

Interim Higher Education Committee  
September 26, 2013



NORTH DAKOTA  
UNIVERSITY SYSTEM  
ACCESS. INNOVATION. EXCELLENCE.

---

---

---

---

---

---

---

---

Agenda

- Revenues & expenditures
- Biennial budget
- Performance/incentive funding
- Productivities & efficiencies
- Audit

9/26/13 

---

---

---

---

---

---

---

---

Revenues and Expenditures

---

---

---

---

---

---

---

---

### Sources of revenues

- General funds
- Tuition and fees
- Grants and contracts
- Other
  - Sales/services
  - Auxiliaries
  - Gifts

Variations by type of institution:

9/26/13 

---

---

---

---

---

---

---

---

### Revenues by Source

Examples

---

---

---

---

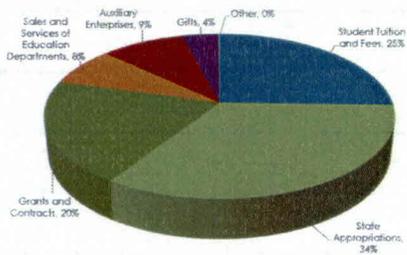
---

---

---

---

### Bismarck State College Total Revenues by Funding Source Fiscal Year 2012





---

---

---

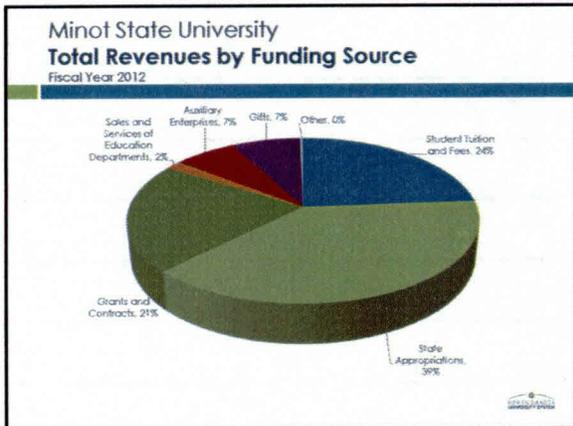
---

---

---

---

---




---

---

---

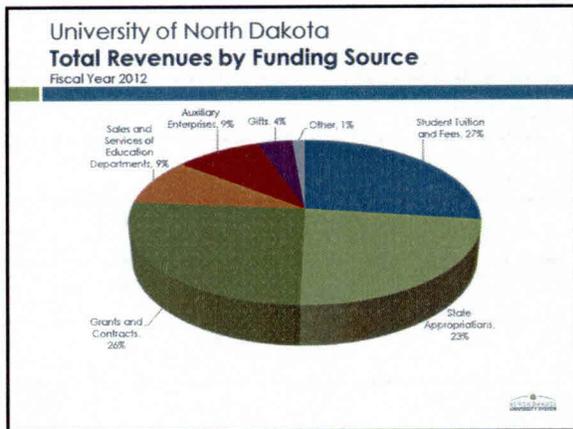
---

---

---

---

---




---

---

---

---

---

---

---

---

### Expenditure categories

Types of expenditures	Functional breakdown
<ul style="list-style-type: none"> <li>Salaries and benefits</li> <li>Operating</li> <li>Equipment</li> <li>Capital projects</li> <li>Scholarships/waivers</li> </ul>	<ul style="list-style-type: none"> <li>Instruction</li> <li>Academic support</li> <li>Student services</li> <li>Institutional support</li> <li>Physical plant</li> </ul>

Variations by type of institution

9/26/13

---

---

---

---

---

---

---

---

# Operating Expenses

Fiscal Year 2012

*excluding capital items and other non-operating expenses*

---

---

---

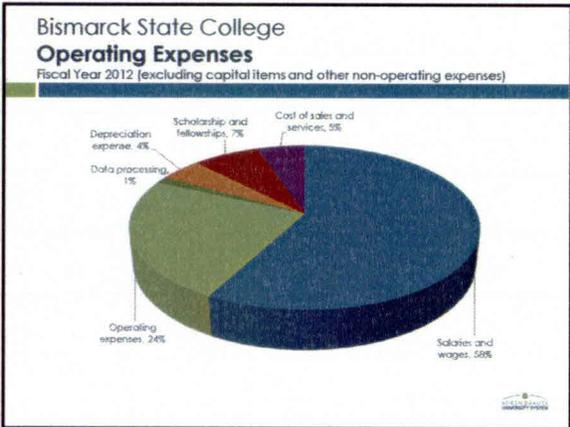
---

---

---

---

---



---

---

---

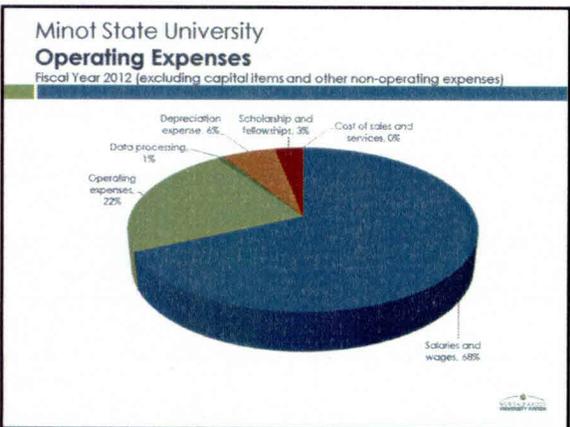
---

---

---

---

---



---

---

---

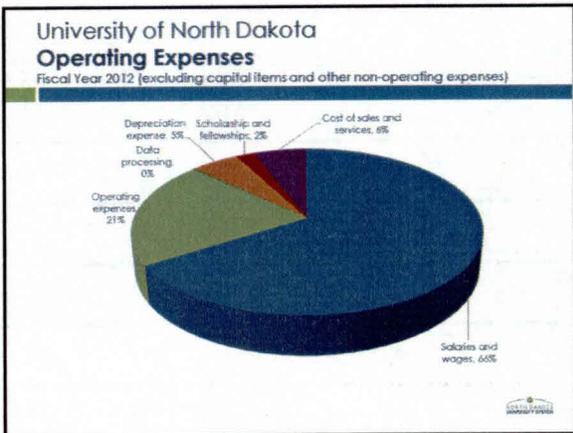
---

---

---

---

---



---

---

---

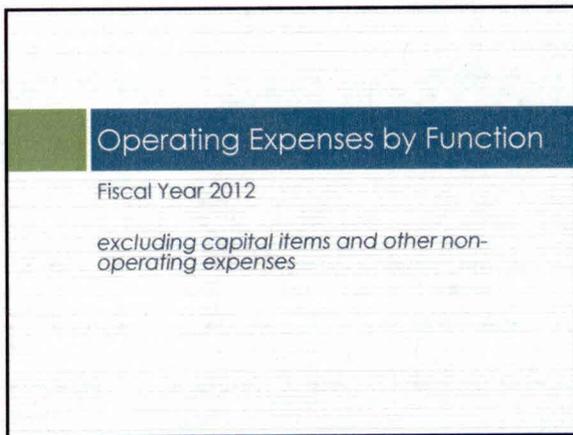
---

---

---

---

---



---

---

---

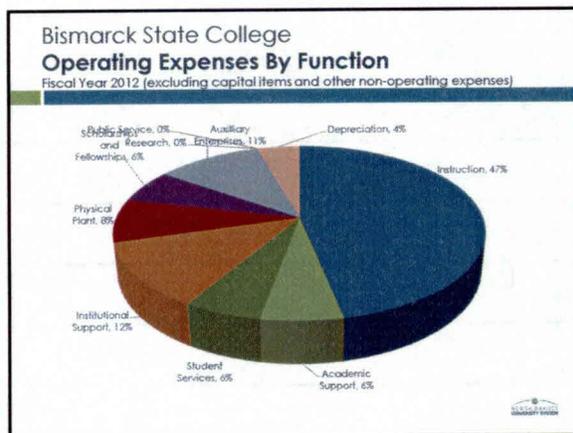
---

---

---

---

---



---

---

---

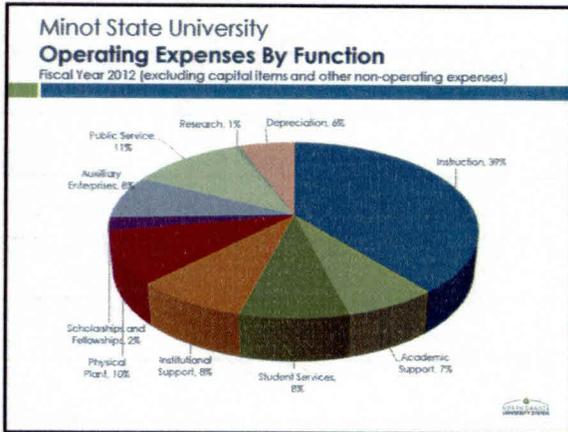
---

---

---

---

---



---

---

---

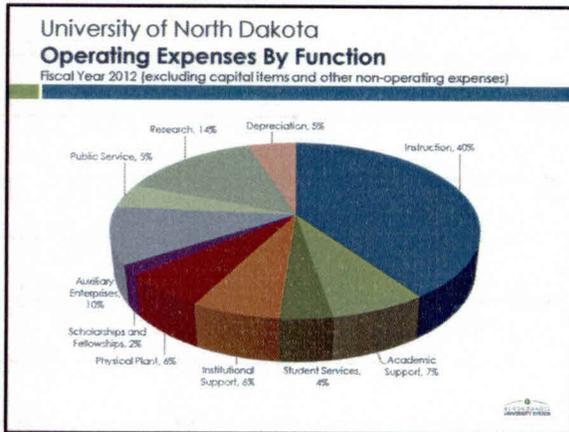
---

---

---

---

---



---

---

---

---

---

---

---

---

### Interrelationship

... between various sources of revenues and expenditures

- Cause and effect
- Restricted funds
- Unrestricted funds
  - Designated
  - Encumbered

9/26/13

---

---

---

---

---

---

---

---

### Financial viability and stability

- Ratio analysis
  - NDUS annual reporting
  - Composite financial index
- Bond ratings
- Fund balances
- Performance and financial information
- Predictability

9/26/13 

---

---

---

---

---

---

---

---

### Internal annual budget plan process

- Historical approach – incremental
- Options – must be data driven
- Responsibility, performance, incentive
- Productivity
- Cost control, efficiency, effectiveness
- Quality

9/26/13 

---

---

---

---

---

---

---

---

### Aligning general fund, tuition, and financial aid

- Current approach
- Stability and predictability of state funds
- Incentives
- Quality outcomes
- Consider federal policy impacts

9/26/13 

---

---

---

---

---

---

---

---

### The foundation

---

**General funds and tuition income**

- Primarily support instruction and core function
- Leverage or build other "floors" – sources of revenue
- "Appropriated funds" includes both general fund and tuition
- Pathways plan – blended model

9/26/13 

---

---

---

---

---

---

---

---

### Biennial Budget

---

---

---

---

---

---

---

---

### SBHE constitutional responsibility

---

- In the "best interest" of educational system
- Single unified budget covering the needs of all institutions
- Appropriations in one legislative measure
- Ag may be separate from educational institutions
- SBHE has control of expenditures of funds
- Funds shall not be used for any other institution

9/26/13 

---

---

---

---

---

---

---

---

## Process and Timeline

---

---

---

---

---

---

---

---

## Operating budget

- One line item
- Based on new funding model
- Timeline
  - Start: Dec – odd number years
  - Conclude: June – even number years
  - Submit to OMB: July – even number years

9/26/13 

---

---

---

---

---

---

---

---

## Capital budget

- Extraordinary repairs
  - Regular repair and maintenance
  - Facilities and infrastructure
  - Special assessments
  - Part of cost to continue calculation
- Major capital projects
  - Major new construction, renovation, remodeling
  - Driven by campus master planning process
  - SBHE prioritized list
  - Deferred maintenance

9/26/13 

---

---

---

---

---

---

---

---

## Capital budget

---

- Timeline
  - Start: Sept – odd number years
  - Conclude: June – even number years
  - Submit to OMB: July – even number years

9/26/13

---

---

---

---

---

---

---

---

## Other

---

- Performance funding
- Other special initiatives

9/26/13

---

---

---

---

---

---

---

---

## Appropriation format

---

- Examples

<u>Bismarck State College</u>	<u>Appropriations</u>
Operations	\$32,653,654
Capital assets	\$19,717,673
Total all funds	\$52,371,327
Less estimated income	\$6,665,000
Total general fund	\$45,706,327
Full-time equivalent positions	126.96

<u>Lake Region State College</u>	<u>Appropriations</u>
Operations	\$12,429,097
Capital assets	\$5,805,551
Total all funds	\$18,234,648
Less estimated income	0
Total general fund	\$18,234,648
Full-time equivalent positions	40.22

9/26/13

---

---

---

---

---

---

---

---

# NDUS Budget Changes

---

---

---

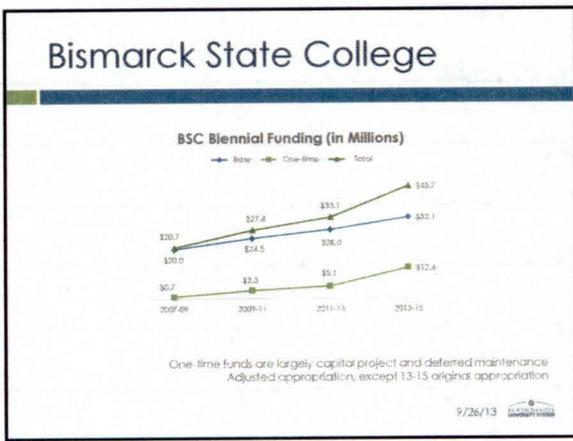
---

---

---

---

---




---

---

---

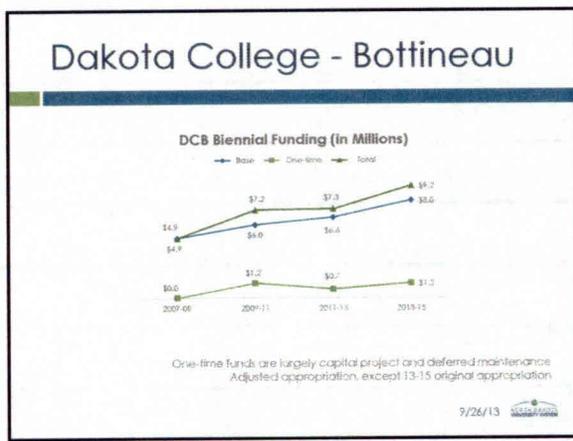
---

---

---

---

---




---

---

---

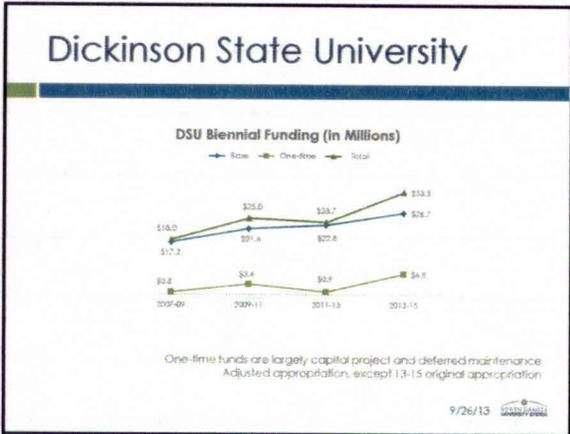
---

---

---

---

---




---

---

---

---

---

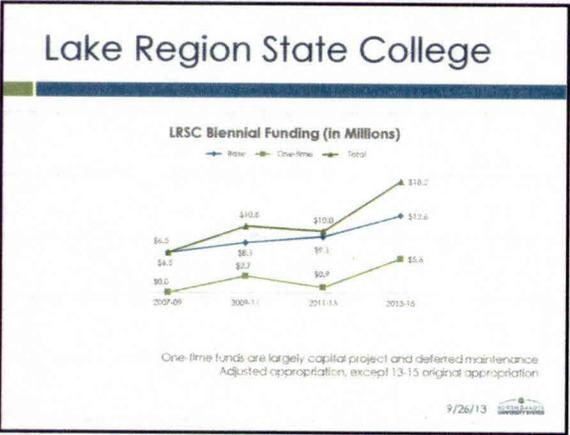
---

---

---

---

---




---

---

---

---

---

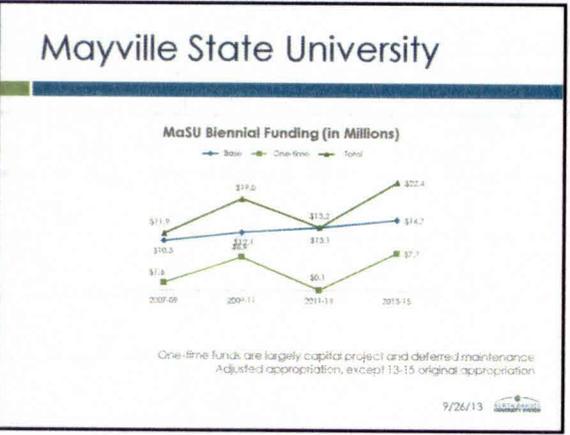
---

---

---

---

---




---

---

---

---

---

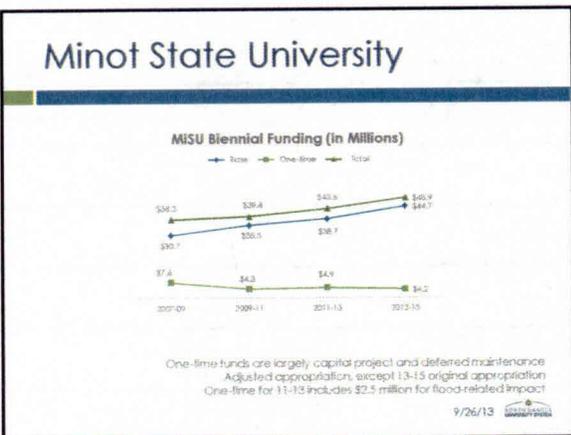
---

---

---

---

---




---

---

---

---

---

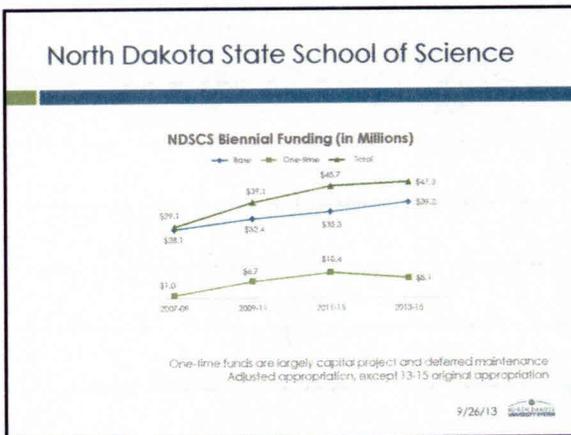
---

---

---

---

---




---

---

---

---

---

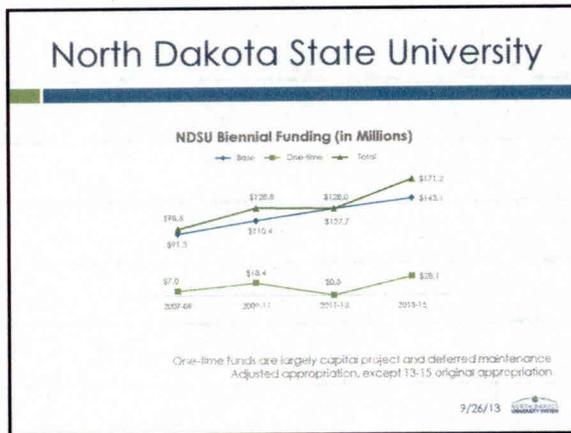
---

---

---

---

---




---

---

---

---

---

---

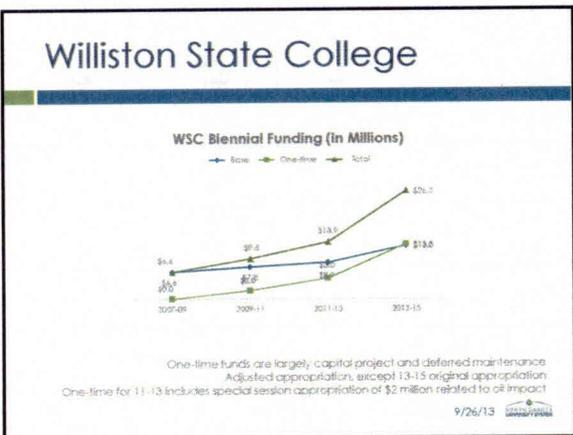
---

---

---

---






---

---

---

---

---

---

---

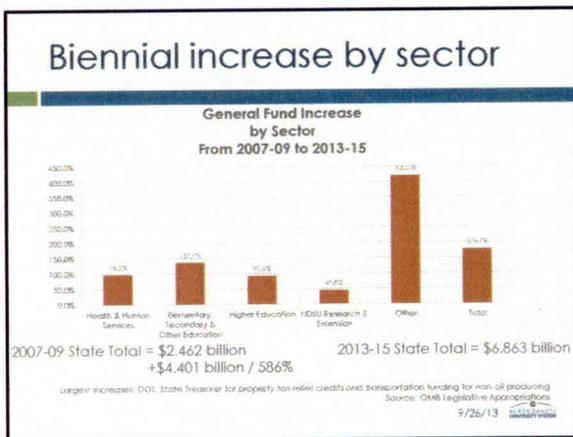
---

---

---

---

---




---

---

---

---

---

---

---

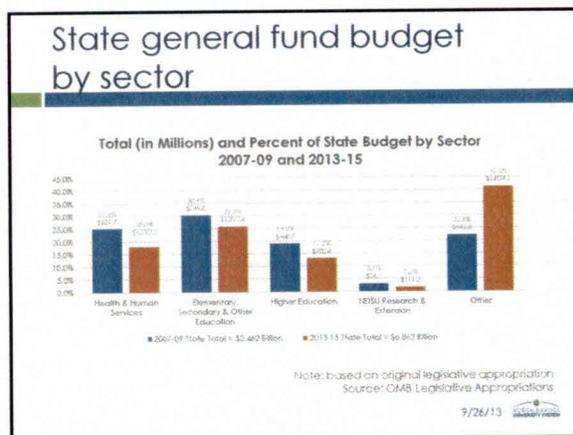
---

---

---

---

---




---

---

---

---

---

---

---

---

---

---

---

---

## ND by Comparison

---

---

---

---

---

---

---

---

### State general funds per FTE student

	FY07	FY11	FY12
North Dakota	\$5,307	\$4,375	\$6,933
US Average	\$7,667	\$6,483	\$5,906
ND Rank (out of 50)	43 <sup>rd</sup>	23 <sup>rd</sup>	11 <sup>th</sup>

Source: State Higher Ed Finance FY12 Report  
9/26/13

---

---

---

---

---

---

---

---

### Net tuition revenue per FTE student

	FY07	FY11	FY12
North Dakota	\$6,475	\$6,264	\$6,647
US Average	\$4,359	\$4,793	\$5,189
ND Rank (out of 50)	10 <sup>th</sup>	17 <sup>th</sup>	17 <sup>th</sup>

Source: State Higher Ed Finance FY12 Report  
9/26/13

---

---

---

---

---

---

---

---

### Total state general fund and tuition revenue per FTE student

	FY07	FY11	FY12
North Dakota	\$11,781	\$12,639	\$13,555
US Average	\$11,989	\$11,226	\$11,043
ND Rank (out of 50)	27 <sup>th</sup>	15 <sup>th</sup>	10 <sup>th</sup>

Source: State Higher Ed Finance FY12 Report

9/26/13 

---

---

---

---

---

---

---

---

### State general fund per capita resident

Higher Ed	2007	2009	2011
North Dakota	\$390	\$382	\$456
US Average	\$250	\$252	\$281
ND Rank (out of 50 states)	8 <sup>th</sup>	6 <sup>th</sup>	4 <sup>th</sup>

Health and Human Services (HHS)	2007	2009	2011
North Dakota	\$396	\$467	\$512

Elem. Secondary and other Education	2007	2009	2011
North Dakota	\$521	\$564	\$629*

Source: State Higher Ed Finance FY12 Report; Higher Education  
 Source: OMB Legislative Appropriations, manual calculation; HHS, Education  
 \* Includes \$245 million for property tax relief

9/26/13 

---

---

---

---

---

---

---

---

### Performance Funding

*(This section contains faint, illegible text and graphics, likely a chart or table related to performance funding.)*

---

---

---

---

---

---

---

---

**Performance/incentive funding**

- 2013 Legislative Assembly
  - \$5 million appropriated
- Legislative intent:
  - For Institutions meeting SBHE approved goals and performance measures
  - Not for operations or functions of the NDUS Office
  - Consider oil and gas impact fund allocations

9/26/13 

---

---

---

---

---

---

---

---

**Performance/incentive funding**

- Chancellor's Cabinet and SBHE members surveyed- potential measures
  - Completion
  - Outcomes
  - Retention
- Task Force formed and appointed by Chancellor

9/26/13 

---

---

---

---

---

---

---

---

**Guiding Principles**

- Support strategic plan direction
- Limited number of measures focused on: student success; collaboration; efficiencies, state priorities
- Simple, understandable, valid, reliable
- May differ based on inst'l mission and size
- Compete against own baseline, not each other
- Outcomes that can be influenced by the institution

9/26/13 

---

---

---

---

---

---

---

---

### Guiding Principles

- Data available from single data system, with common definitions
- Inst'l flexibility to identify strategies
- Avoid unintended consequences
- Consistency in measures important over long-term
- Compatible with new state funding model
- Minimize short-term anomalies in data
- Communicate with internal and external constituents

9/26/13 

---

---

---

---

---

---

---

---

### Performance/incentive funding

- Task force recommended three measures
- April 2012 SBHE approved implementation of unfunded pilot project measures
  - Fall to spring retention at initial institution
  - Fall to fall retention within the NDUS
  - Number of student awarded degrees between July 1 and Jun 30 of each year
- Proceeding with implementation

9/26/13 

---

---

---

---

---

---

---

---

### Productivity and Efficiencies

---

---

---

---

---

---

---

---

### NDUS / SITS

- ConnectND
- Lecture capture initiative
- Web-based budgeting
- NDUS Online
- NDHE Consortium for Alcohol and Drug Abuse Prevention
- Statewide articulation
- GERTA

9/26/13 

---

---

---

---

---

---

---

---

### Mayville State University

Dr. Gary Hagen, President

---

---

---

---

---

---

---

---

### Mayville State University

- Direct deposit for paychecks / credit card utilization
- Collaboration with SITS for LMS, help desk, Microsoft agreement; UND for phones



9/26/13 

---

---

---

---

---

---

---

---

### Mayville State University

- IBARS budgeting system
- Agassiz Hall, Science/Library, and Education building renovations



9/26/13 

---

---

---

---

---

---

---

---

### Mayville State University

- New athletic conference reduces travel costs
- Bookstore offers rentals / buyback
- Increased distance enrollment



9/26/13 

---

---

---

---

---

---

---

---

### North Dakota State College of Science

Dr. John Richman, President

---

---

---

---

---

---

---

---

North Dakota State College of Science

- New student orientation, move-in, Welcome Week improvements
- Video security system replacement
- Precision Machining Technology / industry partnership



9/26/13 

---

---

---

---

---

---

---

---

North Dakota State College of Science

- Land surveying equipment partnership
- Department math Textbooks
- CRM / Hobson's



9/26/13 

---

---

---

---

---

---

---

---

North Dakota State College of Science

- All forms and applications online
- Desktop computer Standardization
- Printer support contract
- Nursing simulation



9/26/13 

---

---

---

---

---

---

---

---

University of North Dakota

Dr. Tom DiLorenzo  
Provost and VP for Academic Affairs

---

---

---

---

---

---

---

---

University of North Dakota

- Strategic enrollment management: online catalog & degree audit system
- iDashboards to facilitate data based decisions
- UND Student Health Clinic on the BSC campus
- One-stop service center
- Enhancing student success by promoting financial wellness

9/26/13 

---

---

---

---

---

---

---

---

Audit

---

---

---

---

---

---

---

---

### Gold standard

- Definition of *unqualified opinion*<sup>1</sup>
  - Independent auditor's judgment on financial records and statements
  - Fairly and appropriately presented in accordance (GAAP)
  - Independent auditor believes are sound and free from material misstatements
  - Qualified opinion finds something of major concern
- NDUS has always received an unqualified opinion

<sup>1</sup>source: Investopedia.com

9/26/13

---

---

---

---

---

---

---

---

### Risk assessment – risk vs. cost, value added

- Possibility that event will occur and adversely affect achievement of objectives
- Risk assessed in terms of likelihood and significance
  - Informed response by management to address risk
  - Appropriate from a cost/benefit standpoint
  - Allocation of resources focused on priority objectives

9/26/13

---

---

---

---

---

---

---

---

### Risk assessment – risk vs. cost, value added

- Perform entity-wide risk assessment in FY12
  - First step in creating on-going risk assessment methodology
  - Reviewing and implementing risk assessment update process in FY14
  - Risk assessment used to establish annual audit plan
  - Risk assessment used to establish work and resource priorities
  - Comprehensive effort requires 18-24 months to complete
  - Lack of audit staffing due to turnover complicates timeline

9/26/13

---

---

---

---

---

---

---

---

**Prior Audit Recommendations**

---

---

---

---

---

---

---

---

**Internal control and training**

**SAO recommendation**

- NDUS provide resources to enable client personnel to produce year-end GAAP financial statements

**Summary**

- Error types vary and not consistent from campus to campus
  - Example: Error in reclassification between net asset categories for balance of unspent bond proceeds
    - FY11: MISU, NDSU, UND, and WSC
    - FY12: NDSCS, LRSC, VCSU, and WSC

9/26/13

---

---

---

---

---

---

---

---

**Internal control and training**

**Summary (cont)**

- Errors double-counted, both sides of the ledger
  - \$1 million net assets reclassified from unrestricted to restricted = \$2 million adjustment
- Getting more complex
  - 19 new accounting standards, 9 applicable or potentially applicable to NDUS since FY09 (GASB)
  - Total net assets increased 28% (since FY09)
  - Component unit total net assets increased 35% (total of 18 component units)
- Since FY09, adjustments in all categories but total assets are down

9/26/13

---

---

---

---

---

---

---

---

**Internal control and training**

---

**Improvement steps to date**

- Accounting manual updated March 2012
- Annual controller training; 50 attendees in FY13
- Monthly controller meetings
- Shared campus templates
- Part-time assistance in FY13

9/26/13 

---

---

---

---

---

---

---

---

**Internal control and training**

---

**Improvement steps to date**

- Use Sharepoint for documents
- Formal mentoring program for new controllers
- Senior campus management alerted to potential issues/concerns
- SAO reps asked to present to controller's group
- Meetings with SAO to discuss audit recommendations/solutions

9/26/13 

---

---

---

---

---

---

---

---

**Internal control and training**

---

**Challenges**

- Staff turnover – MaSU, VCSU, and WSC this yr
- Complex and different accounting methodology and standards
- Condensed timeframe to close general ledgers and prepare statements – June to November
- Many functions performed just once annually

9/26/13 

---

---

---

---

---

---

---

---

### Internal control and training

**Challenges**

- Many campus controller's wear multiple hats
- Human error – weigh costs/benefits
- Inadequate staffing
  - System office = 1 FT and .25% PT consulting for 11 campuses, the system office and 18 CU
  - OMB = 3 FT, 2 PT and 2 FT consulting for 4-6 weeks
  - MNSCU = 6.75 FTE for 31 campuses, 1 system office, and 9 foundations

9/26/13 

---

---

---

---

---

---

---

---

### Comprehensive fraud and control risk assessment

**SAO recommendation**

- Complete comprehensive fraud and control risk assessment (RA)
- Establish internal control policies and procedures
- Provide formal training on internal controls
- Internal audit staff test effectiveness

9/26/13 

---

---

---

---

---

---

---

---

### Comprehensive fraud and control risk assessment

**Improvement steps to date**

- Fraud risk training provided for all employees
- Internal control/fraud risk questionnaire completed in spring of 2013, improving
- Internal control training rolled out in 2013, updating
- Included in annual controller's training

9/26/13 

---

---

---

---

---

---

---

---

### Comprehensive fraud and control risk assessment

#### Challenges

- RA complexity/scope – start with high risk areas and expand
- Lack staff for proper duty segregation; focus on mitigation strategies
- Thousands of processes to map for internal control review
- Staff turnover – System Office: 2 vacancies, multiple searches

9/26/13 

---

---

---

---

---

---

---

---

### Internal audit (IA) staffing comparisons

	# of IA Staff	Annual Revenue per IA
NDUS	5	\$232,900,000
Minnesota State College	10	\$190,000,000
Montana State College	4	\$38,700,000
University of Montana	3	\$110,400,000
Boise State University	4	\$93,500,000
University of Idaho	2	\$222,800,000
Iowa State University	5	\$225,300,000

9/26/13 

---

---

---

---

---

---

---

---

### Internal audit training and peer reviews

#### SAO recommendation

- All internal audit shops obtain peer reviews in compliance with industry standards
- Attend sufficient training to meet IIA CPE requirements (40 hours/year)

9/26/13 

---

---

---

---

---

---

---

---

**Internal audit training and peer reviews**

**Improvement steps to date**

- Allocate sufficient resources for auditor training (FY14)
- Phased plan for successful FY16 peer review

9/26/13 

---

---

---

---

---

---

---

---

**Internal audit training and peer reviews**

**Challenges**

- Formal peer reviews are time consuming and resources currently not available
- Audit staff turnover, including senior level positions

9/26/13 

---

---

---

---

---

---

---

---

**Classification/coding/reconciling WSC**

**SAO recommendation**

- WSC with assistance from NDUS office:
  - Properly record various activities (bond, inter-fund borrowing, salaries payable, etc.)
  - Training for accounting personnel and PeopleSoft training
  - Reconcile cash per bank and general ledger

9/26/13 

---

---

---

---

---

---

---

---

### Classification/coding/reconciling WSC

**Improvement steps to date**

- WSC senior leadership made fiscal accountability a priority
- Full-time WSC controller hired in spring 2013
- Part-time CPA hired as WSC Chief Financial Officer in summer 2013
- Contract with retired VCSU VP for Finance for assistance
- Contract accountant hired to bring reconciliations current spring 2013
- Experienced BSC staff partnered with WSC staff as mentor
- Additional controls put in place

9/26/13 

---

---

---

---

---

---

---

---

### Classification/coding/reconciling WSC

**Ongoing challenges**

- Difficult to recruit and retain highly qualified staff in all areas
- Limited staffing creates challenges for segregation of duties

9/26/13 

---

---

---

---

---

---

---

---

### GASB 40 risk disclosures: LRSC, MISU, NDSCS, VCSU, & WSC

**SAO recommendation**

- Implement internal controls to ensure appropriate deposit disclosures

**Improvement steps to date**

- Some listed cash in the wrong risk category (uninsured risk and uncollateralized, uninsured and collateralized, etc.)
- ISAO invited to review proper GASB 40 disclosures with controllers (June 2013)

**Ongoing challenges**

- Human error
- Staff turnover
- Training

9/26/13 

---

---

---

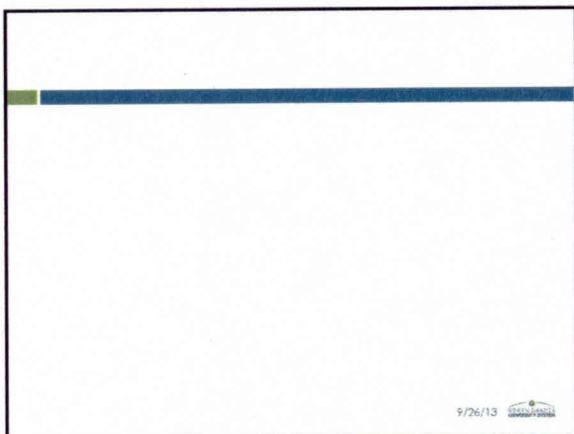
---

---

---

---

---



---

---

---

---

---

---

---

---