

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

May 9, 2002

A meeting of the Audit Committee of the Board of Regents was held on Thursday, May 9, 2002 at 8:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Robert Bergland, presiding; Dallas Bohnsack, Frank Berman, Richard McNamara, Michael O'Keefe, and Lakeesha Ransom.

Staff present: President Mark Yudof; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Gail Klatt, Robert Kvavik, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Jacob Elo and Allison Rhody.

Regent Bergland introduced Jacob Elo, Twin Cities, and Allison Rhody, Duluth, the new Student Representatives to the Audit Committee.

EXTERNAL AUDIT PLAN

Associate Vice President Volna introduced Clifford Hoffman of Deloitte & Touche, the University's external audit firm, who presented the external audit plan for the year ending June 30, 2002, as found in the docket materials.

Hoffman indicated that the University's financial reports will have a different appearance this year due to the new reporting requirements of GASB35, but will contain the same financial information. He noted that the institution's internal transition team has been working on the project for several years, thereby avoiding large outside consulting costs incurred by many other universities.

Hoffman presented an overview of the audit's scope, areas of focus, and timeline. He indicated that due to its size and composition the investment portfolio is included in the audit. He expressed some concerns relating to the age of the institution's financial reporting system, CUFS (College and University Financial System).

President Yudof indicated that staff has not yet identified a proven, affordable financial reporting system to replace CUFS. He welcomed recommendations for a cost-effective system with good functionality.

In response to questions raised by Regents Bergland and Berman, Hoffman indicated that Deloitte & Touche's annual Management Letter would address issues relating to financial control levels in units that report directly to central administration.

Regent O'Keefe emphasized the importance of budgetary monitoring and effective management control in a decentralized system. President Yudof and Associate Vice President Pfitzenreuter assured the committee that procedures are in place to address these issues. It was agreed that there will be a future presentation on administrative control procedures and on new reporting systems developed to track unit expenditures and number of employees.

EXTERNAL AUDITOR SERVICES

Associate Vice President Volna reported on a review of University policies and controls that govern the use of audit and non-audit services provided by its external auditor, as found in the docket materials.

Volna indicated that the staff review was performed at the president's request to ascertain whether existing policies and controls are sufficient to ensure the independence of the institution's external audit firm. The review found the following:

- The internal audit function is performed by the institution, not the external auditor;
- All non-audit work is specified in a negotiated contract with the external auditor;
- The external audit firm provides analysis and information only;
- All management decisions are made by the institution.

As a result of these findings, no changes are recommended to policies and controls at this time. Volna reported that staff would continue to review all non-audit contracts, monitor regulatory changes, and would recommend revisions to policies and controls if necessary.

INTERNAL AUDIT UPDATE

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

Klatt summarized the status of outstanding essential recommendations from previous audits and gave a brief overview of audit recommendations issued during the last quarter. She reported on the status of the National Sciences Foundation (NSF) request for a comprehensive audit of NSF-sponsored projects, noting that the University has submitted additional material to the NSF and is awaiting a response.

The committee discussed the status of the Public/Private Partnership Committee (PPPC) mandated by Board of Regents Policy: *Conflict of Interest*. Since the Educational Planning & Policy Committee was scheduled to discuss the matter at its meeting later in the day, Regent O'Keefe was asked to convey the committee's concerns regarding whether or not the PPPC is needed.

ALTERNATIVE INVESTMENTS: STRATEGY AND RISK ASSESSMENT

>Associate Vice President Pfitzenreuter and Director of Asset Management Sheila Warness discussed strategies and the assessment of risk used for alternative investments, as found in the docket materials.

Pfitzenreuter reported that President Yudof has directed that the University have the best possible investment management, oversight, and reporting. He noted that the Finance & Operations Committee has been discussing extensively various allocation strategies for the alternative investments held in the Consolidated Endowment Fund (CEF).

Warness presented an overview of how risk is assessed for various classes of alternative investment vehicles, stressing the importance of diversification among managers and asset classes as a means of monitoring and mitigating associated risks. She emphasized that the character, experience, and reputation of the fund manager are of the utmost importance.

Warness indicated that the University participates in a fund-of-funds, which provides both access to a broad range of funds and greater internal resources for monitoring and oversight. In response to a question from Student Representative Elo, Klatt affirmed that management costs are higher due to the additional oversight when participating in a fund-of-funds.

The meeting adjourned at 9:27 a.m.

Corporate Secretary

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