

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Thursday, January 14, 2016
 Roughrider Room, State Capitol
 Bismarck, North Dakota

Senator Jerry Klein, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Jerry Klein, David O'Connell; Representatives Patrick R. Hatlestad, Jerry Kelsh, Keith Kempenich, Andrew G. Maragos, Bob Martinson, Corey Mock, Mike Nathe, Marvin E. Nelson, Chet Pollert

Members absent: Senators Judy Lee; Representatives Lawrence R. Klemin, Gary Kreidt, Robert J. Skarphol

Others present: Alex J. Cronquist, Fiscal Analyst, Legislative Council
 See [Appendix A](#) for additional persons present.

It was moved by Senator O'Connell, seconded by Representative Maragos, and carried on a voice vote that the minutes of the August 13, 2015, meeting be approved as distributed.

**NORTH DAKOTA UNIVERSITY SYSTEM INSTITUTIONS
 TUITION WAIVERS AND STUDENT STIPENDS PERFORMANCE AUDIT**

Memorandum of Nonresident Tuition Rates - North Dakota Compared to Other States

Mr. Cronquist presented a memorandum entitled [Nonresident Tuition Rates - North Dakota Compared to Other States](#). Mr. Cronquist said the memorandum provides information regarding nonresident tuition rates in North Dakota compared to other states and information on tuition waiver policies in South Dakota and Montana.

Overview of Audit Recommendations

Mr. Jason Wahl, Audit Manager, State Auditor's office, presented information ([Appendix B](#)) regarding an overview of the audit recommendations relating to the performance audit of the use of tuition waivers and student stipends at North Dakota University System institutions. He said the State Auditor's office anticipates there will be a followup audit of the University System institutions tuition waivers and student stipends audit within the next calendar year.

Responses from the North Dakota University System

Ms. Tammy Dolan, Chief Financial Officer, North Dakota University System, presented information ([Appendix C](#)) regarding the University System's responses to the recommendations included in the performance audit report of the use of tuition waivers and student stipends at University System institutions, including the University System's progress in developing consistent definitions for discount, waiver, stipend, and internship.

Ms. Karin Hegstad, Director, Customer Account Services, North Dakota State University, presented information ([Appendix D](#)) regarding responses to the recommendations included in the performance audit report of the use of tuition waivers and student stipends.

In response to a question from Representative Nathe, Dr. Beth Ingram, Provost, North Dakota State University, said she will provide the committee with available information on the number of students that stay in the state after graduation.

In response to a question from Representative Nathe, Dr. Ingram said North Dakota State University (NDSU) offers international students tuition at 150 percent of the resident tuition rate. The nonresident tuition rate for NDSU is 267 percent. She said the lower rate is an incentive for international students to attend NDSU.

In response to a question from Representative Mock, Dr. Ingram said rules and procedures at the institutional level are used to determine waiver amounts available to various colleges and departments within the university. She said student waivers are determined based on the needs of the colleges and departments within the university and the university's strategic priorities. She said the university awards various waivers including statutory waivers, cultural diversity waivers, and tuition reciprocity waivers.

In response to a question from Representative Mock, Ms. Alice Brekke, Vice President, Finance and Operations, University of North Dakota, said the University of North Dakota's waivers are budgeted at the institutional level. She said the determination of university waivers include reviewing, on an annual basis, revenue projections, evolving research programs, and grant opportunities. She said waivers can move among colleges.

Mr. Kevin Melicher, Member, State Board of Higher Education, provided comments regarding responses to the recommendations included in the performance audit report of the use of tuition waivers and student stipends at University System institutions. He said if the tuition rate posted by a campus would be the tuition rate a student pays, easier comparisons could be made among universities. He said the University System hopes to attract more out-of-state students, which will improve the state's workforce, research, and diversity.

Dr. Lisa Feldner, Vice Chancellor, Information Technology and Research, North Dakota University System, provided information ([Appendix E](#)) regarding retention rates for students graduating from a North Dakota University System institution from the summer of 2010 to the spring 2013 semester.

INFORMATION TECHNOLOGY DEPARTMENT - SERVICE ORGANIZATION INFORMATION SYSTEMS AUDIT

Chairman Klein called on Mr. Donald LaFleur, State Auditor's office, who presented the audit report for the Information Technology Department service organization for the period April 1, 2014 to October 1, 2014. He said the information systems audit identified two significant audit findings relating to the risk assessment framework and review of enabled ports and services.

ODYSSEY CASE MANAGEMENT SYSTEM - INFORMATION SYSTEMS AUDIT FOLLOWUP

Mr. LaFleur presented the information systems followup audit report for the Odyssey Case Management System for the judicial branch from October 5, 2015. He said the report identified one recommendation that was not implemented relating to reconciliation procedures. He said the judicial branch agrees with the recommendation and anticipates implementing the recommendation.

In response to a question from Representative Pollert, Mr. Don Wolf, Finance Director, Supreme Court, said approximately 90 percent of the judicial branch's billed amount is collected. He said the allowance for doubtful accounts has grown to an estimated \$13 million to \$14 million dollars. He said judicial branch policy does not allow for the writeoff of noncollectable accounts if a civil judgment remains on the account.

CONNECTND - CAMPUS SOLUTIONS - INFORMATION SYSTEMS AUDIT FOLLOWUP

Mr. LaFleur presented the information systems followup audit report for the ConnectND - Campus Solutions from September 12, 2015. He said the report identified two recommendations that were not implemented relating to improper superuser access and testing accounts in the production system.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Chairman Klein called on Mr. John Mongeon, Brady, Martz & Associates, PC, Certified Public Accountants, who presented the audit report for the Department of Trust Lands for the fiscal years ended June 30, 2015. He reviewed the auditor's responses to the committee guidelines and said the report includes an unmodified opinion and said the report includes one significant audit finding relating to a correction to the common schools trust fund for \$661,687. In addition, he said, the report includes one significant accounting policy change related to Governmental Accounting Standards Board Statement No. 68.

Chairman Klein called on Ms. Mindy Piatz, Brady, Martz & Associates, PC, Certified Public Accountants, who presented the audit report for the Housing Finance Agency for the years ended June 30, 2015. She reviewed the auditor's responses to the committee guidelines and said the report includes one significant accounting policy change related to Governmental Accounting Standards Board Statement No. 68.

Ms. Piatz presented the audit report for the housing incentive fund for the years ended June 30, 2015. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Piatz presented the audit report for Job Service North Dakota for the years ended June 30, 2015. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

In response to a question from Representative Kelsh, Ms. Sherry Glesen, Executive Director, Job Service North Dakota, said Job Service North Dakota now requires individuals to use the new automated system for unemployment insurance claims. She said about 85 percent of individuals file a claim online instead of using the telephone.

Chairman Klein called on Ms. Katie Moch, Eide Bailly LLP, Certified Public Accountants, who presented the audit report for the Ag PACE fund for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Moch presented the audit report for the State Building Authority for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Moch presented the audit report for the PACE fund for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Moch presented the audit report for the student loan trust fund for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Moch presented the audit report for the rebuilders loan program for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report identified one audit finding relating to loan maintenance changes.

Ms. Moch presented the audit report for the medical facility infrastructure loan program for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

In response to a question from Representative Pollert, Mr. Robert Humann, Chief Lending Officer, Bank of North Dakota, said a \$10 million loan from the medical facility infrastructure loan program is for the new Dickinson hospital. He said the medical facility infrastructure loan program was provided \$50 million for loans. He said the other \$40 million has already been committed for projects in Tioga, Stanley, Bowman, and Watford City. He said local banks provide interim construction financing.

In response to a question from Representative Kempenich, Mr. Humann said loans are made from the medical facility infrastructure loan program after the construction project is complete.

Ms. Moch presented the audit report for the Development Fund, Inc. for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report identified one audit finding relating to financial reporting requirements.

In response to a question from Senator O'Connell, Ms. Renae Korslien, Manager, State Fair Association, said the 2015A Series Bonds are secured by the association's net revenue and lodging tax proceeds from the City of Minot.

Ms. Moch presented the audit report for the State Fair Association for the fiscal years ended September 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report identified one audit finding relating to financial reporting requirements. She said the North Dakota State Fair Foundation should have been included as a component unit in the State Fair Association's financial statements.

Ms. Moch presented the audit report for the State Auditor's office for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report includes one significant accounting policy change related to Governmental Accounting Standards Board Statements No. 68 and No. 71.

Ms. Moch presented the audit report for the Legislative Assembly for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Moch presented the audit report for the Legislative Council for the fiscal years ended June 30, 2015 and 2014. She reviewed the auditor's responses to the committee guidelines and said the report includes one significant accounting policy change related to Governmental Accounting Standards Board Statements No. 68 and No. 71.

Chairman Klein called on Mr. Thomas Rey, CliftonLarsonAllen LLP, Certified Public Accountants, who presented the audit report for the Public Employees Retirement System for the fiscal years ended June 30, 2015 and 2014. He reviewed the auditor's responses to the committee guidelines and said the report identified one audit finding relating to census data reconciliation requirements.

In response to a question from Senator O'Connell regarding census data reconciliation requirements, Mr. Sparb Collins, Executive Director, Public Employees Retirement System, said a new requirement of the Governmental Accounting Standards Board is to provide more external reviews of information employers are providing to the Public Employees Retirement System. He said the department is in the process of hiring an intern to work with the department's internal audit staff to provide these reviews.

Mr. Rey presented the audit report for the Retirement and Investment Office for the fiscal years ended June 30, 2015 and 2014. He reviewed the auditor's responses to the committee guidelines and said the report includes one significant accounting policy change related to Governmental Accounting Standards Board Statements No. 68 and No. 71.

Chairman Klein called on Mr. Ed Nagel, Director, State Auditor's office, who presented the audit report for the Mill and Elevator Association for the fiscal year ended June 30, 2015. He reviewed the auditor's responses to the committee guidelines and said the report includes one significant accounting policy change related to Governmental Accounting Standards Board Statement No. 68.

Mr. Nagel presented the audit report for the North Dakota Corn Utilization Council for the fiscal years ended June 30, 2014 and 2013. He reviewed the auditor's responses to the committee guidelines and said the report identified one audit finding relating to noncompliance of North Dakota Century Code Section 54-21-24.1.

Chairman Klein called on Mr. Paul Belzer, Board Member, North Dakota Corn Utilization Council, who said that beginning in fiscal year 2016, the North Dakota Corn Utilization Board members will be considered employees rather than independent contractors.

In response to a question from Representative Kempenich, Ms. Jean Henning, Accounting/Budget Specialist, North Dakota Corn Utilization Council, said the council's largest research projects are for \$75,000, which includes the corn breeding program at NDSU. She said there are no project commitments that exceed a 2-year period.

DEPARTMENT OF HUMAN SERVICES ACCOUNTS RECEIVABLES

Chairman Klein called on Ms. Jennifer Scheet, Budget Director, Department of Human Services, who presented information ([Appendix F](#)) on the status of accounts receivables pursuant to Section 25-04-17 and 50-06.3-08. Ms. Scheet said the total amount written off by the department for fiscal year 2015 was \$13,120,297, of which \$1,149,509 relates to the human service centers, \$11,858,326 relates to the State Hospital, and \$112,462 relates to the Life Skills and Transition Center.

In response to a question from Representative Nelson, Ms. Debra McDermott, Chief Financial Officer, Department of Human Services, said the State Hospital is defined as an institution for mental health, therefore, under federal regulations, individuals receiving services at the State Hospital are not eligible for Medicaid. She said if a client has private insurance, the State Hospital may collect for receivables. She said that if a client does not have private insurance the State Hospital may bill the client for services, but any payment may depend on the client's ability to pay. She said the majority of writeoffs at the State Hospital are for deceased individuals with no assets.

In response to a question from Representative Pollert, Ms. McDermott said the department estimates its collections, based on historical data, as part of its budget preparation process.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

The Legislative Council staff distributed a memorandum entitled [Summary of Audit Reports Not Selected for Presentation](#).

Representative Nelson requested the audit report for the State Board of Registration for Professional Engineers and Land Surveyors for the period ended June 30, 2014, be presented at the next committee meeting.

Representative Mock requested the audit report for the Education Standards and Practices Board for the period ended June 30, 2012, be presented at the next committee meeting.

It was moved by Representative Maragos, seconded by Representative Kempenich, and carried on a roll call vote that, pursuant to Section 54-35-02.2, the committee accept the following reports presented to the committee:

1. North Dakota University System institutions tuition waivers and student stipends performance audit (March 20, 2015).
2. Information Technology Department independent service organization information system audit (April 1, 2014 through October 1, 2014).
3. Odyssey Case Management System for the judicial branch information system audit followup report (October 5, 2015).
4. ConnectND - Campus Solutions information system audit followup report (September 18, 2012).
5. Department of Trust Lands (June 30, 2015).
6. North Dakota Housing Finance Agency (June 30, 2015).
7. Housing incentive fund (June 30, 2015).
8. Job Service North Dakota (June 30, 2015).
9. Ag PACE fund (June 30, 2015 and 2014).
10. State Building Authority (June 30, 2015 and 2014).
11. PACE fund (June 30, 2015 and 2014).
12. Student loan trust fund (June 30, 2015 and 2014).
13. Rebuilders loan program (June 30, 2015 and 2014).
14. Medical facility infrastructure loan program (June 30, 2015 and 2014).
15. Development Fund, Inc. (June 30, 2015 and 2014).
16. State Fair Association (September 30, 2015 and 2014).
17. State Auditor's office (June 30, 2015 and 2014).
18. Legislative Assembly (June 30, 2015 and 2014).
19. Legislative Council (June 30, 2015 and 2014).
20. Public Employees Retirement System (June 30, 2015 and 2014).
21. Retirement and Investment Office (June 30, 2015 and 2014).
22. Mill and Elevator Association (June 30, 2015).
23. North Dakota Corn Utilization Council (June 30, 2014 and 2013).
24. Reports available but not selected for presentation:
 - a. State Board of Accountancy (June 30, 2015).
 - b. State Board of Architecture and Landscape Architecture (June 30, 2015 and 2014).
 - c. Board of Massage (June 30, 2015 and 2014).
 - d. Private Investigation and Security Board (December 31, 2014 and 2013).
 - e. State Board of Psychologist Examiners (June 30, 2015 and 2014).
 - f. State Real Estate Commission (June 30, 2015).
 - g. North Dakota Soybean Council (June 30, 2015 and 2014).
 - h. State Board of Veterinary Medical Examiners (June 30, 2014 and 2013).
 - i. North Dakota Beef Commission (June 30, 2015).

Senator Klein and Representatives Pollert, Hatlestad, Kempenich, Maragos, Martinson, Mock, Nathe, and Nelson voted "aye." No negative votes were cast.

Chairman Klein said the committee will be notified of the next meeting date.

No further business appearing, Chairman Klein adjourned the meeting at 2:00 p.m.

Michael C. Johnson
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:6