

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**November 7, 2002**

A meeting of the Audit Committee of the Board of Regents was held on Thursday, November 7, 2002, at 3:30 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Dallas Bohnsack, presiding; Frank Berman, Richard McNamara, and Lakeesha Ransom.

Staff present: Senior Vice President Frank Cerra; Vice President Kathleen O'Brien; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Gail Klatt, Richard Pfitzenreuter, Steven Spehn, and Michael Volna.

Student Representatives present: Jacob Elo and Allison Rhody.

**SARBANES-OXLEY ACT OF 2002:  
BRIEFING AND DISCUSSION OF POLICY IMPLICATIONS**

General Counsel Rotenberg presented an overview of the Sarbanes-Oxley Act of 2002, which was signed into law in July 2002. The Act changes federal regulation of public company corporate governance and financial reporting obligations and substantially alters the standards of accountability for directors, audit committee members, and officers of those companies. He stated that the major provisions of the Act that could impact the University relate to the Audit Committee, the Code of Ethics for senior financial officers, officer certifications, and legal counsel reporting.

The committee considered the following policy question:

To what extent, if any, does the Audit Committee desire the administration to implement provisions of the Sarbanes-Oxley Act of 2002?

It was the consensus of the committee that the administration should make recommendations at the February meeting on the development and implementation of policies that would promote underlying best practices reflected in the legislation, even if not particularly mandated for the University of Minnesota.

**INDEPENDENT PUBLIC ACCOUNTANT ANNUAL AUDIT  
and  
COMMUNICATION OF AUDIT JUDGMENTS AND UNADJUSTED DIFFERENCES**

Clifford Hoffman, Partner, Deloitte & Touche the University's external audit firm, presented the annual audit report to the

committee. He reviewed the Summary of Performance, which appeared in a new format. While the prediction for many public sector institutions was a large loss as a result of the new accounting format, he noted that the University is still in the black.

Hoffman summarized the University's strengths, challenges, and accomplishments. He commended Associate Vice Presidents Klatt, Pfitzenreuter, and Volna and their staffs for their efforts.

Hoffman reported that the University is already complying with many of the provisions of the Sarbanes-Oxley Act of 2002. He stated that the major reasons to follow the Act are for risk management purposes and to protect the reputation of the University of Minnesota.

## **IMPLEMENTATION OF THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT**

Senior Vice President Cerra presented for discussion new federal regulations regarding privacy and security of health information under the Health Insurance Portability and Accountability Act (HIPAA).

Ross Janssen, HIPAA Privacy Officer, stated that the legislation will have a significant University-wide impact because it applies to every individual and unit with access to health information on students, employees, or patients. He noted the penalties for non-compliance are severe.

Janssen reported on the efforts of a University-wide Privacy and Security Project Team, which has been charged with preparing and implementing a compliance plan for the University. He discussed the key components for compliance, noting that the deadline for compliance with the new privacy regulations is April 2003. Full compliance with HIPAA regulations is required by Fall 2004.

In response to a question from Regent Bohnsack, Cerra stated that the discussion was scheduled to inform the committee about the implications of HIPAA and the process being followed by the University to move toward compliance. The administration will present policies to the Board of Regents to make the compliance plan operational and part of the University's compliance and audit functions.

Cerra reported that University of Minnesota Physicians and Fairview are making an enormous investment to implement HIPAA, with no way to recoup the costs. He noted that this is a national issue, adding that the University of Minnesota is ahead of most other institutions in the implementation process.

## **INFORMATION ITEM**

Associate Vice President Klatt presented the Semi-Annual Controller's Report, as included in the docket materials.

Klatt also reported that the University Audit Department will undergo a peer review in early 2003. As part of that review, members of the Audit Committee may be contacted for feedback. The final assessment will be available in Spring 2003.

The meeting adjourned at 5:00 p.m.

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

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