

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
July 10, 2003**

A meeting of the Audit Committee of the Board of Regents was held on Thursday, July 10, 2003, at 8:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, Richard McNamara, Lakeesha Ranson, and Maureen Reed. David Metzen and Patricia Simmons were also in attendance.

Staff present: Executive Vice President and Provost Christine Maziar; Senior Vice President Frank Cerra; Vice President Kathryn Brown; Interim Vice President David Hamilton; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley, Gail Klatt, and Richard Pfitzenreuter.

Student Representatives present: Josh Colburn and Jacob Elo.

INTERNAL AUDIT PLAN

Associate Vice President Klatt presented the proposed 2003-04 Internal Audit Plan as included in the docket materials on file in the Board Office. The Audit Plan is intended to demonstrate the breadth and depth of audit activities addressing financial, operational and compliance risks of the University; accountability for the University's resources; and the progress in efforts to continually improve the Internal Audit program.

The Department of Audits performs three functions: auditing University units, process and activity; providing advisory services to administration; and conducting investigations into allegations of operational or financial misconduct.

In response to a question, Clifford Hoffman, Partner at Deloitte & Touche, the University's external audit firm, explained that Deloitte & Touche review the Internal Audit Plan with Associate Vice President Klatt and the chair of the Audit Committee. Deloitte & Touche integrates their work with the work performed by the Department of Audits, resulting in significant cost savings to the University.

UNIVERSITY HIGH RISK FINANCIAL ACTIVITIES & TRANSACTIONS

Associate Vice Presidents Richard Pfitzenreuter and Michael Volna presented the results of a formal identification of high-risk financial activities and transactions within the University. The presentation included how the University identifies high-risk financial activities; factors that increase risks for certain financial activities; a description of the highest-risk financial activities;

and a brief overview of the controls, systems, and procedures that have been put in place to mitigate the risks for these financial activities. Volna explained that having an understanding of the institution's high-risk financial transactions would better enable members of the Audit Committee to provide oversight of the University's reporting process. A copy of the presentation is included in the docket materials on file in the Board Office.

CONFLICT OF INTEREST: COMPLIANCE & MANAGEMENT

Interim Vice President Hamilton presented procedures currently used for disclosure of potential conflicts of interest by University employees and reported on the degree of compliance that has been achieved in disclosing potential conflicts. Hamilton explained that the Board of Regents Policy: Conflict of Interest, provides principles to identify and manage potential conflicts. Hamilton reviewed the recommended changes to the current policy and procedures in disclosing conflict of interest. Hamilton noted that proposed changes to the policy would be brought to the Board of Regents early next year. In response to a question, Hamilton stated that a progress report on the proposed policy changes could be provided to the committee for discussion in late fall or early winter.

Executive Vice President and Provost Maziar stated that the disclosure process offers employees protection from an inadvertent transgression and enables University management to ensure that a potential conflict of interest does not become a conflict of interest.

Associate Vice President Klatt noted that conflict of interest issues and management processes covered in this presentation are focused on conflicts that arise out of the University's research enterprise. Other types of conflict of interest, such as financial conflict of interest, fall under the jurisdiction of the chief financial officer.

RESULTS OF NCAA AGREED-UPON PROCEDURES

Clifford Hoffman, Partner, Deloitte & Touche, presented the report of the results of the NCAA Agreed-Upon Procedures for FY2002. The purpose of the NCAA report is to ensure that the University chief executive officer is made aware of all recorded expenditures (both internal and external) for athletics purposes and is intended to assist the institution in exercising control over expenditures for athletic purposes. The report shows \$45 million in revenue and \$40 million in expenses related to the athletic activities of the University. A copy of the report is on file in the Board Office.

COMMITTEE WORKPLAN, 2003-04: PRELIMINARY DISCUSSION

Regent Frobenius and Associate Vice President Klatt briefly outlined the committee workplan for 2003-04 as included in the docket materials on file in the Board Office. Regent Frobenius stated that the committee could incorporate additional governance topics into the workplan that may arise from the Board of Regents Retreat in August 2003. Klatt noted that this workplan includes the business activities that are charged to the Audit Committee in its Charter.

Regent Reed suggested that the committee chair consider discussing the challenges of implementing the Sarbanes-Oxley Act within the University and the evolving interpretation of the policy at a national level. Regent Frobenius agreed.

The workplan will be completed and presented to the committee at a future meeting.

The meeting adjourned at 9:33 a.m.

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

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Last modified on September 7, 2005