Optimal internal audit staffing levels for NDUS:

<table>
<thead>
<tr>
<th>Description</th>
<th>FY2016 Operating and Non-operating Revenues (including State &amp; Federal Appropriations)</th>
<th>Suggested # of Internal Audit Staff based on GAIN data 1/</th>
<th>Student Enrollment (per 2017 spring enrollment report – FTE students)</th>
<th>Suggested # of Internal Audit Staff based on # of students 2/</th>
<th>Current # of Internal Auditors</th>
<th>Proposed # of Internal Auditors 17-19 Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDSU</td>
<td>$411 Million</td>
<td>4.11</td>
<td>11,639</td>
<td>3.94</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>UND</td>
<td>$447 Million</td>
<td>4.47</td>
<td>11,391</td>
<td>3.87</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other (2-yr/4-yr)</td>
<td>$319 Million</td>
<td>3.19</td>
<td>11,699</td>
<td>3.96</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Combined</td>
<td>$1.17 Billion</td>
<td>11.77</td>
<td>34,729</td>
<td>11.77</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1/ GAIN (Global Audit Information Network) Benchmark=1 auditor per $100 million in revenues
2/ Pro-rata of total GAIN suggested of 11.77 based on student enrollment

NDUSO February 4, 2013 Performance Audit Recommendation:

Improving the NDUS Internal Audit Function

In November 2010, a university system internal audit function was established. The Director of Internal Audit and Risk Assessment is to work with the 11 institutions and the System Office to develop a consistent internal audit methodology and a consultative approach for identifying potential risks and the corresponding controls throughout the university system. We identified improvements were needed with the reporting structure of internal auditors within the university system. Also, an internal audit charter should be formally documented and approved.

Establishing an Appropriate Reporting Structure

Having the internal audit positions at NDSU and UND report to the respective institution presidents is not efficient or effective.

While the July 2012 SBHE meeting minutes identified a senior level internal audit position to be filled for fiscal year 2013, as of the end of January 2013 the position had not been filled. As a result, there is one employee within the System Office’s internal audit area. We identified North Dakota State University (NDSU) and the University of North Dakota (UND) have internal audit staff. The one internal auditor at NDSU and the two internal auditors at UND report to the respective institution presidents. While an attempt was made by the System Office to properly organize the institutional internal auditors under the supervision of the Director of Internal Audit and Risk Assessment, a SBHE committee denied the change in March 2012. Based on a review of information, it appears the Presidents of NDSU and UND were able to convince Board members the institutional internal audit staff were of greater value reporting within the institutions rather than reporting to the System Office.

The current reporting structure existing within the university system is not efficient or effective. In accordance with The Institute of Internal Auditing (IIA) standards, the institutional internal audit staff would not be considered independent. Due to this, our office would be unable to rely on the work performed by the staff and the System Office should also not rely on the work performed. This could result in the Director of Internal Audit and Risk Assessment having to perform work in an area which had already been reviewed by the institutional internal audit staff.

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.

Management’s Response

We agree and will take appropriate steps to comply with the recommendation.
**Current Structure:** This structure is currently in place. UND internal audit reports directly to the UND President, with indirect reporting to the NDUS and the SBHE Audit Committee, if needed. This structure does not ensure independence, is not in compliance with IIA standards, and does not meet the requirements of the ND State Auditor’s Office.

*indirect reporting relationship to the NDUS Director of Audit Services and the SBHE Audit Committee, if needed.*
Ideal Structure (assumes full staffing at 11 FTE): This structure includes ideal levels of staffing, as well as ideal reporting lines, ensuring maximum independence. Per the IIA (Institution of Internal Auditors), 1110 – Organizational Independence - The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
Interim Structure Option 1: This structure is almost identical to the ideal structure, limited only by number of staff. This increases the independence of the internal audit function by having all NDUS internal audit staff report through the NDUS Chief Audit Executive, who has a direct report to the SBHE Audit Committee/the SBHE Board.
**Interim Structure Option 2**: This structure is limited to potential available staff, and increases the independence of the internal audit function by having all NDUS internal audit directors report directly to the SBHE Audit Committee/the SBHE Board. This will significantly increase the work of the SBHE Audit committee, with 3 direct reports, and does not provide optimal supervision of institutional internal audit directors.
Interim Structure Option 3 (Maintains current reporting lines): This structure includes the additional 2 internal audit staff approved for the 17-19 biennium, and maintains the current UND and NDSU internal audit reporting lines directly to the institution President, with indirect reporting to the NDUS Director of Audit Services and the SBHE Audit Committee, if needed. This structure does not ensure independence, is not in compliance with IIA standards, and does not meet the requirements of the ND State Auditor’s Office.

*Indirect reporting relationship to the NDUS Director of Audit Services and the SBHE Audit Committee, if needed.