Office
   Mr. Ed Nagel, State Auditor Office
   Mr. Jason Wahl, State Auditor Office
   Mr. Rich Fuher, State Auditor Office
   Ms. Jennifer Kurtz, State Auditor Office
   Mr. Jordan Schatz, State Auditor Office
   Ms. Amanda Pierce, State Auditor Office
   Mr. Corry Kenner, LRSC
   Ms. Alice Brekke, UND
   Mr. Douglas Dawes, VCSU
   Ms. Mary Eisenbraun, BSC
   Ms. Tamara Barber, BSC
   Mr. Dennis Gladen, NDSCS
   Mr. Keith Johnson, NDSCS
   Mr. Mark Lowe, DSU
   Dr. Beth Ingram, NDSU
   Mr. Bruce Bollinger, NDSU
   Ms. Karin Hegstad, NDSU

Approval of Agenda
Melicher moved, Neset seconded, to approve the April 10, 2015, agenda.

Neset and Melicher voted yes, Morton Absent.
NDUS Waivers and Stipends
Melicher moved, Neset seconded, to enter into executive session regarding the 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 SHBE 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.

Neset and Melicher voted yes, Morton Absent.

Executive Session began at 10:33 a.m. CDT.

Melicher moved, Neset seconded, to adjourn executive session at 12:28 p.m. CDT.

Ms. Neset reconvened the SBHE Audit committee open meeting.

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

NDUS staff participating:
   Dr. Lisa Feldner, Vice Chancellor for Institutional Technology and Research
   Ms. Cynthia Goulet, General Counsel
   Ms. Laura Glatt, Vice Chancellor Administrative Affairs
   Ms. Laura Schratt, Special Projects Assistant
   Ms. Kristie Hetzler, Executive Assistant to the State Board of Higher Education

Others participating:
   Dr. Ray Nadolny, President, WSC
   Dr. Doug Darling, President, LRSC
   Mr. Corry Kenner, LRSC
   Ms. Alice Brekke, UND
   Mr. Douglas Dawes, VCSU
   Ms. Mary Eisenbraun, BSC
   Ms. Tamara Barber, BSC
   Mr. Dennis Gladen, NDSCS
   Mr. Keith Johnson, NDSCS
   Mr. Mark Lowe, DSU
   Dr. Beth Ingram, NDSU
   Mr. Bruce Bollinger, NDSU
   Ms. Karin Hegstad, NDSU

Melicher moved, Neset seconded, to direct the system office to make the limited revisions to the draft responses to the state auditors’ recommendations as discussed in executive session, and to make those available to the Audit committee at a meeting to be set on or before April 15, 2015.
Neset and Melicher voted yes, Morton Absent.

**SBHE Audit Committee Minutes**
Melicher moved to approve the January 29, 2015 Meeting Minutes.

Neset and Melicher voted yes, Morton Absent.

Ms. Glatt explained that lack of an audit director at the system office has caused a gap in flow of information to the committee. There are a number of audits throughout the year, some of which are presented to the Audit Committee. She said clarification would be helpful in terms of which audits and the process to be used by the SBHE Audit committee to vet audit reports. Ms. Neset stated that the auditor positions are in transition from the system office to the State Auditor’s office (SAO) and until that transition is complete and the committee has a better understanding of how the auditing function will be conducted; the committee should remain very involved. Dr. Melicher suggested that the committee meet more regularly until there is better understanding of how the system will perform internal auditing. Chair Neset requested that a list of audits be brought back to the committee at their next meeting and they will prioritize it.

Melicher moved to adjourn at 1:05 p.m. CDT.
North Dakota State Board of Higher Education
Audit Committee
Tuesday, April 14, 2015

The State Board of Higher Education Audit Committee met Tuesday, April 14, 2015 at 12:30 p.m. CDT, Bismarck State College, NECE building, room 303, 1200 Schafer Street, Bismarck, ND 58506.

Ms. Neset called the meeting to order at 12:30 p.m. CDT.

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

NDUS staff participating:
  Dr. Lisa Feldner, Vice Chancellor for Institutional Technology and Research
  Ms. Cynthia Goulet, General Counsel
  Ms. Linda Donlin, Vice Chancellor of Strategic Engagement
  Ms. Laura Glatt, Vice Chancellor Administrative Affairs
  Ms. Kristie Hetzler, Executive Assistant to the State Board of Higher Education

Morton moved, Melicher seconded, to approve SBHE Audit committee agenda for April 14, 2015.

Morton, Melicher, and Neset voted yes.

NDUS Waivers and Stipends
Morton moved, Melicher seconded, to enter into executive session regarding the March 20, 2015, draft NDUS Waivers and Stipends Performance Audit Report under North Dakota Century Code section 54-10-26 which designates this March 20, 2015, Draft Performance Audit Report by the state auditor and now released to the SBHE Audit Committee as a confidential document, and it will continue to 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 SHBE 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.

Morton, Neset, and Melicher voted yes.

Executive Session began at 12:35 p.m. CDT.

Executive session adjourned at 12:42 p.m. CDT.

Ms. Neset reconvened the SBHE Audit committee in open meeting.

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

NDUS staff participating:  
   Dr. Lisa Feldner, Vice Chancellor for Institutional Technology and Research  
   Ms. Cynthia Goulet, General Counsel  
   Ms. Linda Donlin, Vice Chancellor of Strategic Engagement  
   Ms. Laura Glatt, Vice Chancellor Administrative Affairs  
   Ms. Kristie Hetzler, Executive Assistant to the State Board of Higher Education

Morton moved, Melicher seconded, to approve the NDUS office response to the state auditors’ Performance Audit Report as discussed in executive session.

Morton, Neset, and Melicher voted yes.

Melicher moved to adjourn at 12:55 p.m. CDT.
North Dakota University System

Audit and Communications Plan
Fiscal Year 2015

Office of the State Auditor
Division of State Audit
May 28, 2015

State Board of Higher Education Audit Committee
North Dakota University System

Dear Audit Committee:

We are pleased to have this opportunity to meet with you on June 8, 2015 to present our 2015 Audit and Communications Plan for the North Dakota University System (NDUS) fiscal year 2015 financial audit. Discussion of our 2015 plan with you ensures our audit team members understand your concerns and we agree on mutual needs and expectations to provide the highest level of service quality. Our plan has been developed to provide the NDUS with an efficient, high quality audit, which addresses the key risks and issues impacting the organization. Our plan also takes into account our responsibility to provide the Audit Committee and NDUS’s management the Office of the State Auditor’s insight on technical accounting and industry matters that may be of interest to you.

We look forward to meeting with you to present our audit plan, address your questions and discuss any other matters of interest to you.

Please feel free to contact me at 701-239-7291 with any questions you may have.

Very truly yours,

Robyn Hoffmann, CPA
Audit Manager
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Executive Summary

The North Dakota University system and its stakeholders expect us to deliver a high quality audit and this is our goal again this year. The Office of the State Auditor provides audits that are independent, objective, nonpartisan assessments of the stewardship and performance of government policies, programs or operations. Our mission is to provide innovative audit services designed to improve governmental operations and provide accountability for the benefit of the citizens of North Dakota.

What’s New for 2015

New accounting standards are some of the highlights:

- The following are new accounting standards in place during fiscal year 2015:
  - GASB Statement 68 – *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.
  - GASB Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. The objective of Statement No. 71 is to improve accounting and financial reporting by addressing an issue in Statement No. 68, Accounting and Financial Reporting for Pensions, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that statement. This statement amends paragraph 137 of Statement No. 68 which limited recognition of pension-related deferred outflows of resources and deferred inflows of resources at the transition to circumstances in which it is practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions.

We anticipate GASB Statement 68 to have major impact on the NDUS financial statements and will require a net pension liability to be recorded for the NDUS’s present obligation to pay for deferred pension benefits in the future. We are unsure as to the actual audit impact at this time. At least some of the audit impact will depend on the audit work performed by the auditor of the plans.
Looking Forward

We will continue adapt our audit to changing facts and circumstances. Below we highlight some of the changes that will impact your audit from 2016 and beyond:

- The following are new accounting standards that will require implementation in 2016 and beyond:
  - GASB Statement 72 – *Fair Value Measurement and Application*. The objective of Statement No. 72 is to address accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

  We are unsure as to the actual audit impact at this time for this standard.

Our Audit Objectives

As the NDUS’s auditor, we are responsible for reporting on numerous financial statements. In performing our audit for 2015, our primary objectives are as follows:

- Perform an audit of the North Dakota University System financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States. The financial statements are comprised of the business-type activities and the aggregate discretely presented component units, including the related notes to the financial statements of the NDUS. In connection with our audit, we will obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error, fraud, misappropriation of assets or violations of laws or governmental regulations.

- Communicate in writing to management and the Audit Committee all material weaknesses and significant deficiencies identified during the audit. In addition, we will include a management letter communication in writing to management and the Audit Committee all deficiencies in internal control, of consequence, over financial reporting identified during the audits.

- Complete other communications required under professional standards to the Audit Committee on a timely basis.

In meeting these objectives, we will do the following:

- Consult with management on a timely basis regarding accounting and financial reporting issues and ensure all matters of significance are reviewed and discussed with the NDUS Director of Financial Reporting and relevant campus personnel.

- Coordinate efforts with management to ensure that all significant financial statement components are subject to sufficient audit coverage.
Evaluate changes in the NDUS’s risk profile and internal controls to determine the nature, timing and extent of our testing of controls and substantive tests.

Provide relevant expertise to facilitate the resolution of important issues.

Report the results of our work to management and the Audit Committee including constructive observations relating to the NDUS’s financial processes and controls.

We note that the campus foundations have separate audits of their financial statements and auditor’s reporting on those foundations is directed to the individual foundation audit committees. Accordingly, this Audit and Communications Plan is not focused on the specifics of the campus foundations.

Our Audit Approach and Risk Assessment

Our audit strategy is based on:

- The use of a top-down, risk-based approach to planning and conducting an audit; and
- The application of well-reasoned professional judgment

These principles allow us to develop and execute our audit strategy in an effective and efficient manner.

Significant Risks

The designation of significant risks which is required by the professional auditing standards ensures that we place appropriate emphasis and testing on those areas most likely to cause a material financial reporting misstatement. Accordingly, as part of our audit planning, we identify certain audit areas as subject to significant risk of material financial reporting misstatement in the financial statements based on our knowledge of the NDUS. Such audit areas are subject to inherent or specific risks and complexities, critical accounting policies and/or significant judgments and estimates, as further described in the NDUS’s consolidated financial statements, and are key considerations as we develop our current year audit approach. For the fiscal year 2015, we have noted the following significant risks:

- Management override of controls – This is an area of presumed significant risk on all audit engagements. We perform testing on the appropriateness of journal entries and other adjustments, significant accounting estimates, and significant and/or unusual transactions to address this risk.
- GASB 68 – This is an area that may pose problems with the new standard and entries that will have to be made in fiscal year 2015.
- Lack of comprehensive fraud and control risk assessment – There is an indication of lack of monitoring of fraud and internal control risk system-wide.
- Lack of internal audit staff – There is an indication of risk because of the lack of internal audit staff NDUS will have starting July 1, 2015.

Areas of Audit Emphasis

In addition to the significant risk identified above, in past audits we have identified the areas below that were not considered significant risks but are areas of focus during the audit due to materiality of the balance or complexity/judgment involved in the accounting. Such audit areas are subject to material accounting policies and/or judgments and are considerations as we develop our current year audit approach. They include the following:
Determination of which entities are to be included as component units under GASB reporting guidelines due to their significance and the nature of the NDUS’s relationship with the entities.

Treatment of related party transactions with the NDUS, as applicable to the separately-issued financial statements of the foundations.

Presentation and disclosure of the financial statements.

Cash and Investments
- Grants and contracts receivable
- Capital assets and depreciation expense
- Accounts payable and accrued payroll
- Bonds, notes and capital leases payable
- Proper classification of net position accounts
- Student tuition and fees
- Federal and nongovernmental grants and contracts
- Sales and services of educational departments
- Auxiliary enterprises
- Salaries and wages
- Operating expenses
- Scholarship and fellowship expenses
- Cost of sales and services expenses
- State appropriations

Audit Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Phone Number</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robyn Hoffmann, CPA</td>
<td>Audit Manager</td>
<td>701-239-7291</td>
<td><a href="mailto:rhoffmann@nd.gov">rhoffmann@nd.gov</a></td>
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<tr>
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<tr>
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</tr>
</tbody>
</table>

Auditor Responsibilities

<table>
<thead>
<tr>
<th>Program Area</th>
<th>Auditor Assigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and Request Letter</td>
<td>Mary Feltman</td>
</tr>
<tr>
<td>Cash/Investments</td>
<td>Mikka Wold</td>
</tr>
<tr>
<td>Revenue, Receivables and Receipts</td>
<td>Alex Mehring</td>
</tr>
<tr>
<td>Inventory</td>
<td>Mikka Wold</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>Travis Klinkhammer</td>
</tr>
<tr>
<td>Laws and Regulations</td>
<td>Mary Feltman</td>
</tr>
<tr>
<td>Payables/Expenditures</td>
<td>Cory Wigdahl</td>
</tr>
<tr>
<td>Long Term Debt</td>
<td>Travis Klinkhammer</td>
</tr>
<tr>
<td>Payroll</td>
<td>Robyn Brenden</td>
</tr>
<tr>
<td>Net Position</td>
<td>Travis Klinkhammer</td>
</tr>
<tr>
<td>Client Financial Statements</td>
<td>Mary Feltman, Robyn Hoffmann &amp; Cory Wigdahl</td>
</tr>
</tbody>
</table>
We have developed the following reporting timeline that facilitates NDUS meeting the deadlines set by the Office of Management and Budget (OMB) in order for NDUS’s financial statements to be a part of the State of North Dakota’s Comprehensive Annual Financial Report (CAFR).

<table>
<thead>
<tr>
<th>Key Procedures Performed</th>
<th>Timing of Procedure</th>
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</thead>
<tbody>
<tr>
<td>Send out audit request letter</td>
<td>May 7, 2015</td>
</tr>
<tr>
<td>Send out engagement letter</td>
<td>May 26, 2015</td>
</tr>
<tr>
<td>Assess key audit risks and materiality</td>
<td>May – June 2015</td>
</tr>
<tr>
<td>Complete understanding of controls and complete preliminary audit plans of accounts</td>
<td>June – July 2015</td>
</tr>
<tr>
<td>Interim testing</td>
<td>June – August 2015</td>
</tr>
<tr>
<td>Complete audit programs</td>
<td>August – mid November 2015</td>
</tr>
<tr>
<td>Present any potential audit adjustments to NDUS</td>
<td>Mid November 2015</td>
</tr>
<tr>
<td>Present any draft recommendations</td>
<td>Mid December 2015</td>
</tr>
<tr>
<td>Office of State Auditor Final Report - Governance Communication Including the Report on Internal Control, Compliance, and Other Matters Issued</td>
<td>No later than 60 days after the opinion date</td>
</tr>
</tbody>
</table>

**Mutual Understanding of Responsibilities**

**Office of the State Auditor’s Responsibilities**

Our responsibility is to express an opinion, based on our audit, on the NDUS’s basic financial statements which includes the business-type activities, the aggregate discretely presented component units of the NDUS and the related notes to the financial statements. We conduct our audit in accordance with audit standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Audit Standards (GAS), issued by the Comptroller General of the United States. Those standards required that the auditor obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error, fraud, misappropriation of assets or violations of laws or governmental regulations. Accordingly, a material misstatement may remain undetected. An audit is not designed to detect error or fraud that is immaterial to the financial statements. An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify all significant
deficiencies. However, as your auditor, we are responsible for ensuring that the Audit Committee is aware of any significant deficiencies or material weaknesses that come to our attention.

Our responsibility with respect to other information in documents containing audited financial statements is to read such information and consider whether the information or the manner of its presentation is materially consistent with the information appearing in the basic financial statements.

Our responsibility with respect to the Audit Committee communications is to convey those matters that have come to our attention as a result of the performance of our audit.

Our audit does not relieve management of its responsibilities with regard to the financial statements.

Management’s Responsibilities
As part of the audit process, management is responsible for the following:

- Preparing the NDUS’s financial statements in accordance with generally accepted accounting policies.
- Establishing and maintaining effective internal control over financial reporting.
- Identifying and ensuring that the University complies with the laws and regulations applicable to its activities.
- Making all financial records and related information available to the Office of the State Auditor.
- Providing the Office of the State Auditor with a letter confirming certain representations made during the audits.
- Adjusting the financial statements to correct material misstatements and affirming to the Office of the State Auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the Office of the State Auditor during the current engagement pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Audit Committee’s Responsibilities
As part of the audit process, the Audit Committee is responsible for the following:

- Overseeing the reliability of financial reporting including the effectiveness of internal control over financial reporting.
- Reviewing and discussing the annual financial statements for the NDUS and determining whether they are complete and consistent with operational and other information known to the Audit Committee members.
- Understanding significant risks and exposures and management’s response to minimize those risks.
- Understanding the audit scope.
Communications and Planned Interactions

Our Communications Plan with Management

We communicate with management both in writing and verbally continuously throughout the audit. Examples of our ongoing communications include:

- Issues identification and resolution
- Meetings with management at various campuses
- Planning discussions
- Discussions of draft audit recommendations
- Review of draft financial statements
- Monthly audit status updates

Our Communications Plan with the Audit Committee

Our communications with the Audit Committee are designed to comply with the standards established by the American Institute of Certified Public Accountants.

Our formal communications may occur via periodic meetings with the Audit Committee at various stages during the audit. We will also send our monthly audit status updates via email to keep the Audit Committee aware of any significant issues that have occurred during the audit. In addition, we will present the results of our audits upon completion. We generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion.

In addition, we are also available, at any time, to respond to the Audit Committee members' questions.

Our Interaction with Internal Audit

Although our objectives and responsibilities are necessarily different from those of Internal Audit, the efforts of both our organizations may be complementary and provide a combined program of balanced audit coverage for the NDUS.

We consider Internal Audit to be a potentially effective and important element in the NDUS's overall internal control environment. We complete certain procedures when relying on their work, as follows:

- Reviewing on a timely basis Internal Audit reports and management responses.
- Understanding the Internal Audit plan, including the nature, timing and extent of work.
- Considering the impact of Internal Audit findings on our audit.

Materiality and Independence

Materiality

We consider both quantitative and qualitative factors in our assessment of materiality. We identify and assess the risk of material misstatement at:

- The overall financial statement level; and
- In relation to classes of transaction, account balances and disclosures.
We use different materiality levels for our audit of the various financial statements including the consolidated statements and the discretely presented component units.

**Independence**

As auditors of the NDUS, we are subject to the standards set forth in the *Government Auditing Standards (GAS)* to ensure our independence. Our quality control processes include confirmation of independence by professional staff and training and are established to ensure our continuing independence.

**Perspectives on Fraud Risk**

We have a responsibility to plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraud, misappropriation of assets or violations of laws or governmental regulations. In order to fulfill that responsibility, as part of our audit, we are required to gain an understanding of the risk of material misstatement due to fraud at the NDUS and perform certain procedures to respond to the fraud risk identified.

The oversight responsibilities of senior management and the Audit Committee and the auditor’s responsibilities related to fraud are outlined below:

<table>
<thead>
<tr>
<th>Management Responsibilities</th>
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<tbody>
<tr>
<td>• Design and implement programs and controls to prevent, deter and detect fraud (antifraud programs)</td>
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<td>• Ensure that the NDUS’s culture and environment promote honesty and ethical behavior</td>
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<td>• Perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalization</td>
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<td>• Assess management override of controls and communicate with the Audit Committee</td>
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<th>Audit Committee Considerations</th>
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<td>• Evaluate management’s identification of fraud risks, implementation of antifraud measures, and creation of appropriate “tone at the top”</td>
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<td>• Ensure that senior management implements appropriate fraud deterrence and prevention measures to better protect employees and stakeholders</td>
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<td>• Investigate any alleged or suspected wrongdoing brought to its attention</td>
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<td>• Challenge management in the areas of non-routine, related party and inter-institution transactions</td>
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| Office of the State Auditor’s Role | • Plan and perform the audit to provide reasonable assurance that the financial statements are free of material misstatement, whether caused by fraud, error, misappropriation of assets or violations of laws or governmental regulations  
• Evaluate whether the NDUS’s programs and controls that address identified risks of material misstatement due to fraud have been suitably designed and placed in operation  
• Evaluate management’s process for assessing effectiveness of antifraud programs and controls  
• Evaluate fraud of any magnitude on the part of senior management and the impact on the control environment |
| Office of the State Auditor’s Procedures | In order to fulfill our responsibilities related to fraud, we plan to perform the following procedures:  
• Inquires of the management, the Chair of the Audit Committee, Internal Audit and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by the NDUS  
• Analytical procedures  
• Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed annually  
• Identify and select journal entries and other adjustments for testing  
• Evaluate estimates and assumptions used by management that could have a material impact on the financial statements  
• Review Internal Audit reports and fraud hotline reports and remain alert for matters that are indicators of fraud |
NDUS Audits and Process
For SBHE Audit Committee Discussion, June 1, 2015

Annual
- NDUS comprehensive financial statement – one systemwide audit which includes 11 institutions & related entities, NDUS Office, and 7 major and 11 non-major foundations known as component units.

Biennial
- Single statewide audit, including NDUS (federal funds) – one statewide audit which includes 11 institutions and related entities as well as state agencies.
- Operational Audits – 12 reports, one for each university/college and one for the NDUS Office/CTS

Periodic
- IT Audits (e.g. CND finance, HR or campus solutions; CND security, etc.) – one audit per area
- Performance Audits (e.g. waivers & stipends, DSU, NDUS Office, capital projects, etc.) – one audit per area
  - LAFRC recently directed audits of: DSU, UND and NDSU Foundations and NDUS Space Utilization study
  - 6.0 new SAO positions

Process
- Entrance Conference involving SAO and client (appropriate entity) – high level
- SAO perform field work; throughout audit exchange of some information between SAO and client
- Near end of audit, SAO share preliminary audit findings and recommendations with campuses and/or NDUS
- Client receives DRAFT audit report and recommendations from SAO. Two weeks for client to provide final responses to SAO.
- Possibility for ongoing discussion with SAO during two week period to rectify any missing or incorrect information, which may lead to change in DRAFT report.
- If single campus audit, campus prepares and submits responses directly to SAO. If audit contains system level recommendations or covers multiple institutions (e.g. financial statement, federal audit, etc.), NDUS works with campuses to prepare responses. Or can be some combination thereof (e.g. financial statement audit). Fit SBHE Audit Committee meeting within 2 week period to consider responses before final.
- Audit Committee role
  - Review some or all reports before final?
  - Approve NDUS responses—some or all?
  - SBHE approval, information?
  - Monitoring expectations?
Findings, Recommendations, and University System Responses

MASU/MISU/NDSU/UND/WSC – STUDENT WORKER BACKGROUND CHECKS (FINDING 14-1)

Condition:
During our testing of background investigations, we noted Mayville State University, Minot State University, North Dakota State University, University of North Dakota, and Williston State College failed to require background checks for student workers given access to PeopleSoft HRMS, Financials, and Campus Connection allowing them to view other student’s names, ID numbers, addresses, etc.

Effect:
There is noncompliance with SBHE policy and procedure and an unnecessary risk to the NDUS of hiring of persons who have civil or criminal histories for sensitive jobs.

Cause:
Either the institutions are ignoring or they are unaware of SBHE procedures.

Criteria:
State Board of Higher Education Procedure, 602.3 Job Applicant/Employee Criminal History Background Checks, part 1, authorizes a background check to be performed for employees responsible for or with unsupervised access to cash, credit, debit or other financial transactions or numbers, or confidential, or other protected information, including medical records, social security numbers, tax, retirement, or vendor or contractor proprietary or other confidential information.

Recommendation 14-1:
We recommend MASU, MISU, NDSU, UND, and WSC complete background investigations for all employees including student workers before access is given to PeopleSoft.

University System Response/Planned Corrective Actions:
Disagree. The NDUS procedure 602.3, section #1 contains a list of positions for which a background check is authorized, not required. Sections #2 and #3 of this procedure list positions which require a background check. The three types of positions listed below appear to be authorized but not required because the positions are listed in section #1 and not sections #2 and #3.

1. Information technology staff
2. Employees responsible for or with unsupervised access to cash, credit, debit or other financial transactions or numbers, or confidential or other protected information...etc.
3. Part-time instructional staff.

Criminal background check requirements are currently under review within the NDUS and will be completed by June 30, 2015. Campus policies will be updated to reflect any possible future changes in SBHE policy or NDUS procedure.

Auditor Concluding Remarks:
We acknowledge the procedure states that a background check for student workers are only authorized. It is still our recommendation that the NDUS begin requiring background checks for student workers based on the sensitive data that is being accessed.
NDSU – LACK OF INTERNAL AUDITOR AUDIT DOCUMENTATION (FINDING 14-2)

Condition:
Based on our review of audit work performed by the internal audit staff at NDSU, audit work papers did not include audit programs, internal control testing, written audit reports, or written responses to recommendations.

Effect:
The lack of internal audit supporting documentation for work performed increases the risk of engagement ineffectiveness and questionable results and conclusions.

Cause:
The lack of system unity, proper training and system wide audit plan ensures disparity in audit practice by the internal audit staff.

Criteria:
To provide the University System with quality and reliable internal audit services, the internal audit staff must follow internal auditing standards by preparing, testing and documenting audit activities to support any conclusions drawn.

Recommendation 14-2:
We recommend all internal audit staff comply with established internal audit documentation standards and thus improve their audits through the use of engagement working papers including but not limited to, audit programs, documented findings and departmental responses to the findings and formal written audit reports.

University System Response/Planned Corrective Actions:
Agree. It is important for Internal Audit to comply with the International Standards for the Professional Practice of Internal Auditing (Standards). A stated goal for NDUS Internal Audit in FY2015 is to review and standardized internal audit practices within the System to ensure compliance with the Standards, and all audits performed in FY2015 will be reviewed for compliance with the established practices.
NDSCS – ACCOUNTING ISSUES (FINDING 14-3)

Condition:
We noted various coding, classification and reconciliation problems with North Dakota State College of Science’s accounting procedures:

- Last year’s template was used to calculate the scholarship allowance;
- A proper reconciliation was not done of the appropriation revenue and receivable;
- Account 722015, Mandatory Transfers, was used to record the bond principal payments instead of account 701010, Bond Principal Payments;
- Debt Service funds have not been set up on the general ledger for payment of the 2012 Housing and Auxiliary Facilities Bond, instead the bond principal and interest is being paid out of the construction fund;
- Restricted cash was overstated by $2,453,206 on the Statement of Net Position. This amount should have been shown as Current Cash - Unrestricted; and
- An improper entry was made to the general ledger causing cash to be understated by $214,577.

Effect:
The lack of proper internal controls can cause the financial statements to be materially misstated or improper entries recorded on the general ledger, which are not prevented or detected and corrected on a timely basis.

Cause:
NDSCS has not implemented proper controls to ensure accounting entries and account balances are properly recorded, reconciled and coded to the general ledger and ultimately the NDUS financial statements.

Criteria:
NDSCS should have internal controls in place which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, and compliance with GAAP. Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions and inaccurate records and financial statements.

Recommendation 14-3:
We recommend NDSCS implement procedures to ensure the accuracy of the general ledger and financial statements and:

- Use the correct template to calculate the scholarship allowance in the future;
- Prepare a proper reconciliation of the appropriation revenue and receivable;
- Use the proper account, 701010, when making bond principal payments;
- Set up the debt service funds on the general ledger for the 2012 Housing and Auxiliary Facility Bond;
- Properly restrict cash on the Statement of Net Position; and
- Ensure the general ledger cash accounts are properly reported and tie to the bank reconciliation.

University System Response/Planned Corrective Actions:
Agree. NDSCS will immediately begin examining its internal checklists, timelines, duties and responsibilities and make the necessary adjustments to ensure greater accuracy of general ledger activity and its financial statements. Changes identified through the review will be implemented by June 30, 2015.
STATE OF NORTH DAKOTA
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS

For Fiscal Years Ended June 30, 2014 and 2013

BISMARCK STATE COLLEGE (BSC)
DAKOTA COLLEGE AT BOTTINEAU (DCB)
DICKINSON STATE UNIVERSITY (DSU)
MINOT STATE UNIVERSITY (MISU)
NORTH DAKOTA STATE SCHOOL OF SCIENCE (NDSCS)
NORTH DAKOTA STATE UNIVERSITY (NDSU)
VALLEY CITY STATE UNIVERSITY (VCSU)
WILLISTON STATE COLLEGE (WSC)

Finding 2014-046
U.S. DEPARTMENT OF EDUCATION
CFDA # 93.342, 93.364, 93.264, 84.268, 84.038
Student Financial Aid Cluster

Questioned Cost: $0

Condition:
The Loan Note disclosure submitted to the state Office of Management and Budget for 2013 and 2014 included several areas where amounts submitted were not supported by the general ledger or where required amounts were not included. Differences were noted for 2013 at BSC, DCB, DSU, MISU, NDSCS, NDSU, VCSU and WSC and for 2014 at BSC, DCB, DSU, LRSC, MASU, MISU, NDSCS, NDSU and WSC.

Criteria:
OMB Circular A-133 section 310(b)(6) states that the Schedule of Expenditures of Federal Awards will include, either in the schedule or a note to the schedule, the value of loans or loan guarantees outstanding at year end.

Cause:
Due professional care was not used when preparing the SEFA information.

Effect:
There is a potential for misleading amounts to be included in the notes to the SEFA.

Recommendation:
We recommend the colleges and universities use due professional care when preparing notes to the SEFA in compliance with federal regulations.

University System Response/Corrective Action Plan:
BSC: Agree. BSC’s Loan Note disclosure for FY13 was found improper and corrections were made. BSC used due professional care when completing the FY14 Loan Note disclosure and will continue this in future years. BSC’s Grants Accountant and Financial Aid Director will work together more closely when preparing reports and notes for future SEFA reporting.

DCB, DSU, LRSC, MaSU, MISU, NDSCS, NDSU, WSC: Agree. Starting in FY15, greater care will be taken when preparing reports to insure the correct amounts are used going forward.
STATE OF NORTH DAKOTA
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS

For Fiscal Years Ended June 30, 2014 and 2013

VCSU: Agree. VCSU made the proper corrections after FY 2013 and submitted the Loan Note supported by the general ledger in FY 2014. In FY2015, VCSU has included corrected instructions in its procedure manual to ensure corrections will not be needed in the future.

BISMARCK STATE COLLEGE (BSC)
DICKINSON STATE UNIVERSITY (DSU)
NORTH DAKOTA STATE SCHOOL OF SCIENCE (NDSCS)
UNIVERSITY OF NORTH DAKOTA (UND)
WILLISTON STATE COLLEGE (WSC)

Finding 2014-047
U.S. DEPARTMENT OF EDUCATION
CFDA # 84.007, 84.033, 84.038
Student Financial Aid Cluster

Questioned Cost: $0

Condition:
BSC, DSU, NDSCS, NDSU, UND and WSC did not include ConnectND fees in the tuition and fee amount reported on the Fiscal Operations Report and Application to Participate (FISAP).

Criteria:
Instructions for the FISAP require these types of fees to be included in the tuition and fee amount reported.

Cause:
ConnectND fees are not recorded as tuition and fees when received by the institution, they are recorded as a deposit. The fees are remitted to Core Technology Services (CTS) who records them as tuition and fees.

Effect:
Tuition and fees on the FISAP are understated.

Recommendation:
We recommend that BSC, DSU, NDSCS, NDSU, UND and WSC include the ConnectND fees that are coded as deposits to the tuition and fee amount reported on the FISAP for each applicable year.

University System Response/Corrective Action Plan:
BSC, DSU, NDSCS, NDSU, UND, WSC: Agree. Beginning in FY2015, ConnectND fees that are coded as deposits will be included in the tuition and fee amount in the future FISAP reports.
Discount, Waiver, and Stipend Terminology

While the awarding of discounts, waivers, and stipends is a common practice within NDUS, no common definitions of the terms have been adequately established for the University System. Rather, each institution appears to have been allowed to define what constitutes a discount, waiver, and stipend. We identified differences between institutions with how discount and waiver terminology could be used. Differences can lead to confusion and can hinder comparisons of information from one institution to the next. For the purposes of this audit, we define a discount and a waiver separately (the terms are not used interchangeably).

Depending upon the institutions' approved tuition rates, discounts could be a significant amount or could be zero. For example, since MISU only has one undergraduate tuition rate (all undergraduate students regardless of residency are charged the resident rate), we identified no discount amounts. However, since institutions such as NDSU and UND have approved nonresident rates of 267% of the resident rates, significant discount amounts were identified. It is apparent the expectation is very few, if any, students will pay the full 267%.

In a limited review of tuition waiver information, we identified instances of tuition waivers being applied to non-tuition charges. For example, we identified certain tuition waivers were improperly coded or set up within the system to apply to fees, student housing, and other charges. As a result, when tuition waiver reports were generated by NDUS, waivers may not have been properly reported. While the differences were not considered significant in relation to the total tuition waiver amounts reported, we did identify over $750,000 in tuition waivers not reported for UND over the four academic years. UND chose to allow tuition waivers to be applied to non-tuition charges.

We identified inconsistencies in the accounting of discounts and waivers. Inconsistencies impact the reporting of information. Due to the various SBHE approved tuition rates, inconsistencies in coding information, or interpretations of the terms discount and waiver, amounts reported could be different between institutions and may create confusion. For example:

- Reciprocity agreements established as part of WICHE provide a reduced tuition for individuals coming from participating member states. With one exception, the reduction in tuition is accounted for as a discount (is not included in tuition waiver reports). SMHS accounts for the reduction in tuition pursuant to an agreement as a waiver (is included in tuition waiver reports).
- In 2009, SBHE approved proposed tuition rate changes at select NDUS campuses for the following: WSC and MISU to charge all nonresidents, including MN students, the resident rate; LRSC to charge all MN students the resident rate; and, NDSU to charge all nonresidents living in a residence hall and having a meal plan the resident rate. WSC, MISU, and LRSC reduce the tuition rate for the applicable students prior to the charge being applied to the students' accounts. NDSU applies the applicable tuition rate to
Chapter 1
University System Areas

students' accounts and, subsequently, reduces the tuition charged to the students' accounts down to the resident rate with non-monetary transactions. For academic years 2010-11 and 2011-12, NDUS included the reduction in tuition for nonresident students living in a resident hall and having a meal plan at NDSCS in the tuition waiver reports. For academic years 2012-13 and 2013-14, NDUS tuition waiver reports did not include the reduction in tuition.

A payroll account code has been established for institutions to use for coding graduate stipends. With no definition of the term stipend, there appears to have been confusion regarding the use of the account by one institution. We identified instances when graduate stipend related payments were coded to other payroll related accounts.

Recommendation 1-1

We recommend the State Board of Higher Education establish common definitions within the University System for discounts, waivers, and stipends. The Board should require institutions to review coding of discounts, waivers, and stipends.

Management's Response

Agree. The SBHE will establish common definitions for waivers, discounts, and stipends; however, it should be noted there may be more than one definition to recognize differences, where appropriate, but once defined they will be used consistently across the NDUS. This will be completed by December 31, 2015.

Improvements Needed

As part of this performance audit, we attempted to identify and review institutions' policies and procedures for tuition waivers. To obtain such information, we made multiple contacts with institutions to provide requested information.

Criteria for Tuition Waivers

SBHE policy states institutions may adopt procedures providing for the waiver of tuition and fees. The policy states institutions are encouraged to use the waiver authority to promote enrollment of a culturally diverse student body, including members of Indian tribes and economically disadvantaged students, for the benefit of all students and the academic community, to promote enrollment of graduate students and research, and for other purposes consistent with an institution's mission. Our limited review of information identified certain waivers granted appeared to be in noncompliance with the SBHE intent for providing a waiver. For example, UND established a "give-away" promotion available for students attending an athletic event on campus.

We identified certain institutions were granting tuition waivers when no policies or procedures appeared to have been established. The policies and procedures established by institutions are inconsistent and do not always include sufficient criteria. We identified BSC had established a policy requiring departments administering waivers to develop written
Test accounts in production
We noted test accounts in ConnectND Campus Solutions creating an increased risk of unauthorized access. Testing should be done in an environment separate from production. North Dakota University System stated these accounts are developed in the production environment to more easily troubleshoot user issues.

Recommendation:
We recommend the North Dakota University System not develop test accounts in the production environment.

Agency Response:
Partially concur. Several of these test accounts are used to validate production security, to ensure permissions, roles, and institutional security function as expected. Because security varies in other, non-production environments, we believe these accounts give the best potential for ensuring permissions and roles do what we expect, but do not grant unexpected access. The NDUS will ensure that these test accounts are locked when not being used to validate security, and that the locking/unlocking process is done through the security team. We will remove other "test" accounts that are not used for maintenance of security.

Auditor's Opinion
In our opinion, except as noted above, security is designed to provide access based on a demonstrated need to view, add, change, or delete data.
government. The state auditor shall charge an amount equal to the cost of the audit and other services rendered by the state auditor to all agencies that receive and expend moneys from other than the general fund. This charge may be reduced for any agency that receives and expends both general fund and nongeneral fund moneys. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee.

3. Be vested with the authority to determine whether to audit the international peace garden at the request of the board of directors of the international peace garden.

4. Perform or provide for performance audits of state agencies, or the agencies' blended component units or discreetly presented component units, as determined necessary by the state auditor or the legislative audit and fiscal review committee. A performance audit must be done in accordance with generally accepted auditing standards applicable to performance audits. The state auditor may not hire a consultant to assist with conducting a performance audit of a state agency without the prior approval of the legislative audit and fiscal review committee. The state auditor shall notify an agency of the need for a consultant before requesting approval by the legislative audit and fiscal review committee. The agency that is audited shall pay for the cost of any consultant approved.

5. For the audits and reviews the state auditor is authorized to perform or provide for under this section, the audit or review may be provided for by contract with a private certified or licensed public accountant or other qualified professional. If the state auditor determines that the audit or review will be done pursuant to contract, the state auditor, except for occupational or professional boards, shall execute the contract, and any executive branch agency, including higher education institutions, shall pay the fees of the contractor.

6. Be responsible for the above functions and report thereon to the governor and the secretary of state in accordance with section 54-06-04 or more often as circumstances may require.

7. Perform all other duties as prescribed by law.

SECTION 4. AMENDMENT. Section 54-10-10 of the North Dakota Century Code is amended and reenacted as follows:

54-10-10. Salary of state auditor.

The annual salary of the state auditor is ninety-six thousand seven hundred ninety-four dollars through June 30, 2014, and ninety-nine thousand six hundred ninety-eight thousand two hundred six hundred eighty-nine dollars through June 30, 2016, and one hundred five thousand seven hundred seventy dollars thereafter.

SECTION 5. A new section to chapter 54-10 of the North Dakota Century Code is created and enacted as follows:

State board of higher education audits - Higher education audit division.

1. The state auditor shall establish a higher education audit division and employ a division audit manager to perform all audit related functions of the state board of higher education, including the examination and evaluation of the adequacy and effectiveness of the board's governance, risk management, internal controls, performance of constitutionally and statutorily required duties, and other areas as determined by the state auditor. The audit manager shall conduct audits, as determined appropriate by the state auditor of each institution under the supervision and control of the state board of higher education. The audit manager may consult with the state board of higher education, or a committee designated by the board, regarding audit plans, results of audit activities, and any other appropriate issue. The state auditor shall determine the audit scope and related audit areas of any audit conducted by the audit manager.
manager. This section does not require the state auditor to perform any duties that would compromise the auditor's independence under government auditing standards.

2. The audit manager may access and examine any record under the control of the state board of higher education. For purposes of reviewing records under the Family Educational Rights and Privacy Act [20 U.S.C. 1232g; 34 CFR 99] or any other federal privacy law, the audit manager must be considered a state educational official authorized to access student records for audit purposes.

3. The state auditor may hire employees necessary to carry out the duties and responsibilities of this section. The state auditor may hire consultants to assist with any duties required under this section subject to approval by the legislative audit and fiscal review committee. The state board of higher education shall pay for the cost of any consultant approved under this section.
2. The education incentive programs line item includes funding that may be allocated to education incentive programs based on program eligibility criteria and the reduction or elimination of specific programs as determined by the board.

3. The campus security funding pool line item includes funding that must be used to address security needs at institutions based on campus risk and security assessments.

4. The internal audit funding pool line item includes funding that must be used for systemwide and campus internal audit purposes.

The state board of higher education shall provide reports to the legislative management during the 2015-16 interim regarding distributions from the deferred maintenance, campus security, and internal audit funding pools.

SECTION 26. CAMPUS CAPITAL PROJECTS - PROJECT MANAGEMENT. During the biennium beginning July 1, 2015, and ending June 30, 2017, each capital project authorized by the state board of higher education must have adequate project management oversight by either an institution official or a representative of an external entity. An institution may seek assistance from the university system office for project management oversight of a capital project.

SECTION 27. NORTH DAKOTA STATE UNIVERSITY - MINARD HALL - REAUTHORIZATION - BUDGET SECTION REPORT. In addition to the funds appropriated in section 1 of this Act, North Dakota state university may use unspent state funding from the $5,000,000 appropriation received during the biennium beginning July 1, 2007, and ending June 30, 2009, and unspent state funding from the $13,000,000 appropriation received during the biennium beginning July 1, 2009, and ending June 30, 2011, and special funds derived from insurance litigation settlement and other local institutional funds, to a total of $23,474,300 for the Minard hall project, for the biennium beginning July 1, 2015, and ending June 30, 2017. North Dakota state university shall report to the budget section regarding the status of the Minard hall project and may request increased spending authorization from the budget section for the project.

SECTION 28. MINOT STATE UNIVERSITY - FOOTBALL STADIUM PRESS BOX - REAUTHORIZATION. Minot state university may use up to $4,000,000 in private funds from the city of Minot and $1,000,000 in local institutional funds for the completion of the football stadium press box during the period beginning with the effective date of this Act, and ending June 30, 2017.

SECTION 29. STUDENT LOAN TRUST FUND. Subdivision 1 of section 1 of this Act includes the sum of $3,504,744, or so much of the sum as may be necessary, from the student loan trust fund, of which $465,307 is for the professional student exchange program, $500,000 is for grants to tribally-controlled community colleges, $2,000,000 is for campus leadership transition costs at Dickinson state university, and $539,437 is for connectND campus solution positions, for the biennium beginning July 1, 2015, and ending June 30, 2017.

SECTION 30. UNIVERSITY OF NORTH DAKOTA SCHOOL OF MEDICINE AND HEALTH SCIENCES OPERATIONS. The operations line item in subdivision 5 of section 1 of this Act includes a funding allocation from the higher education per student credit-hour funding formula attributable to inflation during the biennium beginning July 1, 2015, and ending June 30, 2017. A minimum of twenty-five percent of the allocation must be transferred by the state board of higher education to the university of North Dakota school of medicine and health sciences.

SECTION 31. FEDERAL, PRIVATE, AND OTHER FUNDS - APPROPRIATION. All funds, in addition to those appropriated in section 1 of this Act, from federal, private, and other sources for competitive grants or other funds that the legislative assembly has not indicated the intent to reject, including tuition revenue, received by the state board of higher education and the institutions and entities under the control of the state board of higher education, are appropriated to the board and those institutions and entities, for the biennium beginning July 1, 2015, and ending June 30, 2017. All additional funds received under the North Dakota-Minnesota reciprocity agreement during the biennium
SBHE Policies

SUBJECT: 300c: 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 video-conference. 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 or 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 a 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 performance with the Institute of Internal Auditors: the Extinction 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 investigations 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 thereon.

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 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.
NDUS has a 143 page system-wide accounting manual and standard chart of accounts that are located on the NDUS website at http://www.ndus.edu/employees/accounting-manual-forms/. A copy is also attached, for your reference, as part of the agenda materials.

The chart of accounts located on pages 92-142 of the accounting manual and also located on the NDUS website is run directly from the PeopleSoft system. It can also be accessed by individuals using the PeopleSoft system.

The accounting manual is a living document; updated on a regular basis.
- In 2011-2012, the Controllers Group performed a comprehensive update of the original manual developed in 2007.

There is a formal defined process within Controllers Group for adding, modifying or inactivating general ledger accounts and the accounting manual.

Changes to the manual are made, for example, for new GASB standards, implementation of audit recommendations or additions, changes or inactivation of general ledger accounts.
- Campuses are notified of updates through the Controllers Group email listserv.
- A master control log is maintained documenting each change to the manual, the reason for the change and the date of the change.

The Controllers Group meets by phone monthly and in person annually to discuss accounting matters. The Controllers Group listserv also serves as a communication tool throughout the year.

The goal is to minimize errors. It is not possible, however, to eliminate all errors given the volume of transactions, the number of individuals processing transactions, turnover and the complexity of certain transactions.

Consistency exceptions may exist when it is not viable or practical or does not meet GAAP requirements. Examples:
- NDSU uses different fund number ranges because of Ag Extension, Ag Budget Office, ND Forest Service and Upper Great Plains Transportation Institute
  - Separate state appropriation for each.
  - Requires many additional funds, unique to these entities within NDSU.
  - Decision was made during PeopleSoft implementation several years ago to allow NDSU to use different fund ranges.
- Parking Structures categorized as Auxiliaries and Institutional Support.
  - NACUBO definition of auxiliaries requires enterprises be self-supporting to be classified as an auxiliary.
  - Parking structures at some campuses meet this criteria, while others do not.
- Campuses with self-supporting parking structures classified as auxiliaries. Others are classified as institutional support.

- The following areas of inconsistency have been identified and will need to be reviewed:
  - Student government and student organizations. Additional research needed to identify possible broader implications, such as application of state law & state expenditures and student implications. This project is on hold pending executive direction.
  - Agency funds. Some campuses use agency funds. Others use local or appropriated funds. A workgroup within the Controllers Group has been established to research and develop policy or accounting manual update.
  - Collaborative payments. CG plans to look at this after the FY15 close
  - Resident Advisor room and board compensation (FY14 informal rec #3). Work group has been established and is gathering current and best practices information.
  - Student residency: This audit recommendation has stalled pending other projects and will require legal guidance.
  - Waivers & Stipends: These 10 recommendations were highlighted in a recent audit and the SBHE has committed to a December 31, 2015 resolution date. These have not yet been started.
  - Student Fees: The intent was to resolve many of the remaining audit issues through the implementation of the new tuition model. Given the new tuition model is on hold, interim solutions will need to be examined.

- Other major, recurring audit recommendations that are on hold due to lack of resources are:
  - Risk assessment
  - Internal control review and training

- Further HB1003 (2015) includes the following provisions:

  **SECTION 42. STATE BOARD OF HIGHER EDUCATION DATA INCONSISTENCIES – REPORT TO THE SIXTY-FIFTH LEGISLATIVE ASSEMBLY.** During the biennium beginning July 1, 2015, and ending June 30, 2017, the state board of higher education shall evaluate the following data inconsistency issues at institutions and entities under its control and develop policies and procedures to correct the inconsistencies:
  1. Lack of integration of personal and demographic information among computer systems;
  2. Lack of use of standard chart of accounts for financial reporting and standard department budget table deduction and tax override flags;
  3. Absence of standard business processes for recording mandatory fees and for changing payroll funding source information;
  4. Inconsistent methods and procedures at institutions for recording high school completions, identifying student cohorts for reporting purposes, and classifying agency funds;
  5. Inconsistent practices and policies at institutions for awarding tuition waivers, admitting students, using purchasing card, charging tuition and fees, and accruing of faculty sick leave;
  6. Inconsistent coding and naming for bad debt expense and journal entries;
  7. Use of shadow accounting systems for reporting purposes; and
  8. Inconsistent definitions for a distance education student, a resident student for tuition purposes, and a full-time student for federal tax purposes.
The state board of higher education shall provide a report to the appropriations committees of the sixty-fifth legislative assembly regarding the status of the inconsistencies, including policies and procedures implemented to correct the inconsistencies.

SECTION 22. AMENDMENT. Subsection 4 of section 54-44.1-06 of the North Dakota Century Code is amended and reenacted as follows:
Detailed comparative statements of expenditures and requests for appropriations by funds, budget units and classification of expenditures, showing the expenditures for the previous biennium, the first fiscal year of the present biennium, the budget of the current biennium, and the governor's recommendation for appropriations for each budget unit for the next biennium, all distributed according to the prescribed classification of expenditures. Following the lists of actual and proposed expenditures of each budget unit there must be a brief explanation of the functions of the unit and comments on its policies and plans and on any considerable differences among the amounts recommended, with any descriptive, quantitative, comparative, and other data as to work done, unit costs, and like information as may be considered necessary or desirable. For capital outlay expenditures involving construction projects to be completed in two or more fiscal years, there must be shown the total estimated cost of each such project and the amount thereof recommended to be appropriated and expended in each ensuing fiscal year until completion of the project. Capital outlay needs may be projected for at least two years beyond the period covered by the budget. The detailed comparative statements of budget units under the control of the state board of higher education must include the same information presented for other budget units.

Common Data Definitions

- NDUS has a data dictionary defines common data elements used by campuses, the NDUS System Office and CTS. The dictionary is located at https://dataelements.ndus.edu/. Provides common definitions for about 200 common financial and non-financial elements. Examples of data elements include:
  - FTE
  - Program fees
  - Tuition and collaborative tuition
  - Academic load

- Intended to address data quality and integrity as well as minimum required elements.
MEMO

To: SBHE Audit Committee
From: Tracy Vigness Kolb, Assistant General Counsel
Subject: Status of Compliance Program
Date: May 26, 2015

This memorandum provides a status report on the compliance activities since I appeared at the SBHE Audit Committee meeting on January 29, 2015. At that meeting, I presented a preliminary draft Action Plan detailing the elements of a compliance program based on the Ch. 8 U.S. Federal Sentencing Guidelines that are widely-accepted guidelines in the corporate setting, including the health care industry, for which I had spent many of my 19 years in private practice assisting health care clients (and others) with their compliance programs and compliance and risk management activities. My work was in a legal capacity, helping clients design and structure their programs as well as maintaining their programs; and providing legal counsel pertaining to compliance matters. The Action Plan included identifying measures currently in place and initial recommended measures to be taken in order to begin implementing an overall, comprehensive system-wide compliance program. I based NDUS’s proposed compliance program on the U.S. Federal Sentencing Guidelines because they are also being applied in the higher education setting. Compliance programs in higher education are a more recent phenomenon, unlike the health care industry which has been urged to implement formal compliance programs since 1998.

My proposal also included a preliminary draft compliance and ethics guide. As I explained at the January meeting, this guide is not a compliance program. It is one small piece of a much more formal and comprehensive program that must include an organizational structure clearly identifying the roles and functions of the governing body; the Chancellor and other management; legal, internal audit, and compliance; and the institutions; as well as, among many other things, the reporting structure and other protocols. I explained to the Audit Committee that I based the guide on the existing organizational structure and the existing compliance pieces in place, which consisted of a code of conduct and fraud hotline. I otherwise made no assumptions in preparing the draft guide.

I prepared the draft materials not as a compliance officer, but, as I explained to the Audit Committee, as an attorney, and specifically, an in-house attorney with the NDUS. Attorneys play a key role and function in compliance for corporate or other organizational entities. Attorneys often design the program, which will include an in-house legal function if the entity has in-house counsel. If it does not, the program would need to be structured without in-house counsel, but include a mechanism by which the legal function would be accomplished through outside counsel, recognizing that the roles of in-house and outside counsel are different. Outside counsel, for example, would not have the intimate familiarity of the entity and its day-to-day internal affairs.

Since January, the landscape has changed dramatically. Legislation was introduced, and ultimately passed, that removed the legal function and dramatically diminished the internal auditor function of the SBHE and NDUS. As that legislation progressed, any ongoing
compliance efforts were suspended pending the outcome because the proposed materials were based on the existing structure of the system. With legal and internal audit now removed from the structure, the SBHE and the Chancellor will have to rethink and redesign a compliance program. It will require much more effort because, for example, the legal function is currently intimately weaved throughout the SBHE organizational structure and existing policies and procedures.

The SBHE’s legal services will now be provided by the Attorney General’s office, but I cannot speak for the Attorney General’s office and whether it will or can fill the role and function of in-house counsel for a compliance program; or whether its legal services will include continuing the efforts of the NDUS to build a system-wide compliance program and what role it will have thereafter in the program. These issues will require continued discussions with the Attorney General’s office.

There are corporate and organizational entities, usually smaller ones, which do not have what I call “the luxury” of in-house counsel. Those entities build their programs without an in-house legal function, but do include measures and protocols that provide for when outside legal assistance is triggered or required. This approach is one that may be considered and could be included in discussions with the Attorney General’s office.