

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

November 10, 2005

A meeting of the Audit Committee of the Board of Regents was held on Thursday, November 10, 2005, at 8:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, David Larson, and Patricia Simmons.

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

Student Representatives present: Joshua Colburn and Tom Zearley.

REPORT OF THE EXTERNAL AUDITOR

Regent Frobenius introduced Don Loberg, Partner, and Craig Popenhagen, Senior Manger, LarsonAllen, to present the external auditor's opinion on the accuracy and reliability of the University's FY2005 financial statements. This report is meant to assure the committee that the University has the appropriate policies, procedures, and control systems to produce accurate and reliable financial information. A copy of the report is on file in the Board Office.

Loberg presented information on net assets, revenues, and operating expenses for the University for the year ended June 30, 2005. Highlights include a favorable change in net assets caused by increased revenues from tuition rate and enrollment growth, market gains on investments, and cost containment. He reported that the University's instructional expense as compared to tuition revenue is consistent with that of other Big 10 universities. Instructional and academic support expenses per student have remained very stable over the last four years, which reflects the University's effort to control costs.

Loberg and Popenhagen discussed elements of required communications to the committee, new significant accounting policies in the current and future years, and discussed the auditor's assessment of internal controls, policies and procedures, and accounting personnel. They reported that the institution continues to face challenges including maintaining state support and risks associated with cost containment, such as supporting infrastructure, retaining top personnel, and implementing compliance.

Loberg recognized the University's strong internal audit function and indicated that the transition between a prior auditor and LarsonAllen was facilitated due to the assistance received from University personnel.

SOURCES OF INFORMATION FOR RISK OVERSIGHT: ANALYSIS OF INTERNAL & EXTERNAL AUDIT COVERAGE

Associate Vice President Klatt and Don Loberg, Partner, and Craig Popenhagen, Senior Manager, LarsonAllen, presented an analysis of internal and external audit coverage, as included in the docket and associated materials distributed at the meeting. Klatt indicated that this is the first in a series of presentations highlighting internal and external audit activities that produce information for the committee's use in monitoring significant business risks. The presentation focused on a "heat map" illustrating specific risks the committee identified to be of greatest importance. The map also outlined the extent to which audit activities produce information relevant to these risks.

Klatt, Loberg, and Popenhagen reviewed audit information and concluded which risks received little or no coverage, moderate coverage, or extensive coverage.

Regent Frobenius stated that the next step is to develop a report for the Board recommending that various Board committees should monitor significant risk areas. Provost Sullivan agreed to return to a future committee meeting to discuss metrics the Board can use to monitor risks such as academic quality and quality of faculty and staff. The goal is a document outlining metrics which can be, or are being, used to monitor specific areas of risk consistent with strategic positioning efforts and committee responsibilities.

INSTITUTIONAL RISK PROFILE

Regent Frobenius reported that in previous meetings the committee discussed an institutional risk profile. In these discussions, a common "heat map" was used to illustrate specific risks based on their probability of occurrence and their impact on the institution if they occur. At a recent meeting the committee identified those areas of greatest importance to the committee in its oversight and fiduciary capacities and constructed a heat map based on combined input of committee members. The input fell into two categories: those elements that are critical factors to the core mission, which are identified as high risk and impact, and those activities considered to have less risk and impact.

Frobenius noted that placement of some of the items on the heat map was modified slightly to incorporate suggestions made by committee members at the previous meeting. Committee members agreed that the heat map as presented in the docket materials reflects their collective view of institutional risk.

INFORMATION ITEMS

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

- Semi-Annual Controller's Report; and
- Sarbanes-Oxley Implementation Update

The meeting adjourned at 9:15 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary