Administrative Affairs Council Minutes
December 7, 2010 – 1:00 p.m.
Conference Call

Participants
Dave Clark, Tamara Barber and Mary Eisenbraun – BSC
Alvin Binstock and Mark Lowe – DSU
Corry Kenner – LRSC
Brian Foisy, Jonelle Watson and Robin Wagner – MiSU
Jim Borkowski – DCB
Mike Renk – NDSCS
Bruce Bollinger, Stacy Winter, Karla Mongeon Stewart, Erik Miller, Karin Hegstad, Cindy Rott, Ramona Adams and Gary Wawers – NDSU
Alice Brekke, Sharon Loiland, Cindy Fetsch and Peggy Lucke – UND
Trudy Collins – VCSU
Justin Madisson – WSC
Laura Glatt, Cathy McDonald, Robin Putnam, Mick Pytlik, and Deanna Dailey – NDUS Office

Discussion with Jeff Bitz, program director State Fire and Tornado, on insurance coverage and exclusions
Jeff Bitz, program director of the State Fire and Tornado Fund, joined the meeting to discuss the state’s commercial property coverage to State entities and its political subdivisions for traditional insurable risks that can be insured through the private market. Specifically, the Administrative Affairs Council wanted to talk about policy exclusions, such as water damage, etc., and to discuss replacement value vs. replacement costs. Mr. Bitz said he has been working with Mr. Seaworth with the water damage to the Jack Science Building, which was due to an underground water line break and which is not covered by Fire and Tornado due to policy exclusions. Ms. Glatt asked Mr. Bitz if he saw any possible changes to such exclusions or another way to address this issue? Mr. Bitz responded that water damage is a standard industry exclusion and that we currently have the broadest form of coverage available to us in the industry. The only coverage for water damage would be through a flood insurance policy. This type of insurance is not something the Insurance Department would handle; it would be up to each individual state agency to obtain flood insurance. Mr. Bitz added that the state’s current policy does cover damages due to sewer backup; however, the damage caused to BSC was due to an abandoned water line and is, therefore, excluded. Mr. Bitz said they did go to great lengths to investigate this instance and determine who is ultimately responsible for the incident. In response to a question from Mr. Clark, Mr. Bitz confirmed that the damage to the Jack Science Building would not have been covered if the cause had been a water main break.

There was some discussion regarding the issue of the financial ramifications that could be incurred by state of North Dakota in the event of a catastrophic loss due to a natural event (flood, earthquake, etc.) or other water damage. The state will have to pay, one way or the other: either by purchasing adequate insurance protection or the cost to replace buildings, furnishings, etc., caused by a natural event. Mr. Bitz said some time ago, he pursued the idea of DIC form that
would bring back coverage into a policy that would include natural events; however, there was little interest at that time due to the cost (high deductible, low coverage amounts).

Mr. Bitz said current exclusions to the state’s policy are: Water damage, earth damage, nuclear hazard, governmental action (forced closure), terrorism, (although terrorism was brought in). He added that these are not unique to this policy – they are basically standard exclusions for the industry. Mr. Bitz has worked with UND regarding business income loss due to a covered loss. They approached insurance carrier Lexington with a proposal to cover up to $50 million in loss of income due to any covered loss (tuition, research, any revenue that’s generated) at a lower cost. The State Fire and Tornado Fund can and does look for “holes” in coverage and try to cover those holes.

Ms. Glatt asked for information regarding the issue of replacement value vs. replacement cost. She said the NDUS has some buildings that, due to age and construction costs, it would cost a great deal more to replace them. Mr. Bitz replied that due to changes in code requirements, etc., over time, the cost to replace is likely to be significant. Mr. Bitz said he believes that about 99% of NDUS’s scheduled property coverage is adequate to cover the cost to replace. Each campus has a list of property and replacement value and there is a clause in the policy to take into account changes in the code, etc., providing up to an additional $500,000, based on the cost of the structure itself (a percentage). However, there may be some room for improvement regarding insurance coverage for contents. Each campus should review content coverage.

Mr. Bitz said he would be happy to sit down with NDUS representatives to identify issues and try to resolve any gaps in coverage, if requested.

Risk assessment process and timeline
Brian Pye, lead project manager for Risk Management services from LarsonAllen, joined the meeting to discuss the risk assessment process and timeline. They have completed the first three steps of the timeline.

Mr. Pye said they want to identify significant issues and related risks in areas such as technology, financial, strategic, etc. that could impact campuses or the system as a whole. He said they will be working with different levels of management to help identify each campus’ issues. Mr. Pye said his firm understands that confidentiality is critical to keep the information accurate and flowing and assured everyone that all comments made will be provided in a summary report without any names tied to the statements made.

Ms. Glatt has directed LarsonAllen representatives to work with the business officers on each campus as the initial point of contact and asked whether anyone present has any concerns or other suggestions regarding the designated contact person. None were expressed.

Legislative budget hearings
Ms. Glatt reviewed the legislative budget hearing guidelines and deadlines that were distributed by the Chancellor to the cabinet at their December 1, 2010, meeting. She said these may have to be modified based on any specific hearing guidelines provided by the committee chairs. Ms. Glatt said that items (4) and (5) under the “Campus Presentation” section of the Budget Hearing
– 2011 Legislative Session document have already been provided at the Office of Management and Budget (OMB) hearings and that the same format can be used by the institutions. In response to a question from Mr. Clark, Ms. Glatt said that the NDUS has not been given any names of those serving on the appropriation committees or hearing dates.

Ms. Glatt reviewed the interim committee bill drafts, specifically those with some potential impact on the NDUS. When Ms. Glatt asked participants if they had any questions or comments, none were expressed.

Financial statement and audit status update
Ms. Putnam thanked all those involved with the year-end closing process.

NDUS financial reports were sent to OMB on December 6, 2010. The auditors are still asking some questions, but they told Ms. Putnam they will try to wrap up the NDUS audit this week and they hope to have recommendations to us on or before the middle of January 2011. Upon receipt of the auditors’ recommendations, they will be sent to individual campuses for response.

Ms. Glatt said we will, most likely, always receive audit adjustments from the State Auditor Office (SAO). The SBHE would like to see them go away; however, Ms. Glatt said that is not likely. But we need to continue to see improvement. Ms. Putnam said that while we had a fair amount of audit adjustments to the component units, the total dollar amounts appear to have decreased since the previous report, which is a step in the right direction.

Ms. Glatt cautioned that a letter is being drafted, which will be sent to NDUS presidents stating the importance of meeting deadlines when preparing and submitting financial statements for the System office. The BAFC has expressed their concern over the delay in getting these completed and submitted and has directed that a letter be sent to appropriate campuses. Ms. Glatt said any correspondence should be limited to those campuses that have experienced repeated problems in this area.

SBHE Policy 805.1
Based on a suggestion at an earlier meeting, Ms. Glatt developed a matrix that identified, and tried to align to the extent possible, enrollment reporting and institutional collections. After the matrix was created, the Administrative Affairs Council members have had a chance to review it and make recommendations. Those changes have been incorporated and the related policy has been clarified.

In the December 3, 2010, e-mail that Ms. Glatt distributed along with the revised matrix, she indicates that column (2)—enrollment reporting and column (5)—institutional collections, match (both yes or both no) in all instances, with the exception of non-degree remedial courses. As the footnote on the schedule indicates, if a student is taking only a remedial course, the credits are not counted in the official enrollment report and are considered non-degree credit. If however, a student is taking a remedial course at the same time they are taking other credit courses, the remedial course, along with the other credits are counted in the official enrollment count (all would be included under “degree credit”). This is consistent with IPEDS required reporting. In order to maintain consistency with IPEDS, we cannot include these non-degree credit courses in
the official enrollment report. The NDUS has not had any non-degree remedial credits the past few years, and prior to that time it was less than a handful. In other words, the numbers are immaterial. Since this is the only area where there could be a mismatch between enrollment reporting and institutional collections no changes will be made to either enrollment reporting or institutional collections for non-degree credit-remedial as noted on the attached matrix.

Ms. Brekke asked about the purpose of the annual enrollment report and suggested that a footnote be added to explain. Ms. Glatt agreed to make that change.

A question came up about teacher professional development credits. Ms. Glatt said she check with how these enrollments are handled and make adjustments to the matrix accordingly. In response to a question from Ms. Hegstad Ms. Glatt said she would work separately with NDSU to resolve any other outstanding issues at NDSU.

SBHE Policy 830.1
Just prior to today’s meeting, Mr. Seaworth distributed via e-mail the latest version of Policy 830.1. Mr. Seaworth participated in a phone conference this morning with the group assigned to review the policy for the Administrative Affairs Council. This group (Chelsea Larson, Karin Hegstad and Mary Eisenbraun) is satisfied with this version. Minor edits to earlier drafts include:

1. Addition of language in the first paragraph (sub 1) stating the payment deadline is 12 days for the regular fall and spring semesters and an “equivalent deadline” for a summer term or classes scheduled outside a regular term;
2. In 1.d., language stating the chancellor shall establish the maximum amount of the deferred payment plan enrollment fee is substituted for a fixed fee and language requiring a specified down payment is removed; and
3. Also in 1.d., language stating the final deferred payment must be made no later than 30 days prior to the end of a term is replaced with language stating the deadline is the end of the term.

Ms. Glatt asked that anyone with questions or suggestions regarding SBHE Policy 830.1 contact her within two weeks, after which the policy will be taken to the Cabinet for review and recommendation.

Other
Mr. Pytlik said ConnectND staff, particularly Teri Thorsen, has been working closely with OMB regarding release of the public reporting database, which will allow the public to search for expenditures, including salary information on state employees, by position, not by name. OMB has pushed back the release date on this effort for several reasons. One issue they are working on is to validate the data that will be made available. Another concern that has surfaced is for higher education data, particularly with salaries, is that there are separate funding sources for the System expenditures. Ms. Glatt asked the group whether they feel it’s important that funding sources be identified and if so, is there a readily available datasource that we can use to do so. After some discussion, it was agreed that it would be helpful to identify the funding sources, but no one had any suggestions on how this could be accomplished.
Mr. Seaworth joined the meeting and Ms. Glatt summarized the discussion with Mr. Bitz for Mr. Seaworth and asked if he had anything to add for the group or if he had any questions. Mr. Seaworth added that while we do have the option to pursue flood insurance on our own, the System has, in the past, posed the question and there was little or no interest in doing so at that time. Regarding the issue of replacement value vs. replacement costs, Mr. Seaworth said he is comfortable with the response provided.

Ms. Glatt asked the campus representatives to let her know by December 21, 2010, whether they would like the State Fire and Tornado to look at alternative coverage for water damage items not currently covered.

Mr. Lowe asked Ms. Glatt whether LarsonAllen’s risk assessment reports are to be provided to the System office and/or the SBHE. Ms. Glatt replied that eventually, they will likely be provided to both; however, campus presidents will have the opportunity to review the draft reports before they are finalized. The final reports will be considered public documents and available to anyone.

Meeting adjourned at 4:13.

Future Meetings
January 4, 2011
February 1, 2011
March 8, 2011
April 5, 2011
May 3, 2011
June 14, 2011
July 25-26, 2011
August 30, 2011
October 11, 2011
November 22, 2011