North Dakota State Board of Higher Education
Audit Committee
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. Laura Pfeifer, 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 10:55 a.m. CDT.

Minutes approved on April 10, 2015.