

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

February 9, 2005

A meeting of the Audit Committee of the Board of Regents was held on Wednesday, February 9, 2005, at 3:00 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, Richard McNamara, Lakeesha Ransom, and Maureen Reed.

Staff present: Senior Vice President Frank Cerra; Vice Presidents Kathleen O'Brien and Richard Pfutzenreuter; Associate Vice Presidents Steve Cawley, Gail Klatt, and Michael Volna.

Student Representatives present: Andrew Solrsoleil and Nathan Wanderman.

BOARD OF REGENTS POLICY: AUDIT COMMITTEE CHARTER

Associate Vice President Klatt reported that the administration proposes amendments to Board of Regents Policy: *Audit Committee Charter*. If approved, the changes would allow the administration to approve engagements with independent auditors for audit and non-audit services if those services do not exceed a cost of \$25,000, or impair independence. Klatt explained that the changes would facilitate the expeditious completion of these audits and provide for after-the-fact reporting to the committee.

The proposed amendments will return for action at a future meeting of the committee.

COMPLIANCE RISK PROFILE

Associate Vice President Klatt introduced Thomas Schumacher, Director of Institutional Compliance, to present an analysis of the University's compliance risks, and to summarize emerging institutional compliance risk trends.

Schumacher presented a Campus Compliance Risk Profile, "Heat Map," of legal risks (included in the docket materials) to illustrate the institution's compliance risk. He explained that the most meaningful way to examine risk is to think about day-to-day activities of the institution that are highly regulated, governed by federal, state, and local laws, and for which the institution has adopted policies and procedures to meet legal requirements. Schumacher added that noncompliance in these areas also may carry financial, safety, and reputational risks for the institution.

Schumacher commented briefly on how the institution is prepared to meet new expectations in federal compliance program standards, noting the ongoing reports presented on auditing, monitoring, compliance, and risk. He added that reports presented by the Institutional Compliance Office include evaluations of a variety of University units.

EXTERNAL AUDITOR'S MANAGEMENT LETTER

Vice President Pfutzenreuter introduced Clifford Hoffman, Partner, and Tom Roos, Senior Partner, Deloitte & Touche, to present the external auditor's management letter for the year ending June 30, 2004, as included in the docket materials. The management letter presents Deloitte & Touche's observations and recommendations and management's responses on corporate governance, internal control, accounting, operating, and administrative matters. It also provides an update of the previous year's comments.

Hoffman discussed recommendations regarding governance issues in a number of areas, including associated organizations and Regent representation on such boards, and the use of a common independent auditor for the institution's financial statement audit and that of associated organizations that exceed 10% of the consolidated University assets. He briefly discussed recommendations with regard to alternative investment holdings, and the opportunity for the institution to achieve increased centralization or decentralization with the implementation of the PeopleSoft financial system. He reported that there are no matters involving the University's internal control or operations that Deloitte & Touche consider to be material weaknesses.

Roos discussed accomplishments and future opportunities in the areas of student loans receivable, information security, and the PeopleSoft financial system. He also noted that no reportable conditions were found in the University's internal controls or operations.

Roos reported that Deloitte & Touche is in the process of completing the Audit of Federal Award Programs (A-133). The A-133 audit measures the University's compliance with federal laws and regulations applicable to federal financial assistance received. Roos stated that from an audit perspective, the University continues to be a low risk institution and to make outstanding progress in the administration of federal funds.

A copy of the presentation is on file in the Board Office.

INTERNAL AUDIT UPDATE

Associate Vice President Klatt presented the Internal Audit Update, as found in the docket materials.

Klatt reported on the completion of the audit plan for the current fiscal year, noting that the Department of Internal Audits has spent less time on internal investigations but more time on special project work for the administration. She stated that the strong financial employment market in the Twin Cities has made Internal Audits vulnerable to staff turnover.

Klatt reported departmental progress in the areas of scheduled audits, investigations, special projects, and other audit activities, noting that 42% of the outstanding recommendations rated as "essential" were implemented by University departments during the last quarter. This equals the average implementation percentage achieved during the preceding seven updates. She summarized implementation progress in a number of units, noting that several had outstanding implementation of their audit recommendations.

In response to questions regarding audit progress in smaller units of the Academic Health Center (AHC), Klatt stated that the larger units of the AHC benefit from a higher level of administrative support and tend to have stronger audit results. Senior Vice President Cerra indicated that management systems, functionality, and

oversight internal control systems have improved, but that an audit of systemic processes within the units might reveal additional weaknesses. Regent Reed commended that such an analysis might have applicability in other areas of the institution and be of value to the committee.

In response to a question, Cerra commented briefly on the State Attorney General's audit of the Fairview-University Medical Center.

INFORMATION ITEMS

Associate Vice President Klatt referred the committee to the Information Items contained in the docket, including:

- Recent Changes to Federal Compliance Program Standards.

Regent Frobenius recognized Regent Reed for her years of service on the Audit Committee.

The meeting adjourned at 4:30 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary