

# NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

### HIGHER EDUCATION COMMITTEE

Wednesday, October 28, 2009  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Representative Bob Skarphol, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Representatives Bob Skarphol, Lois Delmore, Mark A. Dosch, Kathy Hawken, Brenda Heller, Nancy Johnson, RaeAnn G. Kelsch, Joe Kroeber, Bob Martinson, Darrell D. Nottestad, Kenton Onstad, Ken Svedjan, Clark Williams; Senators John M. Andrist, Tim Flakoll, Tony S. Grindberg, Ray Holmberg, Elroy N. Lindaas, Dave Nething, David O'Connell, Larry J. Robinson, Tom Seymour

**Members absent:** Representative Dennis Johnson; Senator Karen K. Krebsbach

**Others present:** Jim W. Smith, Legislative Council, Bismarck

Sue Andrews, State Board of Higher Education, Mapleton

Jon Backes, State Board of Higher Education, Minot

Duaine Espgaard, Jon Jackson, Grant Shaft; State Board of Higher Education, Grand Forks

Rachelle Hadland, Michael Haugen; State Board of Higher Education, Fargo

Claus Lembke, State Board of Higher Education, Bismarck

Richie Smith, State Board of Higher Education, Wahpeton

William G. Goetz, Chancellor, North Dakota University System, Bismarck

Lonny Winrich, State Representative, Grand Forks

See attached [appendix](#) for additional persons present.

**It was moved by Senator Robinson, seconded by Senator Flakoll, and carried on a voice vote that the minutes of the September 23, 2009, meeting be approved as distributed.**

Chairman Skarphol said the committee is tentatively scheduled to meet January 19-20, 2010, in Bismarck. He said the January 2010 meeting will be used to discuss issues relating to research and baccalaureate institutions.

#### HIGHER EDUCATION STUDY

Chairman Skarphol welcomed members of the State Board of Higher Education to the meeting for discussion of higher education topics. He said the meeting will follow a discussion format in an effort to exchange ideas and concerns between the committee and board.

Mr. Goetz said it is important for the State Board of Higher Education and Legislative Assembly to work together to ensure the success of students. He said the meeting should focus on how to best serve students in the state.

Mr. Richie Smith, President, State Board of Higher Education, thanked the committee for inviting the State Board of Higher Education to attend the committee meeting to share ideas and concerns. He said an attainable goal for the North Dakota University System is to be the best in the country for student success, including the percentage of the adult population with a postsecondary education. He said it is important for the committee and the State Board of Higher Education to come to a consensus regarding future objectives for higher education.

In response to a question from Representative Skarphol, Mr. R. Smith said the State Board of Higher Education has reviewed options for providing incentive-based funding to higher education institutions. He said incentive funding may be based on completion rates; student access, including the number of online courses offered; admission standards; and the number of programs offered that are critical to the future of the state.

Mr. R. Smith said areas identified by the State Board of Higher Education as needing improvement include the price of online classes, continuing education courses, and student mobility.

#### University System Strategic Plan

Mr. Haugen provided an overview of the University System strategic plan approved by the State Board of Higher Education in September 2009. He said the strategic plan is intended to be used for the next five years and identifies the following four goals for higher education:

1. The University System is accessible--a view held by all North Dakotans.
2. North Dakotans recognize that the University System is affordable at a level that can be sustained.
3. The University System increases the overall vitality of the state through exceptional education, research, training, and service.
4. The 11 institutions comprising the University System work together to achieve the vision effectively.

Mr. Haugen said each goal has various objectives that are to be used to measure the progress toward achieving the goal. He said each objective has action steps that detail the methods used to accomplish an objective with responsibility for each action step assigned to the appropriate University System office staff member.

A copy of the information presented by Mr. Haugen is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Mr. Haugen said the action steps to achieve each objective will be monitored for progress. He said information regarding the projected completion dates and actual completion dates of each action step will be developed.

In response to a question from Representative Skarphol, Mr. Haugen said some objectives do not yet have identified measures. He said the State Board of Higher Education is working with campuses and other stakeholders to develop appropriate measures.

Representative Skarphol said measures of certain objectives may need to have an international focus rather than a national focus.

Mr. Goetz said the University System strategic plan provides direction for the State Board of Higher Education and has progress updates to ensure accountability. He said each campus will link its strategic plan with the University System strategic plan and institution presidents will be evaluated based on the objectives identified in the plans.

In response to a question from Representative Onstad, Mr. Backes said resources will be allocated using the most appropriate method to accomplish the goals stated.

Mr. Haugen said it is important to have a person responsible for each objective or goal to ensure its success.

In response to a question from Representative Skarphol, Mr. Goetz said measures for objectives will vary by institution.

In response to a question from Representative Skarphol, Mr. Shaft said the State Board of Higher Education develops needs-based biennial budget requests for presentation to the Governor and the Legislative Assembly. He said recent budget requests have included increases that were determined to be necessary to meet the needs of higher education.

Senator Flakoll expressed concern regarding the amount of time needed to evaluate student success resulting from legislative education initiatives. He said it may take several years to determine the success of initiatives that have been implemented.

In response to a question from Senator Andrist, Mr. Haugen said each objective has not been evaluated to determine the costs and benefits of completing the objective.

In response to a question from Representative Kelsch, Mr. R. Smith said while developing the strategic plan, the State Board of Higher Education obtained the services of a consultant that provided

information regarding higher education practices in other states.

### **Remedial Education**

Representative Skarphol expressed concern regarding the amount of remedial education offered at certain higher education institutions. He said the use of remedial education at research institutions may need to be reviewed.

Mr. Shaft said it may be appropriate to develop a system that provides for admission standards at each institution. He said it may be beneficial for students needing remedial education to attend a two-year institution or baccalaureate institution prior to enrolling at a research institution.

Mr. Jackson said each student learns at a different rate and the needs of the state should be considered when developing admission standards.

Mr. Espgaard said more responsibility may need to be placed on students for being prepared to enroll in college courses.

Representative Delmore said nontraditional-age students may experience difficulty when taking placement examinations for college courses. She said a nontraditional-age student may not have taken an educational course for several years prior to enrolling at a higher education institution.

Senator Robinson suggested that the costs and benefits of remedial education be evaluated at each institution.

Mr. R. Smith said the Pathway program allows students to take classes on the campus of North Dakota State University even if they do not meet admission requirements of the institution. He said the classes are provided at North Dakota State University by the State College of Science.

In response to a question from Senator Nething, Mr. R. Smith said certain initiatives are focused on improving teacher education programs. He said an initiative for science, technology, engineering, and mathematics will be used to improve the education of teachers.

Mr. Backes said funding incentives for student completion may be used to address remedial education needs. He said increased admission standards may help students understand the need to increase efforts in certain academic areas.

Mr. Lembke said some students may need remedial education because they only take classes in certain academic areas the first two years of high school.

Senator Robinson suggested the committee receive information regarding the number of students enrolled in remedial education courses at each campus as well as provisional enrollment programs at institutions.

Chairman Skarphol said the State Board of Higher Education will be invited to attend a future committee meeting in 2010. He asked the State Board of Higher Education to develop a proposal regarding efforts needed to address remedial education at higher

education institutions and present the proposal at the meeting.

Senator Holmberg said the State Board of Higher Education may need to set standards regarding the high school classes students need to complete prior to enrolling in college.

Mr. Shaft said the State Board of Higher Education may need to be more assertive when setting expectations for students entering college. He said students also need to be responsible for being prepared for college.

Representative Delmore said institution admission standards in neighboring states should be taken into consideration when developing admission standards at North Dakota institutions.

In response to a question from Representative Skarphol, Mr. Goetz said he would provide the committee with information regarding professions that require competency in higher level mathematics courses.

### Governance

Mr. Shaft provided information regarding governance of the University System. He said the State Board of Higher Education utilized the services of a consultant in July 2009 to develop the following concepts, which are addressed in the University System strategic plan:

- Define the role of the State Board of Higher Education.
- Identify appropriate staff levels for the University System office.
- Build student support, convenience, and service in the University System.
- Develop appropriate admission standards, including the treatment of needs for remediation.
- Align program delivery with student needs.
- Set University System priorities.
- Develop a plan and communicate it with the Legislative Assembly.
- Create a vision for the University System.

A copy of the information presented by Mr. Shaft is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Mr. Shaft said the State Board of Higher Education considers student input when deciding policy issues. He said the board has a student member that provides information to the board and is allowed to vote on all matters.

In response to a question from Representative Skarphol, Ms. Hadland said a state student organization is used to provide student input to the student member on the State Board of Higher Education.

In response to a question from Senator Seymour, Mr. Jackson said the faculty adviser member of the State Board of Higher Education is not allowed to vote on matters before the board. He said the faculty adviser member of the board provides an important

viewpoint of both the needs of higher education faculty and students.

### University System Audit Report and Financial Statements

Mr. John Grettum, Audit Manager, State Auditor's office, presented information regarding the internal control and compliance report for the University System as it relates to the audit of the financial statements for the year ended June 30, 2008. He said the following recommendations from prior audits have not been implemented by the University System:

1. The 2002, 2005, 2006, and 2007 audits recommended that the University System properly use the account codes, funds, fund groups, and functions that are available on PeopleSoft.
2. The 2004, 2005, 2006, and 2007 audits recommended that all institutions prepare timely accrued payroll liability reconciliations and improve year-end procedures to provide accurate financial information.
3. The 2005, 2006, and 2007 audits recommended that all institutions print a standard form for all online transactions with approval noted.
4. The 2007 audit recommended that the University System management establish appropriate internal controls and provide sufficient training to personnel so that the University System is able to prepare financial statements in conformity with generally accepted accounting principles.
5. The 2007 audit recommended that each campus assign one individual to monitor PeopleSoft access rights so access privileges are restricted to necessary individuals.

In response to a question from Representative Skarphol, Mr. Grettum said some audit recommendations may not have been implemented by the University System due to a lack of available resources and time.

Mr. Grettum provided the following list of internal control deficiencies of the University System:

1. North Dakota State University central stores inventory procedures.
2. The role of internal auditors at institutions.
3. Segregation of duties at the North Dakota Forest Service.
4. State College of Science cash receipts at the Skills and Training Technology Center.
5. Cash- and investment-related disclosures.
6. North Dakota State University scholarship allowances.
7. Bank reconciliations at various institutions and the University System office.
8. Segregation of duties at various institutions for inventory control purposes.

A copy of the information presented by Mr. Grettum is on file in the Legislative Council office.

In response to a question from Representative Dosch, Mr. Grettum said the University System has approximately \$6 million in allowance for uncollectible loans and notes.

Representative Dosch suggested the committee receive information regarding the amount of loans given to students that are currently classified as delinquent. Chairman Skarphol asked the University System office to provide this information to the committee at a future meeting.

Representative Dosch expressed concern regarding the number of prior audit recommendations not implemented by the University System.

Mr. Backes said the State Board of Higher Education Budget, Audit, and Finance Subcommittee is responsible for ensuring that audit recommendations are implemented. He said the number of audit adjustments included in recent audit reports has been decreasing and that the financial statements are being presented fairly.

In response to a question from Senator Andrist, Mr. Grettum said recent president's house projects at the University of North Dakota and North Dakota State University were not managed by the institutions. He said the projects were managed by the foundations of each institution.

In response to a comment from Representative Skarphol, Mr. R. Smith said changes have been made to University System policies regarding capital construction projects managed by institution development foundations as a result of the president's house projects. He said the State Board of Higher Education recently decided not to allow any state funds to be used for the president's house projects.

In response to a question from Representative Williams, Mr. Grettum said the State Board of Higher Education has been responsive and supportive of audit recommendations.

In response to a question from Senator Grindberg, Mr. Grettum said it is routine to have audit recommendations included in an audit report.

In response to a question from Representative Kelsch, Mr. Grettum said institutions are responsible for staying informed of any changes to accounting principles.

Ms. Robin Putnam, Director of Financial Reporting, North Dakota University System, provided information regarding the annual financial report of the University System for the fiscal year ending June 30, 2008. She said the University System has total assets of over \$1 billion with net assets of \$723 million.

In response to a question from Representative Skarphol, Ms. Putnam said she would provide the committee with information regarding differences between restricted and unrestricted net assets of the University System.

Ms. Putnam presented the following schedule of operating revenue, nonoperating revenue, and revenue received from capital grants and gifts for the University System for fiscal year 2008:

North Dakota University System Revenues - Fiscal Year 2008		
Source	Amount (in Thousands)	Percentage
<b>Operating revenues</b>		
Tuition and fees	\$226,177	41%
Grants and contracts	187,946	34%
Sales and services of education departments	54,429	10%
Auxiliary enterprises	83,099	15%
Other	1,304	0%
Total operating revenues	\$552,955	100%
<b>Nonoperating revenues, capital grants, and gifts</b>		
State appropriations	\$244,200	79%
Federal appropriations	7,587	2%
Gifts	22,760	7%
Investment income	7,788	3%
State appropriations - Capital assets	10,253	3%
Capital grants and gifts	12,592	4%
Other	4,811	2%
Total nonoperating revenues, capital grants, and gifts	\$309,991	100%
Total revenues	\$862,945	

Ms. Putnam said the University System had total liabilities of \$275.7 million for fiscal year 2008. She presented the following schedule detailing long-term liabilities for the University System for fiscal year 2008:

Category	Amount (in Thousands)
Bonds payable	\$194,957
Notes payable	5,574
Capital leases	49,839
Special assessments	1,641
Compensated absences	23,667
Total debt	\$275,678

A copy of the information presented by Ms. Putnam is on file in the Legislative Council office.

The committee recessed for lunch at 12:00 noon and reconvened at 1:00 p.m.

### Missions of Institutions

Mr. R. Smith presented information regarding the missions of institutions. He said a State Board of Higher Education subcommittee is being appointed to review the missions of University System institutions. He said the committee will review what each institution mission should be beyond the year 2015.

A copy of the information presented by Mr. R. Smith is on file in the Legislative Council office.

Senator Andrist said a higher education institution in New York is offering students the ability to complete a four-year degree in three years.

### Accessibility

Mr. Goetz presented information regarding accessibility of University System programs. He said there are 226 programs offered through distance

education, including 140 online programs and 118 programs offered at other campus locations. He said there are 15,983 distance education students taking courses through the University System of which 14,140 are enrolled in online courses.

A copy of the information presented by Mr. Goetz is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Mr. Goetz said he would provide information regarding the enrollment of students in online courses, including the amount of revenue generated by online courses at each institution. He said discussions are continuing regarding online course delivery, including the role of online courses in the mission of a campus.

Mr. Goetz said the 2009-10 academic year tuition increases were 3.5 percent at four-year institutions, and two-year institutions had no tuition increase. He said the University System is reviewing the appropriateness of fees at institutions.

### **Economic Development Connection**

Mr. Espgaard presented information regarding the centers of excellence program. He said the state has contributed \$25.4 million of funding for the program, and private businesses have contributed \$100 million. He said there are 107 private sector businesses participating in the program.

A copy of the information presented by Mr. Espgaard is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Mr. Espgaard said other states have been developing similar programs.

Senator Grindberg said the interim Workforce Committee is reviewing the centers of excellence program, including the effectiveness of the program. He said some of the projects funded through the program will take time to develop and success will not immediately be known.

Mr. Backes said higher education institutions are an integral part of regional economic development. He said institutions need to be responsive to economic needs and offer programs that serve the economic interests of the state.

In response to a question from Representative Skarphol, Mr. R. Smith said the State Board of Higher Education would like the Legislative Assembly to provide direction on priority areas to review.

Senator Grindberg said the development of priority areas of the state should include input from the Department of Commerce and private sector

businesses. He said increasing entrepreneurship activities is an important part of growing the economy of the state.

Mr. Backes said it is important for institutions to have flexibility in order to facilitate entrepreneurial activities.

Representative Skarphol said the Higher Education Roundtable may need to focus on developing an agenda for the University System.

In response to a question from Representative Skarphol, Mr. Goetz said the University System is working on an initiative for more higher education centers in the state. He said the centers would be used to offer programs not available in the area where the center is located.

In response to comments by Representative Skarphol, Mr. Backes said transparency of higher education is important for providing stakeholders with consistent and accurate data.

Representative Skarphol said faculty may need to have the ability to participate in the governance of institutions.

Mr. Backes said higher education institutions are in a position to determine the workforce needs of a geographic area and the programs that should be offered at the institution to address these needs. He said institutions are in a better position to make these decisions than a governing board.

### **OTHER BUSINESS**

Chairman Skarphol said that committee members have been invited to attend the Midwestern Higher Education Compact Policy Summit in Fargo on November 9, 2009. He said the committee tentatively plans to meet with the private sector during the spring of 2010 and convene the Higher Education Roundtable later in 2010.

The meeting was adjourned at 2:30 p.m. subject to the call of the chairman.

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Brady A. Larson  
Fiscal Analyst

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

ATTACH:1