



The Vital Link to a Brighter Future

TO: Members, SBHE Budget, Audit and Finance Committee

FROM: William Goetz, Chancellor 

DATE: June 8, 2010

Memo #M-10-17

RE: Internal Audit Plan-Phase I

In addition to the long standing SBHE policies and procedures on employee roles and responsibilities, the SBHE will have taken several additional steps in recent months to strengthen NDUS accountability and transparency. These include:

- implemented a mandatory fraud awareness training for all benefitted employees (Feb. 2010 SBHE action)
- implemented an anonymous fraud awareness hotline (Feb. 2010 SBHE action)
- changed the reporting relationship for internal audit staff to report to the SBHE BAFC on all audit plans, reports and recommendations. Hiring, dismissal and pay decisions are also subject to BAFC review (Feb. 2010 SBHE action)
- adopted a code of conduct for the SBHE and all NDUS employees (anticipated June 2010 SBHE action)
- modified capital project policies in Oct. 2009 , and in May 2010 directed a review and additional changes, as appropriate, to the capital project process
- strengthen Presidential goals and evaluation process on financial accountability and responsibility

In order to further minimize risk, it is important to ensure proper internal controls are in place and working properly. Following consultation with external experts, I recommend the SBHE consider taking the following additional steps at this time:

- 1.) Contract for completion of System Office and individual campus risk assessment at UND, NDSU and one other campus. This effort will develop the knowledge base and template that would hopefully allow the remaining campuses to be completed in house. Although the NDUS Office, in working with the campus controllers/accountants has started the risk assessment, given the level of staff resources available at the campus level and the NDUS Office, it will take a significant number of years to complete this task. In order to accelerate completion to a period of an estimated 6-12 months, external assistance is necessary. The risk assessment will allow us to ensure proper controls, training, and monitoring are in place first for those areas where we are at greatest risk. Furthermore, it would also provide solid information upon which the SBHE could later consider necessary staffing requirements, both in number and required skill set. The cost of the risk assessment would be shared between UND, NDSU, the other remaining campus, yet to be identified, and the NDUS Office. A more specific funding plan would be provided to the SBHE once a more solid cost estimate is available; however, it is estimated that this work could cost in the range of \$50-100,000.

State Capitol - 600 E Boulevard Ave Dept. 215, Bismarck ND 58505-0230

Phone: 701.328.2960 Fax: 701.328.2961 E-mail: NDUS.office@ndus.edu Web: www.ndus.edu

Memo #M-10-17

June 8, 2010

Page #2

- 2.) Add an internal audit staff position in the NDUS Office. This position would assist with coordination and completion of the risk assessment, and as a result, would also be able to later assist the other campuses in completion of the risk assessment. It is anticipated that this position would later become part of a more comprehensive internal audit unit. Currently, the Director of Financial Reporting is leading the coordination and development of the risk assessment project. While she has expertise and experience in this area, she does not have the time needed to devote to this project, given more than half of the year is dedicated to year-end financial statement preparation and other audit and accounting issues. The cost of this position would be assessed to the campuses based on variables, including financial size.
- 3.) Request the State Auditor's Office staff review select areas, as identified by the BAFC, as part of their regular audit process(es). The SAO has indicated a willingness to do this, within reason. The cost of this additional work would be borne by the individual campuses as part of their routine audit work.

I believe this plan is a positive first step and will enable to the NDUS to better manage risk.

g:\terry\goetz\letters\m-10-17 6-8-10.docx

North Dakota University System - Significant Audit Adjustments Interim HE Committee June, 2010, NDUS

Context

- Campuses begin closing about July 1st, with campus statement due date to the NDUS Office about September 7th or about 10 weeks for campus process; and, consolidated statements are due to the SAO about October 16th or about 6 weeks for consolidated work.
- Each campus is required to complete 70 templates plus approximately 90 additional items required to be submitted to the SAO within a relatively short time period of time.
- Over 700 schedules must be processed, in many cases multiple times, by the NDUS Director of Financial Reporting, within approximately a 4-6 week timeframe, to complete the consolidated statement on a timely basis.

Reasons for Significant Audit Adjustments

- Human error - will strive to reduce the number of adjustments, but likely will never prevent all adjustments.
- Lack of adequate technology tools – improvements underway, but CND solution still long-term.
- Limited staff resources – 1.0 FTE in System Office; smaller campus controllers wear multiple hats. Large campus controllers have more volume and sometimes more complex transactions.
- Continual staff turnover.
- Complexity and volume of operations (e.g. grants, auxiliaries, component units, etc.).
- Periodic change in historical financial statement treatment practices, due to changing interpretations.
- Independent status of component units.
- Compressed timelines coupled with significant volume of financial statement activity, plus other day-to-day activities.
- Continual release of new accounting pronouncements, which can be somewhat subjective in interpretation, which are usually resolved over time.

Solutions Underway

- The System Office hosted systemwide training for all controller's/accountants, provided by an external CPA firm, with HE expertise, on May 12th.
- Complete temporary technical tool upgrade before the end of the FY 10, which will provide additional edit controls and free up staff time for reviewing data for accuracy.
- Next phase of risk assessment, focused on transaction process review, will help to identify efficiencies and process improvements.
- Before fiscal year end, developing a check list for the campus controllers to use when completing their schedules to help reduce the number of corrections.
- Director of Financial Reporting will have more familiarity, given completion of one full year cycle.
- Campus presidents will now be held accountable, as part of the annual evaluation process, for resolving audit issues.

Other

- SBHE to consider more comprehensive monitoring/auditing function at their June 2010 meeting.
- Anonymous fraud hotline implemented. (February 2010 SBHE action)
- Annual mandatory fraud awareness training for all NDUS benefitted employees implemented. (February 2010 SBHE action)
- Current campus internal audit staff (1.0 FTE at NDSU and 1.8 FTE at UND, including student employees) report to the SBHE Budget, Audit and Finance Committee on all audit plans, reports, and recommendations. All hiring, dismissal and pay decisions involving internal audit staff subject to BAFC review. (February 2010 SBHE action)
- Adopt Code of Conduct to be reviewed by all new employees and annually by all NDUS benefitted employees. (June 2010 SBHE action anticipated)

g:\laura\wpdocs\audit\he committee audit adjustments 06.10.docx