

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

May 11, 2006

A meeting of the Audit Committee of the Board of Regents was held on Thursday, May 11, 2006 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. Regent Hunter joined for part of the meeting.

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

Student Representatives present: Joshua Colburn and Tom Zearley.

**BOARD OF REGENTS FIDUCIARY RESPONSIBILITIES,
PART II**

Associate Vice President Klatt introduced Professor Karen Schnatterly, Carlson School of Management, to continue the Committee's ongoing series of discussions regarding the fiduciary responsibilities of boards from a variety of perspectives.

Schnatterly's explained that her area of study is board governance in for-profit companies.

She discussed a number of "best practices" of effective boards, including a board's responsibility for monitoring, hiring, evaluating, and firing of chief executive officers and a board's role in providing advice and counsel. She stressed the importance of a diverse skill set in board members, how various viewpoints contribute to the monitoring and advising role, and the need for board members to have the ability to ask questions of management. Schnatterly cautioned against board passivity, conflicts of interest, and cronyism. She also discussed the importance of clarity and active teaching of the institution's code of conduct, and the use of a real time evaluation process for assessing the quality of information received and its usefulness in carrying out board business.

Board members expressed interest in further discussion of these topics.

EXTERNAL AUDIT PLAN

Associate Vice President Volna introduced Don Loberg, Principal, and Craig Popenhagen, Senior Manager, LarsonAllen, to present the external audit plan for the FY2006 University audits, as included in the docket and associated materials distributed at the meeting.

Loberg presented LarsonAllen's plan for the University engagements for FY2006. He identified a number of audit challenges, including new and proposed accounting

standards, one of which will affect the FY2007 audit would be effective for the FY2008 audits. Popenhagen summarized the approach, objectives, scope of services, significant audit areas, timeline of the audit, and the reports and letters to be issued.

Regent Frobenius requested LarsonAllen provide a progress report on the performance of the audit to the committee.

DEPARTMENT OF AUDITS CHARTER

Associate Vice President Klatt stated that the Audit Committee is responsible for oversight of the internal audit function and approving the Department of Audits Charter (Charter). No changes are being recommended at this time. Rather the Committee is being asked to reaffirm that the document outlines the Committee's expectations for how the Department of Audits conducts its work. The Audit Committee last reviewed the Charter in February 2002.

By consensus, the Committee reaffirmed the Charter.

INTERNAL AUDIT UPDATE

Associate Vice President Klatt presented the Internal Audit Update, as included in the docket materials. Klatt reported that during the past quarter, 25% of the outstanding recommendations rated as "essential" were implemented by University departments, an implementation rate below both the previous quarter and the expected rate of 40%. Three units fully implemented all their remaining "essential" recommendations. Klatt also reported on investigations and special projects performed by the Department of Audits.

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 9:29 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary