

OFFICE OF THE STATE AUDITOR

PERFORMANCE AUDIT FOLLOW-UP REPORT

Status of Recommendations

University System Office

Report No. 3033-1

June 15, 2017



Joshua C. Gallion, State Auditor



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Members of the North Dakota Legislative Assembly

North Dakota State Board of Higher Education

Dr. Mark R. Hagerott, Chancellor, North Dakota University System

The Office of the State Auditor conducted an audit follow-up on the performance audit entitled *University System Office (report #3033) dated February 4, 2013*. The objective of this audit follow-up was to determine the implementation status of the 15 recommendations presented in the performance audit report. The objectives of the performance audit were to answer the following question:

“Is the University System Office adequately staffed to perform its functions?”

The Auditor’s Office has chosen to not provide a status on four of the 15 recommendations. These recommendations were determined to be either too vague to give a meaningful status in the context of a follow-up review or they were redundant. These four recommendations included:

- Recommendation 1-1 Obtaining Resources to Adequately Perform Functions
- Recommendation 2-5 Perform a Comprehensive Review of Policies and Procedures
- Recommendation 2-6 Establishing Guidelines for Procedures
- Recommendation 2-7 Improving the Indian Scholarship Program

The University System Office has fully implemented five of the remaining 11 recommendations presented in the performance audit report. Three of the remaining six recommendations were considered partially implemented and the other three were considered not implemented. Included in this report are the conclusions we made regarding the implementation status of the recommendations. Management’s responses are included for recommendations we deemed partially implemented and not implemented.

We want to extend our appreciation to the personnel of the University System Office for their assistance and cooperation during the follow-up.

Sincerely,

/S/

Joshua C. Gallion
State Auditor

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Not Implemented

Recommendation 2-3 **We recommend the University System Office take appropriate action to have internal audit functions within the university system report to the appropriate System Office personnel rather than to an institution president.**

Not Implemented The System Office took action to have internal audit functions within the University System report to System Office personnel instead of institution presidents. However, the internal audit functions were subsequently changed back to reporting to institution presidents.

Management's Response NDUS partially agrees with the status of this recommendation. The System Office internal audit function has responsibility for system-wide as well as institution specific audits with a direct report to the SBHE Audit Committee. System Office internal audit staff is currently one position, the NDUS Director of Audit Services. On July 12, 2017, the NDUSO published job postings for two additional system-wide internal auditors. These new positions will report to the NDUS Director of Audit Services and ultimately to the SBHE Audit Committee.

Institutionally employed internal audit staff report to the institution President with an indirect report to the NDUS Director of Audit Services. The University of North Dakota currently employs two internal auditors.

Recommendation 2-8 **We recommend the University System Office review North Dakota Administrative Code Title 42 related to the Indian Scholarship program and take appropriate action to follow the code or make changes to the code.**

Not Implemented Our review found that current practice is still not in compliance with administrative code. The System Office has developed draft changes to North Dakota Administrative Code Title 42. However, these changes have not been through the comment process required for North Dakota Administrative Code changes.

Management's Response NDUS agrees with the status of this recommendation. A public hearing on the proposed administrative code changes is scheduled for August 14, 2017. After the hearing, NDUS will incorporate the changes in accordance with Attorney General and Legislative Council procedures.

Recommendation 2-10 **We recommend the University System Office ensure compliance with North Dakota Century Code Chapter 54-46 and maintain an appropriate records management program. At a minimum, the System Office should ensure:**

- a) State form numbers are used on applicable documents; and
- b) Appropriate record series and retention schedules are established.

Chapter 1
Not Implemented

Not Implemented

Our review identified some of the same concerns as original audit. For example, the System Office is not using state form numbers on applicable documents and has not established record series and retention schedules.

Management's Response

NDUS partially agrees with the status of this recommendation. While we understand there was an outstanding issue related to the Indian Scholarship program NDUS has made significant progress related to records management.

A Core Technology Services (CTS) executive staff member has been assigned responsibility for ensuring the NDUS is compliant with NDCC 54-46. NDUS also worked with ITD's records retention group to draft record series definitions.

The NDUS System Office has adopted the State's general records retention schedule which is maintained by the State. Other specific records for NDUS retention schedule will be created based on System, not individual campus definition.

Partially Implemented

Recommendation 1-3 **We recommend the University System Office take appropriate action to ensure there is a unified system of higher education. If a unified system is unattainable, appropriate action should be taken to remove unified system language in laws and make appropriate changes to higher education’s organizational structure and operations.**

Partially Implemented The System Office has made progress toward becoming a more unified system of higher education. Our review identified the System Office is working to complete a system-wide fraud risk assessment, a data inconsistencies study and has identified opportunities for shared services.

Management’s Response NDUS agrees with the status of this recommendation. The NDUS System Office continues to work closely with the campuses as well as the SBHE to ensure it is operating as a unified system. Progress to date includes work on system wide policies and procedures, data inconsistencies, a system wide tuition model, and shared service studies and agreements. A system-wide fraud risk assessment was recently completed and Enterprise Risk Management is being implemented. Work will continue on all of these initiatives into the foreseeable future.

Recommendation 1-4 **We recommend the University System Office develop a plan to establish the expectations of the office and use the plan to guide resource allocation.**

Partially Implemented The System Office has not developed a plan establishing the expectations of the office, but the University System has improved its strategic plan which includes the University System Office and provides broad direction for allocating resources.

Management’s Response NDUS agrees with the status of this recommendation. NDUS has had a strategic plan for the 2013-15 and 2015-17 biennia, which included plans for the NDUS office. Envision 2030 is another element of the strategic plan. The plan is fluid, and changes with legislative directives and available resources. The strategic plan is reviewed and updated annually by the board.

NDUS System Office resources are allocated according to the strategic plan, as well as operational and functional needs. The System Office will continue to clarify and communicate its purpose and function to the institutions, legislature and other constituents.

Recommendation 2-9 **We recommend the University System Office take appropriate action to ensure information provided is consistently and accurately reported.**

Partially Implemented A data validation process has been established to improve the consistency and accuracy of the information being reported. In addition, the System

Chapter 2
Partially Implemented

Office and the State Board of Higher Education has taken actions to improve the consistency of the data throughout the University System. The University is continuing to work on improving the data inconsistencies; however, areas for improvement still exist.

Management's Response

NDUS agrees with the status of this recommendation. This recommendation falls under what can broadly be categorized as "data inconsistencies." 2015 House Bill 1003 enumerated some data inconsistencies that CTS staff had already identified, and specified that those be resolved during the 2015-17 biennium. To date, 22 of the 24 specified data inconsistencies have been completed or are on track to be completed by the end of the year.

2017 Senate Bill 2003, section 37 included four additional inconsistencies requiring resolution. Plans are being developed to address the identified issues by the end of the 2017-19 biennium.

Ensuring data consistency and accuracy will continue to be a high priority after completion of the legislatively-required projects.

Fully Implemented

- Recommendation 1-2** We recommend the University System Office establish a system-wide monitoring function for the university system. At a minimum, the monitoring function should:
- a) Ensure the System Office and the institutions are in compliance with state, federal, and university system requirements; and
 - b) Review operations of the System Office and institutions to identify significant risks and areas where improvements in efficiency and effectiveness are needed.

Fully Implemented

The System Office has established compliance monitoring function. This includes a system-wide Compliance Office and internal audit function.

- Recommendation 1-5** We recommend the University System Office make improvements with the university system's strategic planning and measuring performance processes. At a minimum, the System Office should:
- c) Ensure compliance with state law and Board policy requirements; and
 - d) Align resources for measuring performance to maximize efficiency.

Fully Implemented

The System Office established the North Dakota University System Edge 2015-2020 Strategic Plan to guide the University System. The strategic plan includes compliance with state law and State Board of Higher Education policy requirements and objectives/strategies for meeting the goals, key indicators, and intended outcomes to measure performance.

- Recommendation 2-1** We recommend the University System Office comply with State Board of Higher Education Policy 703.1 and ensure early retirement agreements only include payments authorized by policy.

Fully Implemented

Our review identified early retirement agreements complied with State Board of Higher Education Policy 703.1.

- Recommendation 2-2** We recommend the University System Office make improvements related to the assessment of campuses for paying the costs of employees. At a minimum, the System Office should:
- a) Obtain proper State Board of Higher Education approval prior to assessing campuses;
 - b) Ensure assessments are properly budgeted and accounted for at the System Office and campus level; and
 - c) Ensure moneys assessed are used for the purpose for which the assessment was charged.

Chapter 3
Fully Implemented

Fully Implemented

State Board of Higher Education policy was amended to require campus assessments exceeding \$10,000 be approved by the Board. Our review also identified campus assessments are budgeted for properly.

Recommendation 2-4

We recommend the University System Office establish an internal audit charter consistent with the definition of internal audit, the Code of Ethics, and other applicable standards. At a minimum, the charter should identify the purpose, authority, and responsibilities of the internal audit function.

Fully Implemented

The System Office established an internal audit charter.