

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

March 10, 2005

A meeting of the Audit Committee of the Board of Regents was held on Thursday, March 10, 2005, at 4:15 p.m. in the East Committee Room, 600 McNamara Alumni Center.

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

Staff present: Senior Vice President and Provost Thomas Sullivan; Vice President Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Gail Klatt and Michael Volna.

Student Representatives present: Abu Jalal (alternate) 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 adopted, 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.

A motion was made and seconded, and the committee voted unanimously to recommend adoption of proposed amendments to Board of Regents Policy: *Audit Committee Charter*.

OPERATIONS RISK PROFILE

Vice President Pfutzenreuter and Associate Vice President Volna discussed an analysis of the University's operations risk profile, specifically high-risk financial activities and transactions.

Volna presented an External Audit Risk Profile, or "heat map," which illustrates examples of low- to high-risk financial activities based on their probability of occurrence and their impact on the institution if they do occur. He explained that various financial operations are assessed and assigned to the appropriate area on the heat map, and described the categories of risk as financial, compliance, or reputational.

Volna provided several examples of the highest risk financial activities and transactions at the institution and factors that contribute to risk. He detailed several programs, activities and technology enhancements implemented to help mitigate risk, such as the establishment of a compliance office, the certified approver program for sponsored activities, and improved systems for asset and debt management.

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

FINANCIAL OVERSIGHT: KEY INDICATORS

Vice President Pfutzenreuter presented an overview of financial key indicators in the following areas: asset management, debt, balance sheet, operating, and operating budget. The report is provided to assist the Board of Regents in its fiduciary responsibility for the oversight of all assets of the institution.

In response to a question, Pfutzenreuter noted that this report is designed to be a comparison of the balances from FY2003 to FY2004, but indicated that the report could be expanded to illustrate the current balance compared to the previous two fiscal years.

EXTERNAL AUDITOR RELATIONSHIPS & SERVICES

Associate Vice President Volna presented the annual review of external auditor relationships, services provided, and fees paid for FY2004 and FY2005. Volna reported that \$486,573 in total fees have been paid through January 2005 to seven different public accounting firms for a variety of audit and non-audit services, as described in the docket materials. Total fees through January 2005 to Deloitte & Touche amount to \$440,105, which is \$251,584 less than in FY2004. The decline in fees is due primarily to significant fees paid the previous year for special work related to the University's prior ownership of the hospital.

Volna explained that there has been a reduction in the number of audit engagements entered into by the University as a result of increased oversight by management and the Board of Regents. He added that audit services required for specific purposes will continue as necessary, but should fall under the general audit contract.

REQUEST FOR PROPOSAL ON EXTERNAL AUDIT SERVICES

Associate Vice President Volna reported that Deloitte & Touche, the University's current external auditor, has communicated to the administration that the firm will not be continuing as the University's auditor for FY2005 and beyond. Volna noted that this decision was not due to internal control problems at the University, but rather new accounting requirements and related matters for the University's affiliated organizations that create potential audit risks unacceptable to Deloitte & Touche.

Volna stated that the administration is recommending a competitive selection process of approximately two months in duration. He summarized the request for proposal (RFP) process, and indicated that this process will include more involvement by the Board of Regents through the Audit Committee than during the previous RFP process. This involvement is consistent with Board policy and resolutions relating to the engagement of external auditors. Volna referred committee members to the docket for the proposed workplan for auditor selection.

The meeting adjourned at 5:00 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary