

**North Dakota State Board of Higher Education**  
May 17, 2023, Audit Committee Meeting Minutes

The State Board of Higher Education Audit Committee met May 17<sup>th</sup> at 11:00 a.m. CT., via Teams.

Chair Hacker called the meeting to order at 11:00 a.m. CT.

**Audit Committee Members Participating:**

Mr. Nick Hacker (Chair)  
Mr. Tim Mihalick  
Mr. Jeffry Volk

**NDUS/Other Staff Participating:**

Chancellor Hagerott  
Ms. Terry Meyer  
Ms. Dina Cashman  
Mr. Jerry Rostad  
Mr. Chris Pieske  
Mr. David Krebsbach  
Ms. Robin Putnam  
Mr. Darin King  
Mr. Dustin Walcker  
Ms. Meredith Larson, Legal Counsel

**Others participating:**

Dean Simone, DCB  
President Easton, Les Wietstock, DSU  
President Van Horn, Ms. Amber Hill, and Ms. Kate Ehnert MaSU  
President Shirley, Mr. Brent Winiger, MiSU  
President Flanigan, NDSCS  
Bruce Bollinger, Karin Hegstad, Lisa Ripplinger, NDSU  
President Armacost, Sharon Loiland, Tim Rerrick, UND  
President LaFave, VCSU  
President Hirning, Ms. Krista Lambrecht, WSC

1. **Agenda**

And,

2. **Meeting Minutes**

Volk moved, Mihalick seconded, to approve the agenda and April 19, 2023, meeting minutes.

Volk, Mihalick, and Hacker voted yes.

3. **FY 24 Draft Internal Audit Plan**

Ms. Dina Cashman stated the attached draft internal audit plan is for fiscal year 2024. The Institute of Internal Auditors' (IIA) Professional Practices Framework provides standards by which the NDUS Internal Audit is to conform. As it relates to audit planning, the IIA standards require the CAE to develop a risk-based audit plan, communicate that plan to the governing board and obtain approval for it. The plan is before you today to discuss and to provide feedback you would like incorporated. The plan is based on a risk assessment, which, in turn, is based on the identified audit universe (a list of all auditable entities or functions that could be subject to audit) for NDUS.

A risk assessment including IT was completed this year to establish an audit plan for fiscal year 2024. This assessment was completed via interviews with senior leadership, a risk assessment surveys sent to senior leadership and operational management, an executive survey, fraud risk assessment reports conducted by Brady Martz, SAO audit reports, review of emerging industry-specific risks in higher education, as identified by external organizations as well as observations by NDUS internal audit staff.

Exclusive of non-work time (vacation, holiday, sick), approximately 3600 hours (67%) of internal audit time are budgeted for assurance and consulting services, the combination of follow-ups, system-wide, IT and institution specific audit engagements and approximately 1800 hours (33% ) for a combination of data driven reporting, annual audit, and administrative responsibilities are reflected in the attached internal audit plan. The attached plan is based on a fully staffed Internal Audit department.

The following items were also considered for this plan; however, they were not selected due to the limited internal audit resources:

- Compliance with the Uniform Guidance, sub-recipient monitoring
- SW Digital accessibility
- FERPA Compliance
- IT Regulatory Governance & Compliance
- System-wide donated leave

Ms. Cashman noted the plan could change if any unknown significant matter were elevated as a priority. Internal audit will continue to provide progress reports to the committee throughout the year. She informed the members that the audit plan is based on a full staff, currently there is one vacant position.

The committee discussed the independence of the Cleary Act, the components in the plan that are considered analysis, avoiding duplication with the State Auditor's office.

#### 4. **NDUS Internal Audit Executive Survey Results**

Ms. Dina Cashman reviewed the results of the 2023 NDUS IA Executive survey; it was distributed to the Audit Committee members, Chancellor, NDUS Senior Staff, NDUS Presidents, and NDUS Vice Presidents for Finance and Administration/Chief Financial. We have received 18 responses out of 32 recipients (56% response rate). NDUS Internal Audit's satisfaction rate has slightly increased from 79.17% in 2022 to 79.8% in 2023. Suggestions received from the survey were considered in the audit plan for FY 24.

The committee discussed options to compare data from previous year's reports and having both available to review for the next survey.

#### 5. **SBHE 302.2 Draft Audit Committee**

Ms. Dina Cashman presented a draft of the SBHE Policy 302.2, the Audit Committee Charter (AC). During last June's meeting, the AC directed us to review and update. After reviewing the AC, they identified

areas that process/practices do not align with policy. The attached charter has some changes in tracking mode. She requested direction from the committee with the language that is highlighted.

The committee discussed conflict of interest (policy 308.4) and the intention of how specific language is written in the current version. Ms. Larson explained that Policy 308.4 is adequately detailed, and the language is written to align with best practices for internal audit charters. It provides an additional layer that ensures that individuals remain independent and without conflicts and/or bias when serving on an audit committee. The committee continued to discuss, requested Ms. Cashman make some of the amendments as discussed, specifically to sections 3, 6, and 7; and bring it back at their June meeting.

**6. SBHE 306.2 Draft Internal Audit Charter (includes NDUS, UND, and NDSU Internal Audit)**

Ms. Cashman reviewed the draft internal audit charter; the presented internal audit charter draft had two parts. A and B, one for ND university system internal audit, page 1 and another one for ND institutions that employ internal auditors with the title ND Institution's Internal Audit Charter on page 9. Ms. Cashman stated the charters have been reviewed by the legal counsel and senior staff. NDSU and UND internal auditors and their Presidents have updated their charter and it is presented in Part B. Ms. Cashman stated the proposed NDUS internal audit charter is based on the current 2017 model. The following are the Institute of Internal auditors identified seven key areas that support the overall strength and effectiveness of the internal audit activity on the 2017 model:

1. Mission and Purpose (this is documented in a separate document and will be presented in the June agenda for review)
2. Standards for the Internal auditing
3. Authority'
4. Independence and Objectivity
5. Scope of Internal Audit
6. Responsibility'
7. Quality Assurance and Improvement Program

Char Hacker asked to include institutional presidents in the communication regarding the internal audit activity's quality assurance and improvement program under 8(b). Ms. Cashman agreed.

The committee discussed the NDSU and UND Internal Audit Charter (part B), the structure and independence of the UND and NDSU internal audit function. NDSU and UND internal auditors report directly to their Presidents and indirectly to the Audit Committee. Legal Counsel stated that anytime an auditor has a functional reporting relationship to the institution authority, whether it's the CEO or a president, they're not truly independent. Ms. Cashman stated that based on the IIA standards, the feedback we have received from the other systems' CAEs, the recommendation on the quality assessment report, currently, UND and NDSU Internal audit function is not independent, however, she will take the direction of the SBHE Audit Committee and amend the charter as needed. Member Volk stated concerns with having institution policy written into a board policy. Ms. Larson provided clarification that if SBHE policy grants authority to the institutions to have an independent internal auditor function, it also needs to provide the rules and the authority for which they act. After the committee discussed the structure and independence of the UND and NDSU internal audit function, they requested an amendment to the language, removing the word independent based on the current reporting structure. The UND and NDSU function and charters will be further discussed at the committee's June meeting.

**7. Compliance Update**

Mr. Chris Pieske provided an update to the committee; he explained that the current case management system for the fraud hotline has been reworked, the reports will appear differently, but it is the same company. He stated he is currently working on various projects and ongoing tasks, such as, but not limited to the SBHE self-assessment survey, Chancellor's evaluation survey, and policy and procedure tracking.

The meeting adjourned at 12:00 p.m. CT.

Approved June 21, 2023.

# DRAFT

On an annual basis, data is gathered from NDUS institutions, industry best practices and emerging risks to create the internal audit plan.

FY24 General description of Audit Engagements or Follow-up	Est. Hours	Approximate % of Total	Comments
<b>Follow-Up Reviews and Prior Not Implemented (PNI)</b>			
PSFT Generic accounts	40		
LRSC Admissions	40		
VCSU Bookstore-PNI	40		
NDSCS-Admission process (PNI)	20		
WSC-19 ( PNI)	20		
MaSU - Background Check (PNI)	20		
<b>Total Projected Follow-up Reviews and PNI Hours</b>	<b>180</b>	<b>4%</b>	
<b>Follow-Up Audits</b>			
System-wide Immunization	100		
System-wide PSFT Supplier's Changes and Updates	200		
System-wide NDUS Transfer Credits	100		
<b>Total Projected Follow-up Audit Hours</b>	<b>400</b>	<b>7%</b>	
<b>System-wide Audit Engagements</b>			
System-wide Procurement of large capital projects to the ND Institutions audit	400		transferred from FY23
System-wide Clery Act compliance audit	400		
System-wide Faculty Overload analysis for classes 100- 200	200		
System-wide College Credit in High school audit	400		
System-wide Expenses Reimbursement audit	400		
<b>Total Projected System-wide Audit Hours</b>	<b>1800</b>	<b>33%</b>	
<b>IT Audit Engagements</b>			
Data Protection (Data Management, Inventory, Access Control, Retention, Disposal)	300		
Access Control Management (Granting, Revoking, MFA)	300		
<b>Total Projected IT Audit Hours</b>	<b>600</b>	<b>11%</b>	
<b>Specific Entity Audit Engagements</b>			
DSU-Consulting services for the procurement processes above \$10,000	160		
WSC-Consulting services for the Pard reconciliation process	160		
MISU-Conflict of interest consulting services	160		
DCB-Consulting services surrounding payroll process	160		
<b>Total Projected New Audit Area Hours</b>	<b>640</b>	<b>12%</b>	
<b>Data Driven Regular Reporting</b>			
Continuous Review (vendor, P-card, access, new/other)	200		
Advanced Filtering (data analytics, PowerBI, other)	200		
<b>Total Data Driven Regular Reporting Hours</b>	<b>400</b>	<b>7%</b>	
<b>Other Audit Responsibilities</b>			
Enterprise Risk Management Assessment	80		
NDUS Risk Assessment including IT	300		
Audit Planning	60		
Fraud Risk Assessment	0		
Annual Internal Control Training Update	40		
Quality Assessment Improvement Process (QAIP)	200		
Miscellaneous - (ad hoc, new PNI, emergency, unannounced, unassigned)	344		
<b>Total Other Audit Responsibility Hours</b>	<b>1024</b>	<b>20%</b>	
<b>Administrative Responsibilities</b>			
Professional Development	120		
New staff training	80		
Council/Committee/Board Meetings (incl. prep time)	200		
<b>Total Administrative Responsibility Hours</b>	<b>400</b>	<b>6%</b>	

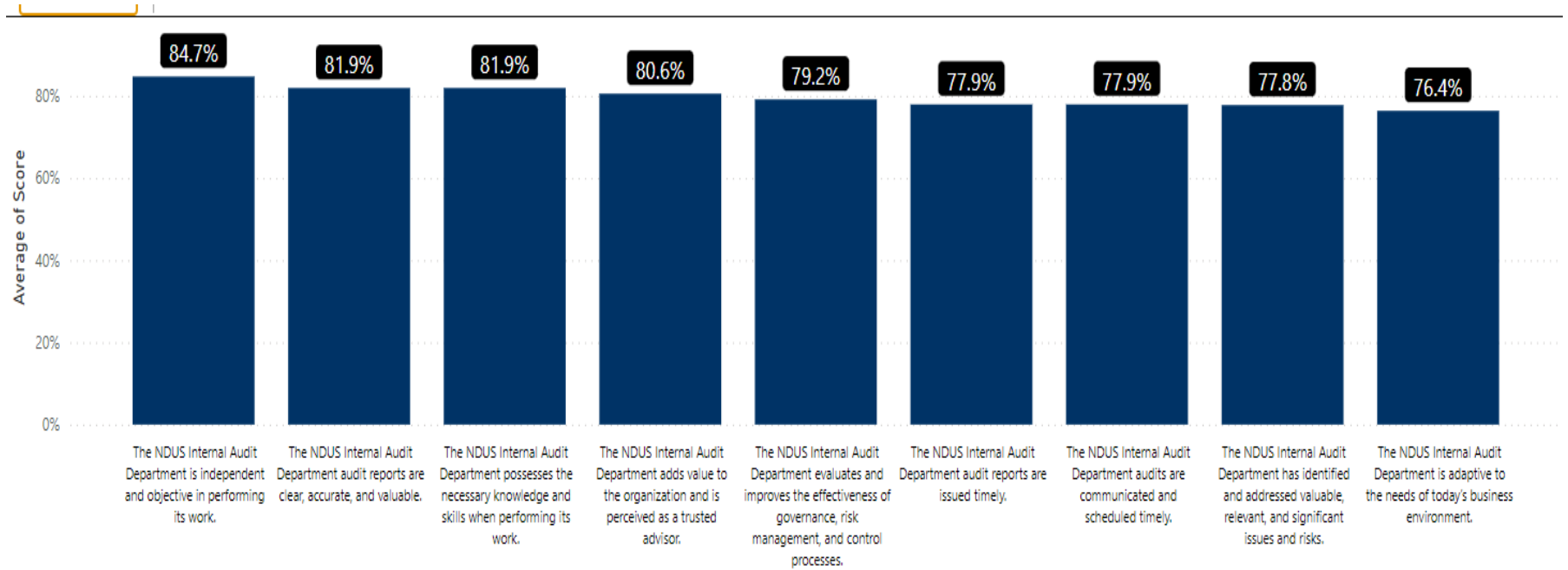
**IMPORTANT:** The NDUS Internal Audit plan for the FY24 is based on known circumstances and certain areas requiring routine audit coverage. Portions of the plan are unannounced or unplanned to allow internal audit flexibility to respond to events that transpire; and to add, delay or eliminate audits throughout the year.

Average of Score

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79.8%

18



**NORTH DAKOTA  
STATE BOARD OF HIGHER EDUCATION  
Policy Manual**

**Policy:** 302.2 Audit Committee

**Effective:** May 29, 2020

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1. The SBHE shall establish an audit committee to fulfill its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the NDUS process for monitoring compliance with laws, policies, regulations and the code of conduct. The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility, including:
  - a. Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization;
  - b. Resolve any disagreements between management and the auditor regarding financial reporting
  - c. Pre-approve all auditing and non-audit services;
  - d. Retain independent counsel and request appointment of legal counsel by the attorney general as a special assistant attorney general, accountants, or others to advise the audit committee or assist in the conduct of an investigation;
  - e. Seek any information it requires from employees, ~~whom~~ who are directed to cooperate with the committee's requests, or external parties; and
  - f. Meet with officers, external auditors, or outside counsel, as necessary.
2. Non-compliance with any of the following, within a timely manner, ~~will~~ may result in the audit committee recommending to the SBHE that the respective institution pay for the services of an audit by an external, independent firm, selected by the audit committee, the chief audit executive and the compliance officer, or increase the amount that is assessed by the NDUS to the institution for audit and compliance functions:
  - a. Any requests or requirements of any NDUS internal audit staff;
  - b. Any requests or requirements of the state auditor's office; or
  - c. Documented implementation plans.
3. The committee shall consist of three voting members of the SBHE and the Chancellor shall serve, ex officio, as a non-voting member of the committee. Each member shall be free of any relationship that would interfere with their exercise of independent judgment or give the appearance of a conflict of interests. The majority of the members must be knowledgeable about

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~~financial matters. Each committee member shall be both independent and financially literate.~~ The SBHE ~~president~~ Chair will appoint committee members as well as the committee chair by June 30<sup>th</sup> of each year to serve one-year terms starting July 1<sup>st</sup>. The SBHE ~~Chair~~ president may also appoint additional members to serve, ex officio, as non-voting members of the committee. If a vacancy on the committee occurs before June 30<sup>th</sup>, the SBHE ~~Chair~~ president shall appoint a voting member of the SBHE to fill the vacancy no later than the next regular meeting of the SBHE after the vacancy occurs.

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4.3. The committee shall set a meeting schedule for the year at the committee's first meeting after July 1<sup>st</sup>. Meetings shall comply with all applicable laws, including the necessary posting of notice, the preparation of agendas in advance of meetings, and the recording of minutes for each meeting.

5.4. The committee will or shall carry out the following responsibilities:

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a. Financial statements:

i. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

ii. Review with management and the external auditors the results of an audit, including any difficulties encountered.

iii. Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.

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iv. Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.

v. Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.

vi. Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

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vii. Review interim financial reports with management and the external auditors and consider whether they are complete and consistent with the information known to committee members.

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b. Internal control:

i. Consider the effectiveness of the NDUS internal control system, including information technology security and control.

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ii. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, with management's responses.



c. Organization:

i. The NDUS chief audit executive (executive) reports functionally to the Audit committee and administratively to the NDUS Chancellor.

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~~ii.~~ ~~and~~ The NDUS compliance officer (officer), ~~report reports~~ directly to the Vice Chancellor for Administrative Affairs, with an indirect reporting line to the Audit committee.

iii. The Audit committee will or shall ensure that there are no unjustified restrictions or limitations in the course of performing audit engagements, including restrictions on the scope of work and access to required information

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~~ii-iv.~~ Approve the decisions regarding and review and concur in the appointment and removal, replacement or dismissal of the executive or the officer.

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~~iii-v.~~ Obtain regular updates from the executive and the officer, management, the SBHE, and the attorney general regarding relevant matters.

~~iv-vi.~~ Review with the executive or the officer the internal audit or compliance budget, resource plans, activities and organizational structure.

~~v-vii.~~ At least once per year, review the performance of the executive and the officer and recommend the annual compensation and salary adjustment.

d. Internal audit:

i. Approve an internal audit charter.

ii. Approve the risk-based annual audit plan and all major changes to the plan. Review the internal audit activity performance relative to its plan.

~~iii.~~ Review the effectiveness of the internal audit function, including conformance with the following publications of the institute of internal auditors: the definition of internal auditing, code of ethics, and the international standards for professional practice of internal auditing.

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e. External audit:

i. Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.

ii. Review the performance of the external auditors.

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iii. Meet with the external auditors to discuss relevant matters, as needed.

f. Compliance:

- i. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of the officer's or management's investigation and follow-up of any instances of noncompliance, including review of disciplinary action.
- ii. Review the findings of any examinations by the officer, regulatory agencies, and any auditor observations.
- iii. Review the process for communicating the code of conduct to SBHE members and NDUS personnel, and for monitoring compliance therewith.
- g. Reporting responsibilities:
  - i. Regularly report to the SBHE about committee activities, issues, and related recommendations.
  - ii. Provide an open avenue of communication between internal audit, the external audit, and the SBHE.
  - iii. Review any other reports the system or institutions issue that relate to committee responsibilities.
- h. Other responsibilities:
  - i. Perform other activities related to this policy as requested by the SBHE.
  - ii. Institute and oversee special investigations as needed. Efforts should be made to keep the SBHE informed of such special investigations ~~within the confines of open meetings laws~~ as permitted by law.
  - iii. Review and assess the adequacy of the committee policy annually, requesting SBHE approval for proposed changes, and ensure appropriate disclosure as may be required by law, policy or regulation.
  - iv. Confirm annually that all responsibilities outlined in this policy have been carried out.
  - v. Evaluate the committee and individual member performance on a regular basis.

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History: New policy, SBHE minutes, February 27, 2014; Amended, SBHE minutes, June 17, 2016; Amended, SBHE minutes, June 28, 2018; Amended, SBHE minutes, May 29, 2020.

**NORTH DAKOTA  
STATE BOARD OF HIGHER EDUCATION  
Policy Manual**

**Policy:** 306.2 Internal Audit Charter

**Effective:** ~~May 30, 2019~~

**A. North Dakota University System Internal Audit Charter**

This charter applies to the North Dakota University System Internal Audit

**1. ~~Introduction~~INTRODUCTION:**

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the North Dakota University System (NDUS). It assists NDUS in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control.

**~~2. ROLE AND OBLIGATION:~~**

~~The~~The internal audit activity is established by the State Board of Higher Education (Board). The internal audit activity's responsibilities are defined by the Board and the Audit Committee as part of their oversight role.

~~The internal audit activity of NDUS is responsible for conducting system-wide audits as well as institution-specific audits, including the NDUSO and CTS, for those institutions that do not directly employ internal audit staff. Each research institution shall directly employ its own internal audit staff.~~

**2. Standards for the Professional Practice of Internal Auditing**

**~~3. PROFESSIONALISM:~~**

- a. The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- b. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to relevant Board policies and procedures and the internal audit activity's standard operating procedures manual.

**3. OrganizationAUTHORITY:**

- a. The internal audit activity of NDUS will consist of the NDUS chief audit executive (CAE) and any internal audit staff or consultants hired by the system office.

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b. The NDUS Internal Audit CAE will report functionally to the Audit Committee and administratively (i.e. day to day operations) to the NDUS Chancellor.

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c. NDSU and UND directly employ their own internal audit staff. The NDSU and UND internal auditors follow the North Dakota Institutions' internal audit charter.

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#### 4. Authority

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The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all NDUS (and affiliated organizations) records, physical properties, and personnel pertinent to carrying out any engagement. All NDUS (and affiliated organizations) employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board and Audit Committee.

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#### 5. ORGANIZATION:

a. The internal audit activity of NDUS will consist of the NDUS chief audit executive (CAE) and any internal audit staff or consultants hired by the system office or any of the institutions which comprise the NDUS system.

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b. The CAE will report functionally to the Audit Committee and administratively (i.e. day to day operations) to the NDUS Chancellor.

e. Institutionally based internal audit activity will report functionally and administratively to the institutional chief executive officer and if warranted, to the Audit Committee.

d. In the event that institutionally based internal audit activity is performed at other than a home institution, said internal audit activity will report functionally to the institutional chief executive officer of the institution where the work is being performed. Administrative reporting is unchanged.

e. All internal audit activity, regardless of location, have an indirect report to the CAE and the Audit Committee.

f.a. The Board and Audit Committee will shall:

- i. Review and aApprove the internal audit charter.
- ii. Approve the risk based internal audit plan.
- iii. Approve the internal audit budget and resource plan for the CAE.
- iv. Receive communications from the CAE on the NDUS internal audit staffactivity's performance relative to its plan and other matters.
- v. Approve. Make decisions regarding the appointment and removal of the CAE.
- vi. Recommend and aApprove the remuneration of the CAE.
- vii. Make appropriate inquiries of managementNDUS senior staff and the CAE to determine whether there is inappropriate scope or resource limitations.

- viii. Make recommendations to the SBHE to take actions based on reports received from the CAE; and
  - ix. Review disputes regarding investigations, reports, or recommendations issued by the CAE.
- g. The CAE will communicate and interact directly with the Board and Audit Committee, including in executive sessions and between Board meetings as appropriate.

**6.4. Independence and Objectivity** ~~INDEPENDENCE AND OBJECTIVITY:~~

- a. ~~The CAE shall ensure that the internal audit activity will remain free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an independent and unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE determines that independence or objectivity may be impaired in fact or appearance, the details of any such impairment will be disclosed to the Chancellor and the Audit Committee.~~  
~~interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.~~
- b. ~~The NDUS Internal Audit shall maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.~~

a.

- c. ~~The NDUS internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement, including:~~
- ~~i. Assessing specific operations for which they had responsibility within the previous year;~~
  - ~~ii. Performing any operational duties for the SBHE, the NDUS, or the institutions;~~
  - ~~iii. Initiating or approving transactions external to the NDUS internal audit activity; or~~
  - ~~iv. Directing the activities of any NDUS or institutional employee not employed by the NDUS Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.~~

- ~~b. would normally be subject to review. However, Internal Audit may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.~~

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d. If the CAE is assigned duties or responsibilities that fall outside of this Charter, safeguards will be established to avoid potential impairment to independence or objectivity

e. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments NDUS Internal auditors shall:

- i. Disclose any actual or apparent impairment of independence or objectivity to the appropriate party.
- ii. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- iii. Make balanced assessments of all available and relevant facts and circumstances.
- iv. Take necessary precautions to avoid being unduly influenced by personal interests or by others in forming judgments.

f. The CAE shall disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

e.

d.g. The CAE will confirm to the Board, at least annually, the organizational independence of the internal audit activity.

#### 7.5. Scope of Internal Audit Authority RESPONSIBILITY:

Assurance Services. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of evidence for the purpose of providing independent assessments to the SBHE and management on the ~~of the~~ adequacy and effectiveness of the organization's governance, risk management, and ~~internal control~~ processes for NDUS, ~~as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.~~ This includes evaluating whether:

- i. ~~Evaluating~~ Risk exposure relating to achievement of the organization's strategic objectives are appropriately identified and managed.
- ii. Whether the actions of SBHE and NDUS officers, directors, employees, and contractors are in compliance with SBHE policies, NDUS procedures, and applicable laws, regulations, and governance standards;
- iii. Whether the results of operations or programs are consistent with established goals and objectives;
- iv. The adequacy and effectiveness of the organization's governance, risk management, and internal controls, as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.
- v. Whether operations or programs are being carried out effectively and efficiently.

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- vi. The processes and systems that enable compliance with policies, procedures, laws, and regulations;
- vii. Whether information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- viii. Whether resources and assets are acquired economically, used efficiently, and protected adequately.

a. The CAE shall report periodically to the NDUS Chancellor and the Audit Committee regarding:

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- i. NDUS Internal Audit's purpose, authority, and responsibility;
- ii. NDUS Internal Audit's audit plan and performance relative to the audit plan;
- iii. NDUS Internal Audit's conformance with The Institute of Internal Audit's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- iv. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the SBHE.
- v. Results of audit engagements or other activities;
- vi. Resource requirements; or
- vii. Any response to risk by management that may be high risk.

b. The CAE shall coordinate the activities of and may rely on the work of other internal and external assurance and consulting service providers as engaged on consultation with the SBHE.

c. The NDUS Internal Audit may identify opportunities to improve the efficiency of governance, risk management, and control processes ~~may be identified~~ during audit engagements. To the extent appropriate, such opportunities shall be communicated to the appropriate level of management.

~~Consulting Services: NDUS Internal Audit provides consulting services in an advisory capacity, and are generally performed at the specific request of the Chancellor or NDUS institutional chief executive officers. The nature and scope of the consulting engagement are subject to agreement with management. Consulting may range from formal engagements with defined scopes and objectives to advisory activities such as providing informal guidance in response to general inquiries. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.~~

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~~b.—Evaluating the reliability and integrity of information and the means used to identify measure, classify, and report such information.~~

~~e.—Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the~~

~~organization.~~

- ~~d. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.~~
- ~~e. Evaluating the effectiveness and efficiency with which resources are employed.~~
- ~~f. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.~~
- ~~g. Follow up, as needed, on the implementation of planned corrective action by auditees on issued internal audit recommendations.~~
- ~~h. Monitoring and evaluating governance processes.~~
- ~~i. Monitoring and evaluating the effectiveness of the organization's risk management processes.~~
- ~~j. Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.~~
- ~~k. Performing consulting and advisory services related to governance, risk management and internal control as appropriate for the organization.~~
- ~~l. Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.~~
- ~~m. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.~~
- ~~n. Evaluating specific operations at the request of the Board or Chancellor, or institutional chief executive officers, as appropriate.~~

**6. Responsibility**~~INTERNAL AUDIT PLAN:~~

a. The NDUS internal audit staff is responsible for conducting system-wide audits audits, including the NDUS system office and NDUS Core Technology Services (CTS). It will also conduct internal audits and consulting services for institutions that do not directly employ internal audit staff. The two research institutions, UND and NDSU, shall directly employ ~~their~~ own internal audit staff. ~~Those~~ auditors shall have primary responsibility for conducting audit activities on their employing campus.

b. The CAE has the responsibility to:

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- i. Submit, at least annually, to the Chancellor and the Audit Committee a risk-based internal audit plan for review and approval;
- ii. Communicate to the Chancellor and Audit Committee the impact of resource limitations on the internal audit plan;
- iii. Review and adjust the internal audit plan, in consultation with the Audit Committee as necessary, in response to changes in NDUS's business, risks, operations, programs, systems, and controls;
- iv. Communicate to the Chancellor and the Audit Committee any significant interim changes to the internal audit plan.
- v. Ensure that each engagement of the internal audit plan is executed, including: the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- vi. Follow up on engagement findings and corrective actions, and reports periodically to the Chancellor and the Audit Committee any corrective actions or recommendations not effectively implemented;
- vii. Ensure the NDUS Internal Audit applies and upholds the principles of integrity, objectivity, confidentiality, and competency;
- viii. Maintain a professional audit staff that collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the this Charter;
- ix. Remain current on trends and emerging issues that could impact NDUS and communicate the same to the Chancellor and Audit Committee as appropriate;
- x. Consider adopting emerging trends and successful practices in internal auditing
- xi. Establish and ensure adherence to SBHE policies and NDUS procedures designed to guide the NDUS Internal Audit;
- xii. Ensure that the NDUS Internal Audit adheres to relevant SBHE policies and NDUS procedures. Any conflicts between this Charter and SBHE policies and NDUS procedures shall be resolved in consultation with the Audit Committee and the Chancellor;
- xiii. Review and update the NDUS Internal Audit Charter at least every three years, or more if changes are warranted, and provide the updated Internal Audit Charter to the Audit Committee for review and approval.
- xiv. Ensure that the NDUS Internal Audit conforms with the Institute of Internal Audit Standards, with the following qualifications:
  - 1. If the NDUS Internal Audit is prohibited by law or regulation from conformance with certain parts of the Institute of Internal Audit Standards, the CAE will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - 2. If the Institute of Internal Audit Standards are used in conjunction with requirements issued by other authoritative bodies, the CAE

shall ensure that the NDUS Internal Audit conforms with the Institute of Internal Audit Standards, even if the NDUS Internal Audit also conforms with the more restrictive requirements of other authoritative bodies.

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- a. ~~At least annually, the CAE will submit to the Chancellor, institutional chief executive officers, and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year. The CAE will communicate the impact of resource limitations and significant interim changes to the Chancellor, institutional chief executive officers, the Board, and Audit Committee.~~
- b. ~~The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Chancellor, institutional chief executive officers, and the Board. The CAE will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.~~
- e.b. The majority of audits are planned, however that does not preclude Internal Audit from conducting unplanned audits, following the same standards of engagement and reporting as planned audits. As unplanned projects are required, they are included in the overall plan for the year. Any significant deviation from the approved internal audit plan will be communicated to the Chancellor, institutional chief executive officers, the Board, and Audit Committee through periodic activity reports.

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#### **9. REPORTING AND MONITORING:**

- a. ~~A written report will be prepared and issued by the CAE, designee, or institutional internal audit staff or designee following the conclusion of each internal audit engagement and will be provided to the Chancellor and appropriate institutional chief executive officer(s).~~
- b. ~~Internal audit reports issued by any institutional internal audit activity will be submitted to the CAE in a timely manner.~~
- c. ~~Internal audit results will also be communicated to the Board and Audit Committee.~~
- d. ~~The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.~~
- e. ~~The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.~~

~~f. The CAE will periodically report to the Chancellor, institutional chief executive officers, the Board, and Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Chancellor, institutional chief executive officers, the Board, and Audit Committee.~~

**10.7. Quality Assurance and Improvement program ~~QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:~~**

- a. The NDUS internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- b. The CAE will communicate to the Chancellor, ~~institutional chief executive officers, the Board,~~ and Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

**B. North Dakota Institutions' Internal Audit Charter**

This charter applies to North Dakota Institutions that employ internal auditors.

**PURPOSE:**

The North Dakota Institutions' (Institutions) internal auditing function is an independent and objective assurance and consulting activity designed to add value and improve the operations of the North Dakota Institutions. It helps the Institutions accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

**ROLE AND OBLIGATION:**

The Institutions' internal audit activity is established by the State Board of Higher Education.

**PROFESSIONALISM:**

The Institutions' internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles and International Standards for the Professional Practice of Internal Auditing, and to the recommended guidance including the Practice Guides and Implementation Guidance.

**AUTHORITY:**

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The Institutions' internal auditors, with strict accountability for confidentiality and safeguarding records and information, have full, free, and unrestricted access to all Institutions' records, physical properties, and personnel pertinent to carrying out any engagement. Departments or activities under review are expected to render every possible assistance that will facilitate the progress of the audit. The Institutions' internal audit activity will also have free and unrestricted access to the Audit Committee.

**ORGANIZATION:**

- a. Internal audit staff at the North Dakota Institutions will report functionally and administratively to the Institutions' chief executive officers and indirectly to the Audit Committee.
- b. The Audit Committee will:
  - i. Review and approve the internal audit charter.
  - ii. Have the final approval on the removal of the Institutions' internal auditors.
  - iii. Review the risk-based internal audit plans developed by the internal audit staff of the Institutions.
  - iv. Receive communications from the Institutions' chief executive officers on the internal audit staffs' performance relative to their plans and other matters.
- c. The Institutions' internal auditors and their chief executives will interact, as requested, with the Audit Committee.

**INDEPENDENCE AND OBJECTIVITY:**

- a. The Institutions' internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- b. The Institutions' internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that would normally be subject to review. However, the Institutions' internal auditors may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.
- c. The Institutions' internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Institutions' internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

**RESPONSIBILITY:**

The scope of the Institutions' internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in

carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- a. Evaluating risk exposure relating to achievement of the organization's strategic objectives.
- b. Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- c. Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on the organization.
- d. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- e. Evaluating the effectiveness and efficiency with which resources are employed.
- f. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- g. Follow-up, as needed, on the implementation of planned corrective action by auditees on issued internal audit recommendations.
- h. Monitoring and evaluating governance processes.
- i. Monitoring and evaluating the effectiveness of the organization's risk management processes.
- j. Performing consulting and advisory services related to governance, risk management and internal control as appropriate for the organization.
- k. Reporting periodically to the Institutions' chief executive officers on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- l. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Institutions' chief executive officers.
- m. Evaluating specific operations at the request of the Institutions' chief executive officers, as appropriate.

**INTERNAL AUDIT PLAN:**

- a. At least annually, the internal auditors for the Institutions will prepare their campus internal audit plans for approval by their Institutions' chief executives who will provide informational copies to the Audit Committee Chair and the CAE.

- c. The Institutions' internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Institutions' chief executive officers. The Institutions' internal auditors will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. The chief executive officers will provide adjusted plans to the Audit Committee Chair. The chief executive officers will receive feedback from the Audit Committee Chair and will work with their internal auditors to review and adjust the plan as necessary.
- d. The majority of audits are planned, however that does not preclude Institutions' internal auditors from conducting unplanned audits, following the same standards of engagement and reporting as planned audits. As unplanned projects are required, they are included in the overall plan for the year. Any significant deviation from the approved internal audit plan will be communicated to the Audit Committee by the Institutions' chief executive officers through periodic activity reports.

**REPORTING AND MONITORING:**

- a. A written report will be prepared and issued by the Institutions' internal audit staff following the conclusion of each internal audit engagement and will be provided to their Institutions' chief executive officers.
- b. Internal audit reports issued by the Institutions' internal auditors will be provided to the CAE and Audit Committee.
- c. The Institutions' internal audit reports may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- d. The Institutions' internal auditors will be responsible for appropriate follow-up on engagement findings and recommendations. Audit follow-up reports will be provided to the CAE and Audit Committee. All significant findings will remain in an open issues file until cleared.
- e. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Institutions' chief executive officers or the Audit Committee.