



## Report to the Higher Education Committee – NDUS Internal Audit Pool

August 19, 2016

### NDUS Internal Audit Pool Funding Detail as of 7/31/16:

Description	Amount
Original Appropriation 15-17 Biennium	\$300,000.00
4.05% Allotment Adjustment – June 2016	(\$12,150.00)
Adjusted 15-17 Appropriation	\$287,850.00
2.5% Allotment Adjustment – August 2016	(\$7,196.25)
Current Adjusted 15-17 Appropriation	\$280,653.75
Year-to-Date Expenses (through 7/31/16)	(\$140,450.51)
Remaining NDUS Internal Audit Pool Appropriation	\$140,203.24

Biennium-to-date expenses of \$140,450.51 consist solely of salary and benefits for a four-month extension (July 2015-October 2015) of employment for three NDUS internal audit staff. At the end of the extension period, two internal auditors were direct hired by UND and one internal auditor terminated.

### Potential Use of Remaining NDUS Internal Audit Pool Appropriation:

The remaining, allotment adjusted, appropriation for the NDUS Internal Audit Pool is \$140,203.24. Potential uses are as follows:

- External consulting contract for system-wide initiatives (e.g. Enterprise Risk Management Assessment)
- External consulting contract for system-wide function specific audit (e.g. grant compliance, athletics, travel)
- Salary and benefit costs for NDUS Director of Audit Services (thereby decreasing the allocation to the campuses)

### Current NDUS Internal Audit Structure:

As of 7/31/16 NDUS has a total of three internal auditors; two internal auditors dedicated solely to UND and a Director of Audit Services employed by the NDUS System Office (as of 2/1/16), dedicated to system-wide internal audit function coordination, as well as system-wide or campus specific internal audits as needed. The salary and expenses of the NDUS Director of Audit Services are allocated to the campuses.

### Biennium-to-Date NDUS Internal Audit Activity:

- UND Internal Audit has completed 10 internal audit examinations (a combination of routine, follow-up and assist audits) through 7/31/16 with an additional 16 internal audit examinations planned through the end of the biennium. This is in addition to fraud investigations which are completed as needed.
- NDUS Internal Audit has completed two internal audit follow-up examinations as well as a system-wide Fraud Risk Assessment Survey, with a phased system-wide Enterprise Risk Management plan in progress through the biennium.
- Various institutions have contracted with outside accounting firms to perform internal reviews. To date, 4 examinations have been completed with a cost of \$48,668.50.

### Projected NDUS Internal Audit Structure:

SBHE Policy 802.8 – Internal Audit Charter was updated 6/17/16 to include a requirement that each institution have an internal audit function in place no later than the beginning of FY18 (July 1, 2017).

Institutions have discretion as to how to achieve internal audit function, including shared services, direct hire and consulting contracts.

A workgroup will begin meeting in September 2016 with the purpose of facilitating the determination of appropriate audit function at each campus. A number of campuses have already made progress in identifying shared service opportunities, among the early discussions are possibility of UND sharing audit function with MaSU and LRSC, as well as NDSU sharing audit function with VCSU and NDSCS.

#### Internal vs. External Audit:

- Internal Auditors are employees of an organization. Emphasis is on providing management with objective information to determine whether the required high degree of public accountability is maintained, and to assist management in improving the efficiency and effectiveness of operations and activities. The focus is on accountability, internal controls, and on improving efficiency.
- External Auditors are NOT employees of the organization. The external auditor performs financial, operational and performance audits of the records of the organization. Emphasis is on the reasonableness of financial representations as well as the compliance with established rules and regulations.

#### Analysis of \$300,000.00 15-17 Biennium NDUS Internal Audit Pool:

The NDUS Internal Audit Pool funding of \$300,000.00 for the 15-17 Biennium is not adequate to sustain a proper Internal Audit Function. Benchmark and comparison data below show that system-wide Internal Audit staffing should be at 10-11 FTE, pointing to a current vs. recommended staffing gap of 7-8 Internal Audit FTE system-wide.

#### GAIN Benchmark Data – Internal Audit Staffing Levels (based on revenues):

Description	2015 Operating and Non-operating Revenues (including State & Federal Appropriations)	Suggested # of Internal Audit Staff based on GAIN data <sup>1/</sup>	Current # of Internal Auditors
NDSU	\$404 Million	4	0
UND	\$435 Million	4	2
All Other ND Combined	\$339 Million	3	0
System-wide	\$1.1 Billion	11	3

<sup>1/</sup> GAIN (Global Audit Information Network) Benchmark=1 auditor per \$100 million in revenues

#### Comparison Data - Higher Education Internal Audit Staffing Levels (based on enrollment):

Description	Total Enrollment <sup>1/</sup>	Number of Internal Audit Staff <sup>2/</sup>	Ratio of Internal Audit Staff to Enrollment
University of Wyoming	12,903	2	1 to 6,451
University of Minnesota (4 institutions)	68,418	18	1 to 3,801
South Dakota Board of Regents (6 institutions)	36,255	3	1 to 12,085
University of Montana	14,946	3	1 to 4,982
Montana State University	14,269	3	1 to 4,756
University of Colorado (3 institutions)	64,953	15	1 to 4,330
University of Nebraska (4 institutions)	50,178	9	1 to 5,575
University of Iowa, ISU and UNI	73,150	16	1 to 4,571
Summary/Average of Above Comparison Institutions	335,072	69	1 to 4,856
<b>Inferred IA Staffing - North Dakota University System (11 institutions)</b>	<b>48,200</b>	<b>9.92</b>	<b>1 to 4,856</b>
<b>Current - North Dakota University System (11 institutions)</b>	<b>48,200</b>	<b>3</b>	<b>1 to 16,066</b>

<sup>1/</sup> AIR Delta Cost Project - data source for these values are IPEDS from the 2013-14 academic year and includes all institutions that report to IPEDS

<sup>2/</sup> Per campus website and/or confirmation with campus audit staff