

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**November 9, 2006**

A meeting of the Audit Committee of the Board of Regents was held on Thursday, November 9, 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, Cynthia Leshner, and Patricia Simmons.

Staff present: Senior Vice President and Provost E. Thomas Sullivan; Vice Presidents Kathryn Brown, Steve Cawley, and Richard Pfitzenreuter; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; and Associate Vice Presidents Terry Bock, Gail Klatt, and Michael Volna.

Student Representatives present: Joshua Colburn and Will Kellogg.

**REPORT OF THE EXTERNAL AUDITOR**

Vice President Pfitzenreuter introduced Don Loberg and Craig Popenhagen, Principals, LarsonAllen, who presented the external auditor's opinion on the accuracy and reliability of the University's FY2006 financial statements, as included in the materials distributed at the meeting. 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 and Popenhagen briefly reported on the FY2006 audit, indicating that the University's financial statements have received an unqualified audit opinion. They 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. Loberg noted significant improvements made over the last year in the Office of Asset Management in documenting internal control activities, internal analysis, and communications with asset managers. Loberg discussed net assets, revenues, and operating expenses for the University. He presented a number of financial ratios that showed the University to benchmark favorably among other Big 10 universities. Loberg 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 stable, which reflects the University's effort to control costs.

Popenhagen discussed significant estimates and unrecorded adjustments. Next year's audit standards require a listing of all findings, not only significant ones. Therefore, the committee can expect a more lengthy report.

Loberg and Popenhagen 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 and maintaining compliance. He added that new government accounting

standards and the upcoming Enterprise Financial System conversion would require additional staff resources within accounting areas.

### **DATA SECURITY/PRIVACY RISK MITIGATION**

Regent Frobenius introduced Vice President Cawley to discuss data security, privacy risk, and the actions the University is taking to mitigate data security risks, as described in the materials distributed at the meeting.

Cawley reported a significant increase in security breaches nationally, with activity moving from disruptive attacks to organized criminal activity. He reported on major private-data security breaches in higher education institutions, noting the major challenges involved in securing information technology services in a large distributed research university.

Cawley identified a number of risk mitigation strategies, noting the need to address both the technical and the behavioral aspects of risk mitigation. He discussed the key steps taken at the institution and the significant resources and attention devoted to improving technical security, and reviewed the new private data breach notification law that went into effect in Minnesota in August 2005. Cawley indicated that all University employees will participate in a minimum of three mandatory data privacy training modules online, with components assigned to employees based on job responsibilities. He discussed consequences for failure to protect private data, including financial costs, loss of technology access rights, and disciplinary action.

### **ATHLETICS COMPLIANCE PROGRAM**

Regent Frobenius introduced General Counsel Rotenberg and Director of Athletic Compliance Frank Kara to report on the Athletics Compliance Program, as described in the materials distributed at the meeting and on file in the Board Office.

The report outlines the organization and operation of the University's intercollegiate athletic rules compliance program and reviews the education efforts, policies, monitoring mechanisms, and enforcement procedures designed to ensure compliance with intercollegiate athletic rules.

Rotenberg reported on the history of the NCAA rules violations and resulting sanctions imposed by the NCAA Committee on Infractions on the Twin Cities intercollegiate athletics program in 2000 and 2002. He noted that since 2002 the athletics program has not been cited for a single major rules infraction, and the NCAA probationary status has now been lifted.

Rotenberg identified a number of significant improvements in the Athletics Compliance Program (ACP), including: enhanced educational programs, a more productive relationship with the NCAA Committee on Infractions, increased monitoring and auditing, and self-reporting of incidents to the NCAA. The ACP has established a reputation for integrity and the highest levels of compliance.

Kara described the proactive approach to compliance developed within the ACP. The "Compliance Pyramid" emphasizes education, development of policies and procedures to stop violations before they occur, monitoring and auditing, and enforcement. He stressed the importance of education for athletic coaches, staff, and athletes along with other members of the University community, including academic advisors and faculty. Improved policies and active monitoring and auditing provide feedback to assess if the program is working. Kara detailed how the compliance program has evolved into a national model with educational sessions, rules testing for staff, newsletters, and frequent updates via email.

Committee members expressed appreciation for the success in athletics compliance and for creating a culture and systems that benefit the University.

### **RISK ASSESSMENT FOLLOW-UP**

Regent Frobenius led a discussion on how to communicate to other Board of Regents committees the results of the Audit Committee's risk assessment work completed during the past eighteen months.

Regent Frobenius identified three questions based on the information summarized in the Institutional Risk Monitoring Information document (included in the docket materials):

- Is the appropriate Board committee monitoring the proper elements to understand the risk and the actions taken to mitigate those risks?
- Is the Board receiving the information it needs to anticipate emerging and evolving risks that could affect the University?
- What is the process for identifying weaknesses or opportunities, management responsibility for a given area, and management steps being taken to impose results?

Committee members offered a number of suggestions.

### **INFORMATION ITEMS**

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

- Semi-Annual Controller's Report; and
- Report on External Auditor Engagements.

The meeting adjourned at 9:29 a.m.

**ANN D. CIESLAK**  
**Executive Director and**  
**Corporate Secretary**