

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

May 8, 2003

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

Regents present: Dallas Bohnsack, presiding; Richard McNamara, Clyde Allen, John Frobenius, Lakeesha Ransom and Patricia Simmons.

Staff present: Chancellor Samuel Schuman; Executive Vice President and Provost Christine Maziar; Executive Director Ann Cieslak; Associate Vice Presidents Gail Klatt, Richard Pfitzenreuter and Michael Volna.

Student Representatives present: Josh Colburn and Jacob Elo.

RESOLUTION RELATED TO SARBANES-OXLEY ACT

A motion was made and seconded to recommend approval of the resolution related to the Sarbanes-Oxley Act.

Associate Vice President Pfitzenreuter presented the resolution related to the Sarbanes-Oxley Act, which prohibits the purchase of certain non-audit services from independent auditors. The resolution also directs staff to draft for Board action necessary amendments to relevant Board policies. Pfitzenreuter noted that while the University is not subject to the provisions of the Sarbanes-Oxley Act, this resolution includes a number of best practices considered beneficial to the institution.

EXTERNAL AUDIT PLAN

Associate Vice President Pfitzenreuter introduced Clifford Hoffman, Partner in Deloitte & Touche, the University's external auditor. Hoffman summarized the proposed plan for the University's 2003 annual audit. A copy of the proposed plan is on file in the Board Office.

Vice President Klatt noted that Deloitte & Touche looks at the accuracy of financial information as it is generated, while the Department of Internal Audit assesses the activities that give rise to those financial transactions.

Hoffman briefly discussed the audit fees proposed for the audit, which total \$323,000 - \$338,700. In response to a question from Regent Frobenius, Hoffman indicated that the committee chair would be notified in advance if external audit activities require expenditures above the agreed-upon amount.

REPORT OF THE EXTERNAL REVIEW OF THE DEPARTMENT OF AUDITS

Associate Vice President Klatt introduced Carol Seneff, Director of Internal Audit, University of Iowa. Seneff led the team that conducted the review of the University of Minnesota's Department of Audits. The Standards for the Professional Practice of Internal Auditing (*Standards*), as revised in January 2002, requires a formal external peer review of internal audit functions every five years. The report is included in the docket materials and is on file in the Board Office.

Klatt noted that the University is the first Big 10 school to undergo an external peer review in which compliance against the revised *Standards* was assessed. The Department of Audits performed a self-assessment, followed by external validation by the review team. Based on the review and interviews, the team concurred that all requirements of the Standards are being met.

UNIVERSITY HIGH RISK FINANCIAL ACTIVITIES & TRANSACTIONS

In the interests of time, the discussion of University High Risk Financial Activities and Transactions was postponed to a future meeting of the committee.

INTERNAL AUDIT UPDATE

Associate Vice President Klatt reviewed the status of 'essential' recommendations in the Quarterly Internal Audit Update report, which is included in the docket materials and is on file in the Board Office. In the first quarter 2003, 43% of the outstanding recommendations rated as essential were implemented by University departments, reflecting a committed effort by University units to address these important issues.

Klatt noted the recommendation of the May 1997 Internal Audit Update regarding the Public Private Partnership Committee (PPPC), which is charged with advising the University with regard to conflict of interest issues. The PPPC has not met since June 1995 because of difficulties in recruiting appropriate members from outside the University and because Board of Regents Policy: *Conflict of Interest*, which sets forth the principles identifying conflicts and the procedures for reviewing and addressing them, requires significant revision.

INFORMATION ITEMS

Associate Vice President Klatt referred committee members to the Semi-Annual Controller's Report, which is included in the docket materials and is on file in the Board Office.

The meeting adjourned at 9:25 a.m.

Ann D. Cieslak
Executive Director and
Corporate Secretary

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