

NORTH DAKOTA

UNIVERSITY SYSTEM

The Vital Link to a Brighter Future

Jon W. Backes, Vice President

State Board of Higher Education
2007-2011

May 12, 2010

Committee Members

Legislative Audit and Fiscal Review Committee

600 E. Boulevard Ave.

State Capital

Bismarck, ND 58505

Re: NDUS Capital Projects Performance Audit and NDUS Institutions Operational Audits

Committee Members:

First, please accept my regrets that I am unable to appear before you in person today, but, unfortunately, a pre-existing client commitment prevents my personal appearance, and, as such, I request your consideration of the following:

As you are aware, the State Board of Higher Education requested a performance audit on capital projects due to information received about the cost increases associated with construction of the presidents' homes at NDSU and UND. The audit brought to light other projects that did not follow policies and procedures (such as remodeling of the NDSU president's office, Barry Hall and remodeling of the UND president's office). The SBHE appreciates the work of the State Auditor's Office and the recommendations set forth in the performance audit. As you can see from the audit responses approved by the SBHE, the board and the applicable campuses agree with the recommendations made by the state auditor for improvements to the capital expenditure process. One key benefit of the audit process is that related SBHE policies and decision-making processes have been reviewed and improved.

Clearly, improvement in the monitoring function is necessary. The SBHE has directed the chancellor and senior staff to review all policies related to capital processes. As a result of this process, additional improvements to the policies and procedures will be discussed and implemented. In addition to the SBHE Budget, Audit and Finance Committee review of policies, the North Dakota University System has created a system-wide committee that will be charged with reviewing laws, policies and procedures and recommending changes to ensure compliance. This committee is scheduled to meet May 20, 2010. The SBHE has built into its 2011-13 budget request the addition of a new position, which, if funded, will provide the SBHE and the campuses full-time expert assistance in preparing, reviewing, managing and

McGee, Hankla, Backes & Dobrovolny, P.C., PO Box 998, Minot, ND 58702-0998

Phone: 701.852.2544 • Fax: 701.838.4724

E-mail: jon.backes@ndus.edu • Web: www.ndus.nodak.edu

The North Dakota University System is governed by the State Board of Higher Education and includes:
Bismarck State College • Dickinson State University • Lake Region State College • Mayville State University •
Minot State University • Minot State University-Bottineau Campus • North Dakota State College of Science •
North Dakota State University • University of North Dakota • Valley City State University • Williston State College.

May 12, 2010

Page 2

monitoring capital projects. This expertise currently does not exist. Unfortunately, in the absence of a new position, staff time to assign to this effort will continue to be limited.

- ✕ I do not, however, believe the audit findings are solely, or even primarily, the result of a lack of adequate policies. Rather, I believe the findings are primarily the result of an unwillingness by some to follow the policies currently in place. My belief is based on the audit findings as well as the fact that the Budget, Audit and Finance Committee currently requires campuses to submit semi-annual budget reporting disclosures. As part of this process, campuses are asked to disclose projects they believe will exceed authorized amounts and scope. The building projects addressed by the state auditor were not reported in accordance with board policy. Board policies are well known to all of the campuses, yet the requirements clearly were not met in several instances reflected in the audit.
- ✕ The SBHE expects all University System employees to comply with laws and policies and to be good stewards of state taxpayer funds. This expectation has, and will continue to be, clearly communicated to all campus personnel through campus presidents. Campus presidents will be held accountable to this expectation, and it will be addressed directly in the presidents' annual evaluation process. In that regard, the transparency and accountability of which we regularly speak are necessities, not luxuries. A code of conduct for all personnel is currently under development and will include required periodic employee review. The SBHE has changed the reporting relationship for internal audit staff personnel at UND and NDSU, wherein they report to the campus for administrative purposes, but all audit plans, reports and findings are subject to review by the SBHE. Hiring, firing and pay decisions involving these individuals also are subject to SBHE review and approval.
- ✕ Finally, on Monday, the board directed the chancellor to undertake hiring of appropriate personnel to investigate the root cause of and personnel involved in the purposeful circumvention of board policy brought to light by the audit. The purpose of this investigation is two-fold: first, to insure that all root causes are identified and policies are in place to prevent re-occurrence of such non-compliance, and, second, to insure that all who were involved in the violation of policy are dealt with appropriately.

If you desire any additional information, please do not hesitate to contact the chancellor or me.

Very truly yours,



Jon W. Backes
Chair, SBHE Budget, Audit and Finance Committee

xc: Members, State Board of Higher Education
William Goetz, Chancellor, NDUS
Laura Glatt, Vice Chancellor for Administrative Affairs, NDUS