

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

February 9, 2006

A meeting of the Audit Committee of the Board of Regents was held on Thursday, February 9, 2006 at 3:45 p.m. in the East Committee Room, 600 McNamara Alumni Center.

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

Staff present: Vice Presidents Kathryn Brown, Charles Muscoplat, and Richard Pfitzenreuter; Executive Director Ann Cieslak; Executive Associate Vice President Al Sullivan; and Associate Vice Presidents Steve Cawley, Gail Klatt, Stuart Mason, and Michael Volna.

Student Representatives present: Joshua Colburn and Tom Zearley.

Regent Frobenius welcomed newly-appointed Regent Cynthia Leshar to the committee.

EXTERNAL AUDITOR'S MANAGEMENT LETTER

Associate Vice President Klatt introduced Don Loberg, Partner, and Craig Popenhagen, Senior Manager, LarsonAllen, to present the external auditor's management letter for the year ending June 30, 2005, as included in the docket and associated materials distributed at the meeting. The management letter presents LarsonAllen's observations and recommendations regarding the University's internal controls and other matters resulting from the FY2005 annual audit.

Loberg introduced three items for discussion: LarsonAllen's management letter, compliance audits and findings, and the engagement summary. He reported that there are no matters involving the University's internal control or operations that LarsonAllen consider to be material weaknesses, though there are areas in which effectiveness and efficiencies could be improved. He discussed recommendations regarding governance issues in several areas, including associated organizations, security and integrity of information systems, the RUMINCO Ltd. audit, and accrued vacation liability.

In response to a number of questions relating to vacation accrual, the administration was asked to provide additional information to the Board's Faculty, Staff, and Student Affairs Committee.

Popenhagen discussed recommendations for the cash receipting process, alternative investments, and PeopleSoft implementation costs. He also reported on the Federal Awards Compliance Audit (A-133), which measures the University's compliance with federal laws and regulations applicable to federal financial assistance received. Popenhagen summarized the major programs audited (student financial aid programs, research and development programs, and training grants; and Loberg discussed federal compliance audit findings for each program.

Loberg reported that LarsonAllen has completed all five engagements included in their contract. He commended the institution's controller's staff who assisted their work.

SOURCES OF INFORMATION FOR COMPLIANCE RISK OVERSIGHT

Regent Frobenius introduced Tom Schumacher, Director of Institutional Compliance, to present the University's sources of information regarding compliance risks and the institution's process for providing the Audit Committee with sufficient information to assist in its oversight responsibilities.

Schumacher reported on current federal expectations for boards for oversight of their compliance programs and reporting processes; the structure and processes the University has in place for reporting and detecting possible compliance issues and; and recent actions the institution has taken to enhance its oversight of compliance reports and program issues. He noted the creation of an integrated confidential reporting service, 'UReport', which allows individuals to report compliance concerns on the web. He added that similar programs are utilized in several peer institutions.

Schumacher reported on the compliance working group appointed by the President and comprised of senior officials that will provide oversight and direction to the institution's compliance programs, designated 'compliance partners' representing various areas on campus providing additional oversight and that the Office of the General Counsel is consulting with compliance groups to develop a more formal structure for escalating compliance matters to the Board of Regents.

INTERNAL AUDIT UPDATE

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

Klatt reported that during this past quarter 39% of the outstanding recommendations rated as "essential" were implemented by University departments. This percentage is significantly higher than the previous quarter and also higher than the average implementation rate for the preceding seven updates. Seven units fully implemented all their remaining "essential" recommendations.

INFORMATION ITEMS

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

- Annual Compliance Audit of Federal Awards Program (A-133); and
- NCAA Agreed-Upon Procedures FY2005.

The meeting adjourned at 5:00 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary