

# OFFICE OF THE STATE AUDITOR

## PERFORMANCE AUDIT FOLLOW-UP REPORT

Of the Status of Recommendations from

UNIVERSITY OF NORTH DAKOTA  
SCHOOL OF MEDICINE AND HEALTH SCIENCES

November 15, 2010

Report No. 3025.1



**Robert R. Peterson, State Auditor**



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November 15, 2010

Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

A fundamental objective of the Office of the State Auditor's work is to bring about improvements through recommendations. To achieve this, our recommendations need to be timely and effectively implemented. The Legislative Audit and Fiscal Review Committee (LAFRC) has requested the Office of the State Auditor to perform follow-up work after presentation of performance audit reports to the Committee and to report those agencies which have not implemented audit recommendations.

The Office of the State Auditor conducted an audit follow-up on the performance audit of the School of Medicine and Health Sciences (report #3025) dated August 22, 2007. The objective of this follow-up audit was to determine the status of the 35 recommendations included in the performance audit report. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. The audit period for which information was collected and reviewed was July 1, 2009 through September 30, 2010.

As a result of the follow-up review, 28 recommendations were determined to be fully implemented, 6 were determined to be partially implemented, and 1 was determined to be not implemented. We want to extend our appreciation to the management and staff of the School of Medicine and Health Sciences for their assistance and cooperation during this follow-up audit.

Sincerely,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

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School of Medicine and Health Sciences  
Report Dated August 22, 2007

Transmittal Letter

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## Recommendations Fully Implemented

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### Recommendation #1

**We recommend the School of Medicine and Health Sciences comply with state laws regarding the purpose and duties of the medical school or take appropriate action to modify state laws.**

#### *Original Condition*

Based on a review of the purpose and duties of the School of Medicine and Health Sciences (SMHS) established in state law, we identified improvements were needed to ensure compliance. North Dakota Century Code (NDCC) Section 15-52-01 stated the purpose of SMHS “must be to provide facilities for the coordination, improvement, expansion, and unification of health and welfare activities of the state and its agencies and its political subdivisions and private medical practitioners.” While SMHS had taken steps related to the law, we concluded SMHS may not fully coordinate, improve, expand, and unify health and welfare activities of the state. The purpose of SMHS hadn’t been changed since 1945.

NDCC Section 15-52-15 required SMHS “to compile a list of cities, towns, and other municipalities in this state without a qualified physician or dentist or with an insufficient number of qualified physicians or dentists, and to endeavor to supply physicians or dentists to such cities, town, and other municipalities.” We determined SMHS did not have a list of cities and towns without a qualified physician or dentist. SMHS had not established criteria for determining what constituted an insufficient number of qualified physicians.

NDCC Section 15-52-29 authorized and directed SMHS “to provide or encourage means for providing for the training of such psychiatrists and other psychiatric personnel as may be necessary to properly staff state institutions and agencies providing services in the field of mental health.” This requirement had not been changed since 1957 and SMHS did not identify the psychiatric need or appropriate staff required at state institutions and agencies providing services in the field of mental health.

#### *Action Taken*

Changes were made to NDCC Chapter 15-52 by the 2009 Legislative Assembly. Bills were introduced at the request of the State Board of Higher Education (SBHE) related to changes with language in statute regarding SMHS. Chapters 165 and 167 of the 2009 Session Law made various changes to state law related to SMHS. For example, the purpose statement in state law was revised and states:

“The primary purpose of the university of North Dakota school of medicine and health sciences is to educate physicians and other health professionals and to enhance the quality of life in North Dakota. Other purposes include the discovery of knowledge that benefits the people of this state and enhances the quality of their lives.”

The requirement of SMHS to compile a list of cities, towns, and other municipalities was removed from NDCC Section 15-52-15. Changes

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## Chapter 1 Recommendations Fully Implemented

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were made to the requirements in NDCC Section 15-52-29. However, the requirement related to providing or encouraging means for training personnel to properly staff state institutions and agencies remains. During the 2009-2011 interim, information related to the availability of services and number of providers is being considered by the Judicial Process Committee. SMHS identified it is also working with the North Dakota Department of Humans Services' Division of Mental Health and Substance Abuse Services in this area.

### *Result of Implementation*

State law has been updated including the establishment of a clear purpose for SMHS which will guide actions taken by the school.

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## Recommendation #2

**We recommend the School of Medicine and Health Sciences ensure their mission statement is consistent with legislative intent established in state law.**

### *Original Condition*

The mission statement of SMHS was not consistent with the purpose established in NDCC Section 15-52-01. Thus, resources used in accomplishing the mission of SMHS may not have been used in accordance with legislative intent. In review of information, we identified instances in which appropriated funds were supplementing research. According to SMHS, the mission statement was last modified in 1996.

### *Action Taken*

The purpose statement in state law for SMHS was modified by Chapter 165 of the 2009 Session Laws. NDCC Section 15-52-01 states:

“The primary purpose of the university of North Dakota school of medicine and health sciences is to educate physicians and other health professionals and to enhance the quality of life in North Dakota. Other purposes include the discovery of knowledge that benefits the people of this state and enhances the quality of their lives.”

The SMHS mission statement appears consistent with the purpose in state law. The mission statement is:

“The mission of the University of North Dakota School of Medicine and Health Sciences is to educate and prepare physicians, medical scientists and other health professionals for service to the people of North Dakota and the nation, and to advance medical and biomedical knowledge through research.”

### *Result of Implementation*

Resources used to accomplish the mission of SMHS are used within the intent of the legislature.

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Chapter 1  
Recommendations Fully Implemented

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**Recommendation #3**      **We recommend the School of Medicine and Health Sciences, in conjunction with the Medical Center Advisory Council, make improvements with the Medical Center Loan Fund. At a minimum, the School should:**

- a) Take appropriate action to increase the maximum loan amount;
- b) Ensure the interest rate charged does not exceed the maximum rate established by state law; and
- c) Ensure proper authority exists to operate a permanent revolving loan fund or take appropriate steps to comply with state law.

*Original Condition*      NDCC Chapter 15-52 established a Medical Center Loan Fund. The fund's purpose was to make it possible for all qualified students attending the medical school to complete their education in medicine. By state law, the loan amount could not exceed \$6,000 each year and the interest rate was not to exceed 6%. Based on a review of information regarding the loan fund, we identified the \$6,000 maximum was too low and an interest rate of 6.8% was being charged. The loan fund was being operated as a revolving loan fund. However, there was no specific authority within state law to operate a revolving loan fund.

*Action Taken*      Chapter 167 of the 2009 Session Laws modified state law requirements related to the Medical Center Loan Fund. The fund is now identified as the School of Medicine and Health Sciences Revolving Loan Fund. The maximum annual loan amount was increased to \$10,000. In our review of a sample of five loans given to students from this fund, it appears there is compliance with requirements in NDCC.

*Result of Implementation*      The SMHS Loan Fund is operated in accordance with state law.

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**Recommendation #4**      **We recommend the School of Medicine and Health Sciences establish a formal process to ensure compliance with state laws. This process should include a periodic review to ensure laws are not outdated, and a plan to take appropriate action to update laws if necessary.**

*Original Condition*      In determining whether SMHS was in compliance with certain requirements of state law, we noted a number of noncompliance issues and identified there was no process for monitoring compliance. We also noted a number of state laws had not been modified in a significant number of years. As a result, the functions, activities, and accomplishments of SMHS may not have been consistent with legislative intent.

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**Chapter 1**  
**Recommendations Fully Implemented**

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*Action Taken* SMHS created a policy requiring a biannual review of applicable NDCC to ensure the laws are not outdated. Also, quarterly meetings have been arranged between the senior leadership of SMHS and the University of North Dakota's Office of General Counsel to ensure the School remains in compliance with state and other laws, rules, and regulations.

*Result of Implementation* A formal process for monitoring and reviewing laws should enhance compliance with state law requirements.

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**Recommendation #5** **We recommend the Medical Center Advisory Council comply with requirements within North Dakota Century Code Chapter 15-52 and, at a minimum:**

- a) **Advise, consult, and make recommendations related to the School of Medicine and Health Sciences;**
- b) **Meet at least the number of times required by state law; and**
- c) **Study, consider, and formulate plans for facilitating and implementing, through the School of Medicine and Health Sciences, a unified program for the improvement and maintenance of the health of the people of the state or take appropriate action to modify the state law.**

*Original Condition* NDCC Chapter 15-52 established a Medical Center Advisory Council comprised of 14 members including legislators, members representing various state departments, and members representing health and medical associations. Based on a comparison of the requirements established in state law and the actions taken by the Advisory Council, the following was identified:

- NDCC Section 15-52-03 indicated the Advisory Council was “established to advise, consult, and make recommendations to the university administration, and to the several agencies represented on the council concerning the program of the North Dakota state medical center, the adaptation of the medical center to the needs of the state and to the requirements and facilities of the several agencies involved, and the use of the North Dakota state medical center and its facilities by the various institutions and agencies of the state and its political subdivisions.” We concluded the Advisory Council did not adequately advise or make recommendations.
- NDCC Section 15-52-03 required the Advisory Council to meet not less than twice a year. We identified only one meeting was held in calendar year 2005.
- NDCC Section 15-52-04 stated the Advisory Council “shall study, consider, and formulate plans for facilitating and implementing, through the North Dakota state medical center, a unified program for the improvement and maintenance of the health of the people of the state in all of its phases. The study must include specifically ways and means of bringing about the complete training of adequate numbers of qualified physicians and



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## Chapter 1 Recommendations Fully Implemented

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surgeons for the people of the state, both in the general practice of medicine and surgery and the field of public health, of allied health professionals, and all other personnel concerned with the improvement and preservation of the health of the people of this state.” Plans had not been formally developed by the Advisory Council. Also, a determination as to the “adequate numbers of qualified physicians and surgeons” had not been accomplished. As a result, steps toward a unified program for the improvement and maintenance of the health of the people of the state had been limited.

### *Action Taken*

Chapter 166 of the 2009 Session Laws amended the duties of the Advisory Council in NDCC Chapter 15-52. The Advisory Council is now to study and make recommendations regarding the strategic plan, programs and facilities of SMHS. The Advisory Council is also required to submit a biennial report to various entities describing various health care areas.

A Health Care Plan was drafted by SMHS and approved by the Advisory Council. The Health Care Plan, dated March 9, 2008, encompasses long-term goals of SMHS and the Advisory Council. The plan identifies the following three components of the initiative:

- Plan for our state’s future health care workforce needs;
- Preserve the SMHS’ Family Medicine training programs; and
- Provide the needed health care workforce for the future.

Based on a review of meeting minutes and discussions with representatives of the Advisory Council and SMHS, it appears the Advisory Council is complying with requirements in NDCC. The council did meet at least twice a year during our time period reviewed. Representatives of both the Advisory Council and SMHS agree the Council has been more active in regards to advising, consulting, and making recommendations to the SMHS in the last two years. At the time of our review, work had been conducted on a biennial report which was anticipated to be completed in December.

### *Result of Implementation*

With the changes in the role of the Advisory Council and actions taken to ensure compliance with state law requirements, a plan has been developed to address vital health care areas of the state.

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### **Recommendation #6**

**DJW recommends the School of Medicine and Health Sciences investigate increasing the number of residency and fellowship positions supported by Medicare Direct Medical Education (DME) and Indirect Medical Education (IME) and carefully review any plans to increase residency or fellowship positions with the Residency Review Committee requirements.**

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## Chapter 1 Recommendations Fully Implemented

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### *Original Condition*

A consulting firm (DJW, Inc.), hired by the Office of the State Auditor to assist with the performance audit of SMHS, identified a relatively constant and small percentage of students graduating from SMHS remain in North Dakota to pursue residency training. The consultant concluded there were not enough first-year resident physician positions available in state to accommodate the number of graduates from SMHS. Since a large percentage of physicians practice within a 200 mile radius of the site where they complete their residency training, we identified SMHS should investigate increasing the number of residency and fellowship positions supported by Medicare Direct Medical Education (DME) and Indirect Medical Education (IME), including the potential re-creation of the Family Medicine Residency Program in Fargo. The Medicare DME payment compensates teaching hospitals for some of the costs directly related to the graduate training of physicians. These costs include stipends and fringe benefits of residents, salaries and fringe benefits of faculty who supervise the residents, other direct costs, and allocated institutional overhead costs such as maintenance and electricity. The IME payments are made in recognition of the differences in operating costs between teaching and non-teaching hospitals in which the Medicare program includes a special payment adjustment in its prospective payment system.

### *Action Taken*

SMHS drafted a Health Care Plan which was approved by the Medical Center Advisory Council. This plan does identify a plan for increasing residency positions as well as an estimated budget for the increases. Reviews of funding for positions and requirements for residency appear to have occurred. This plan was presented to the State Board of Higher Education (SBHE) in June 2008. However, the Board did not approve the funding for the residency positions.

For the upcoming 2011 Legislative Session, SBHE has approved a funding request for additional residency slots. In discussion with SMHS representatives, there are 17 residency slots anticipated to be recommended to the legislature. A request to increase the number of students by 16 is also being made so there is a correlation with accepting 16 more students into the medical program and the 17 additional residency slots. SMHS representatives indicated the residency slots will be accredited and SMHS is hopeful they will be eligible for DME/IME.

### *Result of Implementation*

Increasing the number of residency positions will enhance the chances physicians will remain in the state.

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### **Recommendation #7**

**DJW recommends the School of Medicine and Health Sciences develop its clinical research programs for the school to be competitive for a Clinical and Translational Science Award (CTSA). This will require additional financial support.**

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## Chapter 1 Recommendations Fully Implemented

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### *Original Condition*

DJW identified the neuroscience initiative and rural health program have developed a significant, national reputation. SMHS research generated approximately \$8.5 million in National Institutes of Health (NIH) funds in fiscal year 2005. NIH seeks to develop a national consortium transforming how clinical and translational research is conducted. The program, funded through the Clinical and Translational Science Awards (CTSA), will provide new treatments efficiently and quickly to patients. DJW concluded efforts must be made to preserve the research enterprise, maintain the school's teaching distinction, serve the state's needs for physicians, and look for new avenues, such as clinical research and economic development, to serve the state.

### *Action Taken*

The CTSA program was started in 2006 and thus, was a relatively new program at the time of the original performance audit. Based on a review of information, SMHS did submit a proposal for an award which was not awarded. In addition, SMHS has taken other actions in attempts to increase their efforts related to research. For example, SMHS held a research retreat in December 2009 to address the strategic research plans. Also, a new Associate Dean for Research was hired in July 2008. SMHS identified a number of collaborative efforts with various departments at the University of North Dakota and with entities in other states.

SMHS has now determined to be competitive for CTSA funds, it must partner with a current CTSA facility. This is due to a number of reasons including SMHS's size, certain additional components which are needed at SMHS, and the fact CTSA funds are available for 60 proposals and 55 have already been funded. Working in collaboration and partnering with another CTSA facility appears to be a reasonable method for becoming competitive to receive CTSA funding.

### *Result of Implementation*

SMHS is positioning itself to be able to obtain and use CTSA funding.

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## **Recommendation #8**

**DJW recommends the School of Medicine and Health Sciences provide additional incentives to encourage and reward faculty to commercialize intellectual property arising out of their research.**

### *Original Condition*

DJW identified SMHS played a role in the development and commercialization of intellectual property. DJW identified a faculty member in the medical school was the founder of a company which the Center for Innovation assisted with the business plan. The Center for Innovation also worked with another faculty member to launch a company which would lease space in a technology park to be constructed. DJW concluded SMHS needs to do more in this area to contribute to the state's economic development.

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## Chapter 1 Recommendations Fully Implemented

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### *Action Taken*

There has been an increase in the education related to intellectual property provided to the faculty at SMHS. To facilitate availability and interaction with medical school faculty members, SMHS provided office space within the medical school building for a recently appointed Licensing Assistant from the Office of Intellectual Property Commercialization and Economic Development at UND.

The UND Vice President of Research and Economic Development indicated there has been an increase in invention disclosures from SMHS, which is the first step of the commercialization process. This individual was optimistic there could be commercialization of intellectual property within a year or two.

SMHS identified two additional methods had been implemented in an attempt to encourage and recognize faculty in the area of research. The Dean sends a personal letter of congratulations to individuals who received new grants. Also, SMHS hosted a recognition dinner to recognize individuals who had received new grants.

### *Result of Implementation*

Increasing efforts to commercialize intellectual property arising out of research can lead to additional revenue for SMHS.

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## **Recommendation #9**

**DJW recommends the School of Medicine and Health Sciences develop a culture within the school in which major management decisions begin with a formal, internal review process with all key partners and an attempt to build a consensus to support the desired outcome.**

### *Original Condition*

DJW concluded the style of the then Dean of SMHS was to be vested personally in all decisions without relying on formal, faculty-driven processes and without, in some circumstances, an appreciation for political consequences of decisions. DJW identified this may have been the reason for strained relationships between the Dean of SMHS and external constituencies. DJW noted major management decisions within SMHS should begin with a formal, internal review process with key partners in an attempt to build a consensus to support desired outcomes.

### *Action Taken*

SMHS has implemented a number of changes in an effort to increase communication. For example, a weekly electronic newsletter is sent to all faculty members, students, staff, and other stakeholders, including legislators, North Dakota University System presidents, and others. The Dean writes a weekly update in E-News. The Dean has placed a focus on input from chairs and directors in meetings and the meetings have been restructured so issues are discussed in depth before policy decisions are made.

SMHS has adopted a policy through the faculty governance process formalizing the process for policy implementation. The purpose of the

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**Chapter 1**  
**Recommendations Fully Implemented**

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policy is to provide a clear and concise guide and template as to how policy will be established. The process includes the opportunity for review and comment from involved stakeholders prior to the promulgation of a policy.

*Result of Implementation*

Building consensus and making improvements with how management decisions are made should improve relationships with stakeholders.

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**Recommendation #10**

**We recommend the School of Medicine and Health Sciences establish specific performance measures for monitoring the effectiveness of the operations of the school. Appropriate benchmarks or other standards to measure the school's performance should be identified.**

*Original Condition*

The strategic plan established by SMHS contained a large amount of information. In review of the strategic plan, we identified the plan contained very limited measurable performance goals or objectives. There were very limited benchmarks or other criteria established to compare SMHS's performance or outcomes. For example, SMHS had established a success indicator of "low staff turnover." There were no criteria or benchmarks regarding what SMHS considered "low." As a result, concluding on whether the school's performance was meeting or exceeding expectations was difficult.

*Action Taken*

Performance measures based on UND's 2005 Strategic Plan have been established by SMHS. SMHS has also established goals for certain performance measures. For example, the performance measure of the "Percent of students entering primary care" has a goal of 40%. In the last five academic years, SMHS identified the percentage as being over 40% for four of the five years.

*Result of Implementation*

Appropriate benchmarks exist to measure the performance of SMHS.

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**Recommendation #11**

**We recommend the School of Medicine and Health Sciences formally review the organizational structure and reporting relationships and make the appropriate changes to ensure the structure becomes more efficient and effective. At a minimum, changes should be made to:**

- a) Ensure employees are only reporting to one supervisor;
- b) Establish an organizational chart for each department;
- c) Ensure managers/supervisors are only responsible for a reasonable number of employees; and
- d) Have the organizational chart reflect actual responsibilities of employees.

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## Chapter 1 Recommendations Fully Implemented

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### *Original Condition*

In a review of organizational charts, we identified employees were reporting to more than one individual and in one instance, a department had not developed an organizational chart. Also, the Associate Dean for Student Affairs and Admissions had responsibilities related only to the medical school students of SMHS, which was not reflected on the organizational chart. The organizational chart indicated the Dean of SMHS was responsible to evaluate and supervise 30 employees. This was an unusually high number of individuals for the Dean to be responsible for and used time which could have been spent on other activities.

### *Action Taken*

In review of SMHS organizational charts, it appears each department now has its own chart and the actual responsibilities of employees are appropriately reflected. Certain employees were found to have multiple supervisors. In discussion with SMHS representatives, it became apparent these supervisory relationships were necessary due to the size of SMHS. The Dean is responsible for the direct supervision of over 20 employees. In discussions with the Dean, he identified the transfer of supervision to other positions is an ongoing process. We identified considerable progress has been made in the few months the Dean has been in his position (appointed May 18, 2010) to reduce the number of employees supervised directly by the Dean.

### *Result of Implementation*

The organizational structure and reporting relationships are more efficient and effective.

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## **Recommendation #12**

**We recommend the University of North Dakota ensure areas identified as requiring improvement are adequately addressed, documented, and monitored in the evaluation process of the Dean of the School of Medicine and Health Sciences.**

### *Original Condition*

A survey completed by UND's Office of Institutional Research which was sent to various students, faculty, professional staff, administration/chairs, and alumni showed several negative rankings regarding the Dean. The poor survey results were not formally addressed in the subsequent evaluation of the Dean. No formal plan or additional monitoring appeared to have taken place as a result of the survey results. One other Dean at UND had a similar survey conducted during our audit time period and the results identified significantly higher ratings. The Dean's management style and/or lack of communication strained relationships and led to apparent problems. The Dean's management style was found to lie at the heart of strained relationships between the Dean and some external constituencies.

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**Chapter 1**  
**Recommendations Fully Implemented**

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*Action Taken* SMHS has gone through a change in the position of Dean since the original performance audit was conducted. The former Dean resigned effective July 1, 2009. An Interim Dean was selected and following a formal search, became the Vice President for Health Affairs and Dean of SMHS on May 18, 2010. While no surveys had been completed, an informal evaluation of the Dean was conducted by the President of UND. The review identified no areas for improvement.

*Result of Implementation* Having an adequate evaluation process to ensure areas requiring improvement are adequately addressed, document, and monitored should provide a means for improvement if necessary.

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**Recommendation #13** **We recommend the School of Medicine and Health Sciences modify their policy related to faculty reviews and evaluations and ensure it complies with State Board of Higher Education and the University of North Dakota policies.**

**Recommendation #14** **We recommend the School of Medicine and Health Sciences make improvements with the faculty evaluation process. At a minimum, the school should:**

- a) Complete evaluations on an annual basis in order to comply with State Board of Higher Education and University of North Dakota policies;**
- b) Require signatures on all documents placed in personnel files to ensure compliance with state law; and**
- c) Ensure student survey results used in the evaluation process are obtained from an independent source**

*Original Condition* SBHE and UND policies require all faculty to receive an annual performance evaluation. SMHS had a policy for evaluating faculty which established a schedule of evaluations to be performed dependent upon the faculty's status. For example, a tenured faculty member would receive an evaluation in their fourth year of tenure and then again every three years after that. SMHS followed their own policy for evaluating faculty and, as a result, the required annual evaluations were not performed.

NDCC Section 54-06-21 requires all documents addressing an employee's character or performance be signed by the employee prior to it being placed into their file. In a review of 23 faculty files, we identified 20 files contained documents which were not properly signed by the faculty member. The Committee on Promotion and Tenure periodically performs an evaluation of a faculty member. When this occurred, the faculty member prepared a packet of information for the committee, including information related to, or a synopsis of, student survey results. This information should have been provided to the committee from an independent source to ensure accurate and complete student survey results were being obtained.

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## Chapter 1 Recommendations Fully Implemented

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*Action Taken* A memo dated October 11, 2007 to the Associate Deans, Assistant Deans, Center Directors, and Department Chairs stated “effective immediately, each faculty member shall undergo an annual evaluation through their department chair and/or Dean. This annual evaluation is independent of and supplemental to any evaluation that is required on a periodic or episodic basis related to promotion and tenure activities.”

In review of five faculty evaluations, we identified the evaluations were completed in accordance with SBHE and UND policy requirements. In discussions with SMHS representatives, we identified the Office of Medical Education will now provide student survey data to the Committee on Promotion and Tenure. This will ensure the results are obtained from an independent source.

*Result of Implementation* SMHS has a policy related to faculty reviews and evaluations which is consistent with SBHE and UND policies. SMHS is in compliance with faculty evaluation policies.

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**Recommendation #15** **We recommend the School of Medicine and Health Sciences conduct regular, full-time staff employee evaluations within established timelines.**

*Original Condition* We identified noncompliance areas with evaluation policies related to regular, full-time staff employees. North Dakota University System human resource policies required probationary evaluations to be completed at the end of the initial six months of employment. In a review of seven applicable employees, we identified one did not have a probationary evaluation completed within six months. SBHE policy required all employees to have an annual written performance evaluation. In a review of 25 employees, we identified 3 did not receive annual evaluations. UND’s Human Resource Office required all evaluations to be completed and turned into them by the 28th of February. In a review of 25 employees, we identified 15 did not have their evaluation completed and submitted to the Human Resource Office by February 28th.

*Action Taken* SMHS requires all staff evaluations to be sent directly to the SMHS Human Resource Manager. The manager is responsible for monitoring completion of evaluations and follows up on evaluations which are not completed as required. In review of six staff evaluations, we identified the evaluations were completed in accordance with policy requirements.

*Result of Implementation* SMHS is in compliance with staff evaluation policies.

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**Recommendation #16** **We recommend the School of Medicine and Health Sciences take appropriate steps to ensure the school provides accurate information.**



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**Chapter 1**  
**Recommendations Fully Implemented**

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*Original Condition*

At a Budget Section meeting in October 2006, the Dean of SMHS stated funding provided for education was not used for research. Our tests of expenditures noted appropriated dollars were used to help purchase equipment as sufficient grant funds were not available (equipment used for research purposes). Also, we identified instances in which SMHS employees' time spent on federal projects exceeded the amount of federal funds used to pay employees' salaries.

At a Higher Education Committee meeting in August 2005, the Dean of SMHS stated the financial status of both the Bismarck and Minot Centers for Family Medicine (CFM) was solid. The CFMs actually lost a large sum of money in fiscal year 2005 but going into 2006 SMHS had hope for improved financial outcomes. This did not occur.

*Action Taken*

According to SMHS, testimony by the Dean for a legislative body typically is prepared ahead of time and in written format, and is reviewed by senior management leadership at SMHS and UND (and representative(s) of the North Dakota University System as appropriate) before testifying. We reviewed selected information presented by the Dean to the House Appropriations Committee during the 2009 Legislative Session. The information provided appeared accurate.

*Result of Implementation*

Accurate information presented to the legislature and other users is available to make informed decisions.

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**Recommendation #17**

**We recommend the School of Medicine and Health Sciences comply with motions passed by the State Board of Higher Education.**

*Original Condition*

The minutes of the June 26, 2003 SBHE meeting identified a motion passed for UND to acquire real property for the construction of a Center for Family Medicine (CFM) facility in Minot. The minutes state the University was authorized to "acquire real property through a lease agreement with the UND Alumni Foundation and permission to solicit approval for the same acquisition from the Budget Section. Acquisition of the property will be made through the terms of the lease, with rent payments made possible through revenue generated by operation of the clinic." SMHS made initial payments using revenue from the operation of the clinic. However, we identified over \$76,000 of appropriated funds were expended on the principal and a portion of the interest payment made in December 2006.

*Action Taken*

Based on a review of the SBHE meeting minutes from July 1, 2009 to September 30, 2010, no motions of significance were identified in which the SMHS would have to comply. We reviewed accounts payable information and identified the lease payments for the Minot CFM were paid with non-appropriated funds.

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**Chapter 1**  
**Recommendations Fully Implemented**

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*Result of Implementation* SMHS appears to be in compliance with SBHE motions and funds are used as intended by the Board.

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**Recommendation #18** We recommend the School of Medicine and Health Sciences comply with State Board of Higher Education and University of North Dakota purchasing policies and procedures.

**Recommendation #19** We recommend the School of Medicine and Health Sciences discontinue splitting invoices and ensure the Purchasing Office of the University of North Dakota is appropriately used.

**Recommendation #20** We recommend the School of Medicine and Health Sciences ensure training is provided to employees on purchasing policies and procedures.

*Original Condition* We identified SMHS was in noncompliance with certain SBHE and UND purchasing policies and procedures. As a result, resources may have been used in an inefficient manner. Examples include:

- SBHE policy required all consulting or other contracted services estimated at less than \$100,000 to be purchased by negotiation, telephone, or informal written quote or proposal. We identified SMHS did not receive informal quotes or proposals for 10 of 18 applicable expenditures.
- UND policy required the Purchasing Office to be involved with purchases between \$5,000 and \$10,000. We identified SMHS did not properly include the Purchasing Office for 8 of 11 applicable expenditures.
- SBHE policy required payments for services to be made only pursuant to a written contract. We identified SMHS did not have written agreements in place for 13 of 23 applicable expenditures.

In a review of 184 expenditures, we identified artificial fragmentation in 15 expenditures. For example, a department used three invoices ranging in amounts of \$4,098 to \$4,972 to purchase medical supplies from the same vendor (invoices were approved in a four day period). This avoided using the UND Purchasing Office which is required by policy to be involved with purchases greater than \$5,000.

*Action Taken* SMHS employees may attend training seminars called U2 (university within the university). The U2 program sends newsletters to SMHS employees detailing the training seminars that will be made available to them. These training seminars include training on budgets, payroll and purchasing, among many other areas. SMHS staff who work with departmental finances were required to attend three U2 sessions in 2008.

In a review 15 expenditures, we identified SMHS complied with applicable SBHE and UND purchasing policies and procedures. We

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identified no instances in which artificial fragmentation occurred to avoid using the UND Purchasing Office.

*Result of Implementation*

Being in compliance with SBHE and UND purchasing policies will assist in ensuring resources are used in an efficient manner.

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**Recommendation #21**

**We recommend the School of Medicine and Health Sciences make improvements relating to contract terms and conditions.**

*Original Condition*

We identified improvements were needed with contract language and terms. Our review identified SMHS was not signing contracts prior to work being performed (73% of applicable contracts), contracts did not include a non-appropriation clause (60% of applicable contracts), and certain contract language (such as insurability and liability clauses) was not included in all contracts.

*Action Taken*

The SMHS Grants and Contracts Officer, with assistance of the UND Office of General Counsel, updated liability and insurance clauses for contracts. SMHS identified all contracts are sent to the UND Purchasing Office and/or legal departments for approval. Templates with applicable contract language have been developed.

*Result of Implementation*

Including applicable terms and conditions in contracts reduces risks for the state.

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**Recommendation #22**

**We recommend the School of Medicine and Health Sciences effectively review support for expenditures prior to submitting such information for processing.**

*Original Condition*

SMHS departments incurred expenses and submitted supporting documentation to the Accounting Services Office of SMHS. The information was reviewed and provided to UND's applicable department(s) for processing. In review of expenditures, we identified a number of problem areas which an effective review process by SMHS could have identified and corrected prior to being submitted for processing.

*Action Taken*

SMHS has an individual assigned within its Office of Administration and Finance who is responsible for reviewing expenditure documentation prior to submitting information to the UND Accounting Office for processing. In a review of 15 expenditures, we identified no noncompliance issues.

*Result of Implementation*

An effective review process ensures expenditures are reasonable and adequately supported.

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**Recommendation #23**     **We recommend the departments of the School of Medicine and Health Sciences make improvements with the processes used in monitoring their budget and financial transactions. At a minimum, the departments should receive training on PeopleSoft and all of its financial related features, functions, and capabilities in an attempt to discontinue using other financial software for monitoring budget and financial transactions.**

*Original Condition*     We identified certain departments within SMHS were using additional financial software to track their budget and financial transactions. This information was already on the state's PeopleSoft system. However, the departments appeared to use such "shadow systems" to track their activity as they believed PeopleSoft was not reliable and believed there were a number of downfalls with the system. SMHS noted if they didn't put information into another software program, it could be lost. The use of "shadow systems" created a duplication of work and required additional time of staff to reconcile information on a monthly basis.

*Action Taken*     In discussion with three SMHS administrative personnel, we identified they use QuickBooks and Microsoft Excel primarily for reconciliation purposes. All three employees indicated they were able to run financial reports through PeopleSoft. We identified training is available to SMHS staff through the University as well as the SMHS Office of Administration and Finance.

*Result of Implementation*     Improvements have been made with monitoring budget and financial transactions.

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**Recommendation #24**     **We recommend the School of Medicine and Health Sciences process reports reflecting employees' time charged to federal grants in a more timely fashion. If these reports cannot be processed more timely, another mechanism (timesheets, log books, etc.) will need to be established.**

*Original Condition*     Three times a year, Personal Activity Confirmation Reports (PACR) were generated by UND. These reports reflected an employee's time charged to federal grants. Employees were to sign the report signifying the information was an accurate reflection of the time they spent on grants. In a review of selected PACR, we identified these forms were not being signed in a timely fashion. For example, one employee signed the report on September 28, 2006 for the time period May 2005 through August 2005. Due to the long delay, the accuracy of an employee's time spent on grant projects could have been questionable. If an employee's time was determined to have been inaccurate, federal funds would have been placed at risk.

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**Recommendations Fully Implemented**

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*Action Taken* The SMHS Grants and Contracts Officer monitors completion of PACR and follows up with employees who have not completed the reports. In a review of 10 reports, we identified reports were completed in a more timely manner.

*Result of Implementation* Completing PACR in a more timely manner should ensure the accuracy of time charged to federal grants and reduce the risk of federal funds being used inappropriately.

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**Recommendation #25** **We recommend the School of Medicine and Health Sciences establish a formal policy regarding Academic Achievement Waivers.**

*Original Condition* SMHS had established an Academic Achievement Waiver in which the top academic performing students in three classes have their tuition reduced. For the 2006-2007 academic year, two sophomores received a 25% waiver, three juniors received a 50% waiver, and four seniors received a 50% waiver. SMHS noted the total amount of tuition waived was \$102,100. While SBHE policy states institutions may adopt procedures for the waiver of tuition, we noted formal policies had not been established by SMHS for the Academic Achievement Waiver.

*Action Taken* SMHS has established a formal policy for the Academic Achievement Waiver. The policy was approved by the Student Performance and Recognition Committee in November 2008.

*Result of Implementation* A formal policy for tuition waivers enhances consistency and ensures relevant information is documented.

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**Recommendation #26** **We recommend the School of Medicine and Health Sciences no longer directly hire individuals named in grant applications. The school should either:**

- a) **Work with the University of North Dakota's Office of Human Resources to establish formal procedures for the temporary appointment of individuals named in grant applications; or**
- b) **Use a competitive hiring process.**

*Original Condition* In a review of 10 newly hired regular, full-time staff employees, we identified an employee was hired directly without a competitive hiring process. The individual was hired directly as they were named in a grant application and it had apparently been SMHS's practice to allow individuals to be hired without a competitive process if they were named in a grant application. Competitive hiring processes should be used to ensure legislative intent established in state law is complied with.

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**Recommendations Fully Implemented**

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*Action Taken* All employees of SMHS were notified in February 2008 the practice of directly hiring individuals specifically named in grant proposals would not be permitted. In review of five applicable employees recently hired, we identified a competitive process was used.

*Result of Implementation* A competitive hiring process ensures compliance with legislative intent and provides an opportunity to hire the most qualified candidate.

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**Recommendation #27** **We recommend the School of Medicine and Health Sciences conduct a formal review in an attempt to find a pediatric rotation site in a less expensive location.**

*Original Condition* SMHS had a four week in-patient pediatric rotation established in Hawaii for its residents. This rotation was established to address a concern noted in an accreditation review. SMHS noted there were few options available in this area and the site was selected due to a relationship with the military base hospital in Hawaii. The associated costs of the first three residents who completed the rotation in fiscal year 2007 exceeded \$19,500.

*Action Taken* SMHS conducted a review to find a pediatric rotation site in a less expensive location. The review concluded two locations in Minnesota would offer comparable training. However, both of the locations denied SMHS the slots for a pediatric rotation. SMHS representatives indicated the School would continue to search for a pediatric residency rotation site in a less expensive location.

*Result of Implementation* SMHS took appropriate action in an attempt to save costs by identifying a pediatric rotation site in a less expensive location.

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**Recommendation #28** **We recommend the School of Medicine and Health Sciences, in conjunction with the Medical Center Advisory Council, develop additional incentives and continue to take appropriate steps for keeping graduating students within the state.**

*Original Condition* SMHS had six residency programs within the state – Internal Medicine, two Family Medicine, Psychiatry, Surgery, and a Transitional Year (one year residency program to provide a preparatory year of training to develop fundamental skills). These residency programs had graduating students from medical schools around the country (upon completion of medical school, graduates are “matched” to a residency program). Information provided by SMHS identified the number of residents dropped from 105 to 90 between 2004 and 2006 due to the Family Medicine Residency Program in Grand Forks being taken over by a private provider. Statistics identified residents typically established their practice near their last year of residency. A reduction in the number of graduating students entering SMHS residency programs could lead to a reduction in the number of physicians in the state. We identified there

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were a number of areas within the state where there was a primary care health professional shortage.

*Action Taken*

SMHS has taken a number of steps in an effort to keep graduating students within the state. For example, starting with the incoming freshman medical student class in August 2009, up to eight students could receive a total tuition rebate for all four years of medical school if they agreed to train in the field of family medicine and practice in a rural region of the state for five years. Due to only three students entering into agreements, SMHS is reviewing modifications to the program. In addition, SMHS is attempting to increase the class size by 16 students for the 2011-2013 biennium and to increase the number of residencies available in the state by 17 slots in the same biennium.

*Result of Implementation*

SMHS is attempting to implement changes which could increase the retention of graduating students within the state.

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**Recommendations Fully Implemented**

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## Recommendations Partially Implemented

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**Recommendation #29** DJW recommends the University of North Dakota continue the arrangement under which the School of Medicine and Health Sciences shares in 80% of the indirect cost pool above the fixed base of \$330,000.

*Original Condition*

A consulting firm (DJW, Inc.), hired by the Office of the State Auditor to assist with the performance audit of School of Medicine and Health Sciences (SMHS), identified the then Dean of SMHS negotiated with the President of the University of North Dakota (UND) for the medical school to receive 80% of the indirect costs on grants and contracts above a base figure in support of the research enterprise. In fiscal year 2005, the annual F&A (*i.e.*, indirect costs) from the medical school's grants and contracts was \$2,621,012. The University received the base amount of \$330,000, and the remaining \$2,291,012 was split between the University (20% or \$458,202) and the medical school (80% or \$1,832,810). These funds provided the mechanism for dealing with startup costs, new equipment, infrastructure such as the cyclotron facility, renovations, and "bridge-funding" for investigators who were "between" grants.

At the time of the original audit, a proposal was being considered which would change the funding plan. Under the proposed plan, the University and SMHS would each receive 50% of the funding above the base. Using the fiscal year 2005 data, this would equate to a loss of approximately \$865,000 for SMHS. DJW identified this would come at a time when federal funding was "flat." DJW also identified compounding this problem was the President of UND was to be leaving, there was a vacancy of the Vice President for Research at the university level, and there were pending retirements within SMHS.

*Action Taken*

Starting in fiscal year 2008, a new allocation method was implemented. For the next three years SMHS received a significantly lower amount of funds through the new allocation as compared to the prior allocation. However, with the hiring of the new Vice President for Health Affairs and Dean of SMHS, a new three year agreement was entered into with the UND President. According to representatives of SMHS, this allows SMHS to obtain the amount it needs for recruitments. While SMHS is receiving an amount in the allocation which it believes is reasonable, only a three year agreement was entered into. It is unclear what is to occur after this three year period. A long term or permanent agreement could be reached which would provide stability and identify the amount to be provided to SMHS.

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## Chapter 2 Recommendations Partially Implemented

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*Management's Response  
and Future Action to be  
Taken*

We agree with the status of the recommendation.

The School of Medicine and Health Sciences (SMHS) will continue to work with the University of North Dakota to optimize the F&A (indirect cost) return to the SMHS, and to forge an enduring commitment beyond the current three-year agreement.

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### **Recommendation #30**

**We recommend the School of Medicine and Health Sciences make improvements to their "Annual Report" document to make it user friendly and provide for a reasonable means of measuring the performance of the school or establish a better tool to measure the school's performance.**

*Original Condition*

Every year, each department within SMHS completed a report which measures progress in achieving the goals established in the strategic plan. We concluded these "Annual Reports" were not user friendly and did not adequately measure the strategic plan established for SMHS. The reports were very lengthy documents (2-3½ inches thick), information such as goals were repeated year after year, some goals identified appeared unattainable, and timelines did not exist for certain goals. We did not identify a document which measured the overall progress of the strategic plan established for SMHS.

*Action Taken*

SMHS management indicated the UND Council of Deans has decided to revise the content and format of the UND Annual Report. The Interim Provost of UND has indicated the current Annual Report template no longer reflects the needs or priorities of the University. SMHS intends to complete its next annual report in accordance with the new policy established by the UND Interim Provost. SMHS indicated it plans to initiate its own supplemental Annual Report at the end of each academic year beginning in the summer of 2011. We reviewed the 2009 and 2010 annual reports of three SMHS departments. While reports still appear relatively large and were not user friendly, we did identify two of the departments significantly reduced the size of their annual reports.

*Management's Response  
and Future Action to be  
Taken*

We agree with the status of the recommendation.

The SMHS reaffirms its intention to publish and distribute its own supplemental Annual Report at the conclusion of each academic year, beginning in the summer of 2011. We intend to make the supplemental annual report more user-friendly than the current report, and to incorporate a "report card" of the status of various key performance indicators.

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### **Recommendation #31**

**We recommend the School of Medicine and Health Sciences comply with moving expense policies and procedures.**

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**Chapter 2**  
**Recommendations Partially Implemented**

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**Recommendation #32**     **We recommend the School of Medicine and Health Sciences make improvements to the moving allowance terms and conditions included in the offer of employment letters. The school should, at a minimum:**

- a) List all moving restrictions and conditions;**
- b) Establish a reasonable number of moving days allowed; and**
- c) Ensure compliance with established parameters**

*Original Condition*

In review of selected moving expenses, we identified noncompliance with policies and improvements were needed with the offer of employment letters sent by SMHS. We identified noncompliance with a SBHE policy requiring approval of the President or designee be obtained prior to offering the reimbursement of moving expenses as part of the employment contract.

The employment letter sent to a newly hired employee by SMHS did not include all limits and procedures as established in SBHE and UND policies. Even when certain requirements were listed within the letter (such as a requirement to obtain three estimates), we identified the requirements were not followed. We identified letters did not establish a reasonable number of moving days allowed. For one moving reimbursement reviewed, we identified seven nights of in-transit lodging for a 1,520 mile move.

*Action Taken*

SMHS indicated its Office of Administration and Finance reviews all faculty letters of offers of employment prior to mailing to potential candidates. We reviewed information related to the reimbursement of five newly hired employees' moving expenses and identified the following:

- UND's moving expense reimbursement policy requires prior approval before offering to reimburse moving expenses. We identified two instances in which prior approval was not documented.
- Parameters established within the offer of employment letters were complied with.
- While the offer of employment letters included UND's moving expense reimbursement policy, the letters did not establish a reasonable number of moving days allowed.

*Management's Response and Future Action to be Taken*

We agree with the status of the recommendations.

Henceforth, the SMHS will ensure that prior approval is received and appropriately documented before offering to reimburse moving expenses. Offer of employment letters will establish and specify the number of moving days allowed, consistent with applicable University of North Dakota (UND) and State Board of Higher Education policies, and reasonableness.

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**Chapter 2**  
**Recommendations Partially Implemented**

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**Recommendation #33**     **We recommend the School of Medicine and Health Sciences formally review the nonresident tuition rates to make a determination as to whether the rates should be increased.**

*Original Condition*

In review of tuition rate information, we identified the resident, medicine tuition rate had increased approximately 63% in five years. Starting with the 2006-2007 academic year, the nonresident, medicine tuition rate of SMHS was reduced by 25%. The new rate was then 1.85 times higher than the resident tuition rate compared to 2.67 times higher, as it was in the previous five academic years. The University of North Dakota's undergraduate and graduate nonresident rates were 2.67 times higher than the resident rate. If no decrease would have occurred and the amount would have increased as in years past, SMHS may have been able to collect over \$330,000 more in nonresident, medicine tuition in the 2006-2007 academic year. The Physical Therapy (PT) and Occupational Therapy (OT) nonresident tuition rates were approximately 1.4 times higher than the resident rate.

*Action Taken*

SMHS performed a review of its nonresident tuition rate in relation to 23 other medical colleges. The method used to select the 23 schools appears reasonable and SMHS was identified as having near the average nonresident to resident tuition rate. The SMHS rate of 1.85 was just below the group's average rate of 1.89 times resident tuition. However, SMHS did not perform a review of the PT and OT programs' nonresident tuition rates. In review of SMHS tuition data, we identified the PT and OT programs are still operating with nonresident to resident tuition rates of 1.38 and 1.4, respectively. Also, SMHS performed no review to compare the SMHS nonresident tuition rate to the rates of the other UND colleges. In review of UND tuition data, we identified the other colleges at UND were still operating with a nonresident to resident tuition rate of 2.67.

*Management's Response and Future Action to be Taken*

We agree with the status of the recommendation.

The SMHS will undertake a review of Physical Therapy (PT) and Occupational Therapy (OT) programs' nonresident tuition rates, and will compare the SMHS' nonresident tuition rate to the rates of the other UND colleges. Based on those two reviews, the SMHS will take appropriate action, as needed, regarding nonresident tuition rates for its academic programs, specifically including PT and OT, consistent with applicable UND and State Board of Higher Education policies.

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**Recommendation #34**     **We recommend the School of Medicine and Health Sciences submit the necessary information to the state Department of Labor to obtain formal verification of the employee/independent contractor status of workers not being paid through payroll.**

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## Chapter 2 Recommendations Partially Implemented

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### *Original Condition*

Based on a review of payments to individuals and medical facilities, we identified a concern related to the employee/independent contractor status of certain workers. A number of legal and liability issues could have arisen if the employee/independent contractor status was not adequately addressed. Two areas identified included:

- SMHS had an Associate Dean, an Assistant Dean, and a Chairman, all doctors, who did not receive payments through payroll. While these individuals were considered to be employees by SMHS, the hospitals/clinics these doctors worked for were paid by SMHS.
- SMHS contracted with both hospitals/clinics and individual doctors to be preceptors (doctors who monitor medical students or residents at hospitals and clinics). When individual doctors were contracted for this service, they were paid through the payroll system. However, when the payment was made to a hospital/clinic, the payment was not processed through payroll. The preceptors under contracts with the hospitals/clinics were considered to be employees by SMHS.

The North Dakota Department of Labor is authorized to verify the independent contractor status of future and existing work relationships in the state. An affirmative verification of the independent contractor status from the Department of Labor would protect the entity from retroactive liability if another agency later determined the verified relationship was, in their view, an employment relationship.

### *Action Taken*

Information relating to the Associate Dean, an Assistant Dean, and a Chairman was submitted to the Department of Labor by SMHS. In October 2009, the Department of Labor determined one of the doctors was not an independent contractor. The Department of Labor was unable to conclude on the status of the other two doctors without the completion of the Independent Contractor Verification Application by both parties. In September 2010, SMHS submitted the applications to the Department of Labor. SMHS is awaiting a response from the Department of Labor regarding the status of these two workers. At this time, no work has been performed regarding the payment of preceptors.

### *Management's Response and Future Action to be Taken*

We agree with the status of the recommendation.

The SMHS will await the recommendations of the Department of Labor regarding the two pending employment reviews. Upon receipt of the Department of Labor recommendations, the SMHS will take appropriate action to ensure that the individuals involved are handled in an appropriate administrative manner regarding their designation as an employee or independent contractor.

The SMHS will also solicit recommendations from the Department of Labor regarding the payment of preceptors. Upon receipt of the

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**Chapter 2**  
**Recommendations Partially Implemented**

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Department of Labor recommendations, the SMHS will take appropriate action to ensure that the individuals involved are handled in an appropriate administrative manner regarding their designation as an employee or independent contractor.

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## Recommendations Not Implemented

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**Recommendation #35** DJW recommends the University of North Dakota undertake a financial review by an outside firm of all School of Medicine and Health Sciences programs to review how information is tracked, used, and presented to assist in providing appropriate information to the entire management team of the school and to ensure the financial viability of the school in comprehensive but understandable financial statements.

*Original Condition*

A consulting firm (DJW, Inc.), hired by the Office of the State Auditor to assist with the performance audit of SMHS, identified a concern related to the financial presentation of the operations of the School of Medicine and Health Sciences (SMHS). DJW identified they had a difficult time in reviewing financial information provided by SMHS. In interviews conducted with SMHS representatives, concerns were noted by certain SMHS management regarding financial information provided to them regarding their program operations. Information provided to program chairs or directors should have been in an understandable format to ensure informed decisions were being properly made. DJW noted the current financing model for the remaining Centers for Family Medicine appeared to be unique to each center and needed reexamination in order to promote stability and support for the residency programs. A survey of employees and discussions with external parties also identified such a review could have alleviated certain concerns addressed regarding financial transactions.

*Action Taken*

According to the SMHS Associate Dean of Administration and Finance, no additional review outside of the usual audits had been conducted on SMHS. The University of North Dakota previously had disagreed with the recommendation and believed no further financial review was required.

*Management's Response and Future Action to be Taken*

The University of North Dakota agrees with the status of the recommendation.

UND will continue to include the SMHS in its ongoing annual financial audit process that is undertaken by the Office of the State Auditor, but does not plan to implement a separate financial audit of the SMHS.