

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Thursday, February 13, 2014

8:00 - 9:45 a.m.

600 McNamara Alumni Center, East Committee Room

Committee Members

Laura Brod, Chair
Patricia Simmons, Vice Chair
Clyde Allen
Peggy Lucas
Abdul Omari

Student Representatives

Joseph Daniewicz
Benjamin Metcalf

A G E N D A

1. Board of Regents Policy: *Audit Committee Charter* - Action - G. Klatt (pp. 2-4)
2. Overview of the Fiduciary Responsibilities of Non-Profit Audit Committee Members - J. Kiedrowski (pp. 5-19)
3. Health Sciences Risk Profile - A.Friedman (pp. 20-25)
4. Compliance Risk Profile - L. Zentner (pp. 26-33)
5. Internal Audit Update - G. Klatt (pp. 34-55)
6. Information Items - M. Volna (pp. 56-60)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

February 13, 2014

Agenda Item: Board of Regents Policy: *Audit Committee Charter*

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To approve proposed amendments to Board of Regents Policy: *Audit Committee Charter*.

Outline of Key Points/Policy Issues:

The policy draft contains amendments intended to align the policy with new language in Board of Regents Policy: *Board Operations and Agenda Guidelines*.

Changes include:

- Incorporate language to address the committee's oversight responsibility for compliance;
- Update language to reflect the change of name of the Audit Department to the Office of Internal Audit; and
- Increase the threshold for the committee's review of audit contracts from \$25,000 to \$100,000 in response to recommendations to revisit existing thresholds.

Background Information:

Board of Regents Policy: *Audit Committee Charter* was adopted on October 14, 1988 and last amended on February 13, 2009.



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY

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Board Operations

AUDIT COMMITTEE CHARTER

Adopted: October 14, 1988

Amended: October 13, 1989; March 13, 1998;
May 14, 2004; March 11, 2005; February 13,
2009

DRAFT for action February 13, 2014

AUDIT COMMITTEE CHARTER

Subd. 1. Organization. The Audit Committee of the Board of Regents (Board) shall be a permanent committee consisting of at least four members of the Board. Audit Committee members shall be appointed by the Board chair, recognizing the need for financial expertise and continuity of membership from year to year.

Subd. 2. Reservation of Authority. Consistent with Board of Regents Policy: Reservation and Delegation of Authority, the Board reserves to itself authority to adopt policies regulating the audit function; approve selection of external public accountants and the Director of Internal Audit; review audit plans; and evaluate the performance of the independent auditor and, jointly with the president, the performance of the internal audit function.

Subd. 3. Purpose. The Audit Committee oversees the University's system of risk assessment and internal controls, audits, financial reporting practices, and the institutional compliance program. The Audit Committee is to assist the Board in discharging its oversight responsibilities related to the audit and compliance functions by:

- (a) promoting the development of an effective, efficient, and continuously improving control environment, in concert with the administration, to achieve the institution's objectives through an appropriate system of risk assessment and internal control;
- (b) overseeing the University's integrated framework of internal control, ~~and~~ risk management assessment practices, and institutional compliance program to ensure that the administration executes the provisions of Board of Regents Policy: *Internal Control*;
- (c) serving as an informed voice on the Board by relaying the audit and compliance perspective when related issues are brought before the Board and its standing committees; and
- (d) providing a direct channel of communication to the Board for the internal auditor and the independent public auditor.

Subd. 4. Duties. Specific duties of the Audit Committee include the following:

- (a) **Oversight of the Independent Auditor.** The independent auditor reports directly to the Board through the Audit Committee. The Audit Committee shall recommend for Board approval the engagement and related fees of the independent auditor to perform the annual financial statement and federal compliance audits. The Audit Committee shall approve in advance all audit and non-audit services provided by the independent auditor with a value greater than \$100,000 ~~\$25,000~~ or that may impair the audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in the United States General Accounting Office Government Auditing Standards. Engagements not requiring approval by the Board shall be reported to the Audit Committee at the next scheduled meeting of the committee. The Audit Committee shall annually review and evaluate the independent auditor's performance, independence, and effectiveness of coordination with other assessment activities, including internal audit.



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS POLICY

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Board Operations

AUDIT COMMITTEE CHARTER

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2009

DRAFT *for action* February 13, 2014

- (b) **Oversight of the Internal Audit Function.** The Audit Committee shall recommend for Board approval (1) the appointment or removal of the director of audits, (2) changes to the Office of Internal Audit's Audit Department charter, and (3) any material revisions to internal audit plans or budgets. In consultation with management and the internal auditor, the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.
- (c) **Review of Financial Statements.** The Audit Committee shall review, in advance of final issuance, the proposed formats and wordings of the annual financial report, including the management's discussion and analysis, financial statements, footnotes, statistics, and disclosures.
- (d) **Review of Audit Results.** The Audit Committee shall review the internal and external audit results and discuss significant issues of internal control and compliance with the independent auditor, internal auditor, and management. The Audit Committee shall monitor management's progress in addressing audit recommendations.
- (e) **Investigation of Reported Concerns Regarding Accounting or Auditing Matters.** The Audit Committee shall be apprised of investigations conducted under administrative policy.
- (f) **Requests for Audits.** The Audit Committee is authorized to request supplemental reviews or other audit procedures by the internal auditor, the independent auditor, or other advisors.
- (g) **Approval of Engagements of Audit Firms Other Than the University's Principal External Auditors.** The Audit Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than ~~\$100,000~~ \$25,000 or that may impair the audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in subd. 4 (a) of this policy. Engagements not requiring approval by the Board shall be reported to the Audit Committee at the next scheduled meeting of the committee.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

February 13, 2014

Agenda Item: Overview of the Fiduciary Responsibilities of Non-Profit Audit Committee Members

review review/action action discussion

Presenters: Jay Kiedrowski, Senior Fellow, Public & Non-Profit Leadership Center, Humphrey School of Public Affairs

Purpose:

policy background/context oversight strategic positioning

The purpose of this presentation is educational, enhancing the committee's understanding of best practices in exercising its fiduciary responsibilities. This aligns with the Board of Regents Priorities for 2013-2014 and its desire to improve its effectiveness and adhere to good governance practices.

Outline of Key Points/Policy Issues:

Fiduciary Duty: Governance as Leadership

- I. Represent Citizens of MN
- II. Be a Fiduciary
- III. Authorize and Review Audit
- IV. Advance Mission
- V. Set Policies
- VI. Hire and Hold President Accountable
- VII. Assess Controversial Issues

Background Information:

Traditionally, boards of public and nonprofit organizations have understood their fiduciary responsibility in narrow terms: "Duty of Care, Duty of Loyalty, and Duty of Obedience." Experts now argue that board governance requires more than simple fiduciary duty. The board should be "strategic...shifting from conformance to performance." This entails advancing the mission, setting policies for the organization, and holding the President accountable. The board should also be "generative, discerning problems [and] engaging in sense making." Through these three roles of governance, boards with their chief executive provide true leadership for their organizations.

References:

- Carver, J. & Carver, M. (2001). Carver's Policy Governance Model in Nonprofit Organizations, www.carvergovernance.com/pg.np.htm, 15.
- Chait, R. P., Ryan, W. P., & Taylor, B. E. (2004). *Governance as Leadership: Reframing the Work of Nonprofit Boards*, Hoboken, N. J.: John Wiley & Sons.
- MN Territorial Laws 1851, Chapter 3.
- Pew Fund for Health and Human Services (2007), http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Pew_Fund_for_HHS_in_Philadelphia/Governance%20as%20Leadership%20summary%20final.pdf, 8.

Fiduciary Duty: Governance as Leadership

Board of Regents University of Minnesota

**Jay Kiedrowski
February 13, 2014**

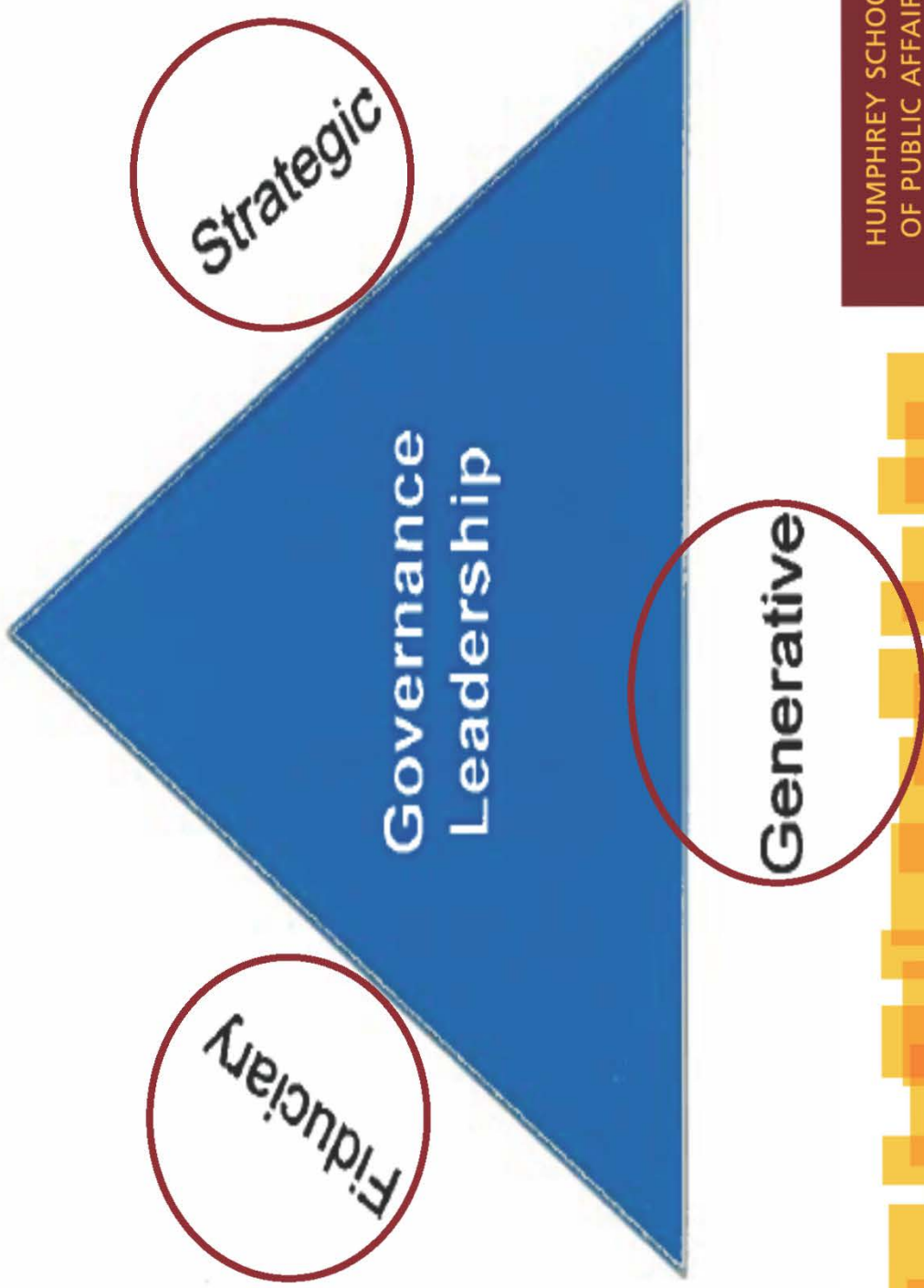
Board Duties

1. Represent Citizens of Minnesota
2. Be a Fiduciary
3. Authorize and Review Audit
4. Advance Mission
5. Set Policies
6. Hire and Hold President Accountable
7. Assess Controversial Issues

1. Represent Citizens of MN

- Under Section 7 of the University Charter the Regents of the University “constitute a body corporate, with the name and style of the ‘Regents of the University of Minnesota.’”
- “Policy Governance demands that boards’ primary relationships be outside the organization---that is, with owners.” **(Carver Governance Model, 2001)**
- “Owners” are the citizens of Minnesota

Governance Triangle



2. Be a Fiduciary

While the Board is not subject to the Minnesota Nonprofit Corporation Act, it is likely that a court would hold the Board members to the same standards of conduct set forth in MN Statute for directors of nonprofit corporations. **(Bill Donohue)**

- **Duty of Care**
 - Be reasonably informed
 - Participate in decisions
- **Duty of Loyalty**
 - Exercise power in interests of organization
- **Duty of Obedience**
 - Comply with laws and organizations governing documents

2. Be a Fiduciary

- Board of Regents have by policy recognized that they have a fiduciary responsibility. **(Bill Donohue)**
- Prevent theft, waste, or misuse of resources;
- Ensure the resources are deployed effectively and efficiently to advance the organizations mission;
- Safeguard the mission against both unintentional drift and unauthorized shifts in purpose; and
- Require that trustees operate solely in the best interests of the organization. **(Governance as Leadership, 2004)**

3. Authorize And Review Audit

- To determine “that the expectations are being met”, audits should be authorized, conducted, and reviewed holding the President accountable.

4. Advance Mission

- “While they [nonprofit boards] face increasing demands to oversee organizations' performance accountability, fiscal integrity and regulatory compliance, they also share a leadership role with agency directors to advance their organizations' missions.”
(**Pew Fund for Health and Human Services,2007**)
- Board of Regents is responsible for the development of the mission of the University and has done so by policy.
(**Bill Donahue**)
- Be “strategic – the board’s attention shifts from conformance to performance.” (**Governance as Leadership, 2004**)

5. Set Policies

- Policies should cover:
 - Ends
 - Governance Process
 - Executive Limitations
 - Board-Staff Linkage.
- Be “generative – Discern problems, engage in sense making.”

(Carver Model, 2001)

(Governance as Leadership, 2004)

6. Hire and Hold President Accountable

- “We recommend that the board use a single point of delegation and hold this position accountable for meeting all of the board’s expectations for organizational performance.”
(Carver Model, 2001)
- “...requires the board (1) to be definite about its performance expectations, (2) to assign these expectations clearly, and then (3) to check to see that the expectations are being met.”
(Carver Model, 2001)
- Do not micro-manage or micro-govern.

7. Assess Controversial Issues

- An addition to the Carver model, the board should assess those controversial issues that are of concern to the regents, staff, students, and/or the citizens to determine any policy changes and/or to advise the President.

Three Types of Governance

	Fiduciary	Strategic	Generative
Key Question	"What's wrong?"	"What's the plan?"	"What's the question?"
Board Focus	Define problems Review performance	Solve problems Shape strategy	Frame problems Engage in sense-making
Board Process	Parliamentary procedure	Logical and empirical discussion	More informal and creative
Problems Are To Be	Spotted	Solved	Framed
Decision Making	Resolution	Reaching consensus	Framing the question
Board Sees Their Role As	Oversight & authority	Strategist	Fresh perspective
Performance Metrics	Facts, figures, finances, reports	Strategic indicators, competitive analysis	Signs of learning and discerning

References

- Carver, J. & Carver, M. (2001). Carver's Policy Governance Model in Nonprofit Organizations, www.carvergovernance.com/pg.np.htm, 15.
- Chait, R. P., Ryan, W. P., & Taylor, B. E. (2004). *Governance as Leadership: Reframing the Work of Nonprofit Boards*, Hoboken, N. J.: John Wiley & Sons.
- Donohue, B. (2013). Email Communication, January 30, 2014.
- MN Territorial Laws 1851, Chapter 3.
- Pew Fund for Health and Human Services (2007), http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Pew_Fund_for_HHS_in_Philanthropy/Governance%20as%20Leadership%20summary%20final.pdf, 8.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

February 13, 2014

Agenda Item: Health Sciences Risk Profile

review review/action action discussion

Presenters: Vice President Aaron Friedman

Purpose:

policy background/context oversight strategic positioning

The Audit Committee for the past two years has structured its work plan around a series of discussions about the risks associated with each of the major operational components of the University. These discussions provide the Audit Committee with the administration's views on the risks facing the University and those risks deemed by the administration to be significant to the achievement of the University's strategic goals.

In this discussion, Vice President for Health Sciences Aaron Friedman will provide an overview of risks facing the University's health sciences and will discuss the current and planned efforts to mitigate those risks.

Outline of Key Points/Policy Issues:

The Academic Health Center (AHC) comprises six schools and colleges (Dentistry, Medicine, Nursing, Pharmacy, Public Health, and Veterinary Medicine) and more than 20 inter-professional centers and institutes. It has 6200 students in 62 degree programs (professional, graduate, and undergraduate). It has 1400 faculty and nearly 7,500 employees overall. Its budget is \$1.6 billion if UMPHysicians, the Medical School's faculty practice organization, is included. The AHC's faculty conducts over \$400 million in health research annually and provides care to nearly 1 million patients.

While the AHC shares many of the risks identified by other parts of the University (Research, Human Resources, Information Technology, University Operations, and Finances), the AHC's risk profiles are compounded by the interrelationships between the AHC's clinical, research, and education missions.

The presentation will outline the risk profiles in each of the missions as well as those risks that cut across them. These include: the sustainability of the health sciences school business models; technology and informatics infrastructure; HIPAA/HITECH and information privacy/security; management information for quick decision-making; and organizational agility to respond to the highly competitive clinical and research market.

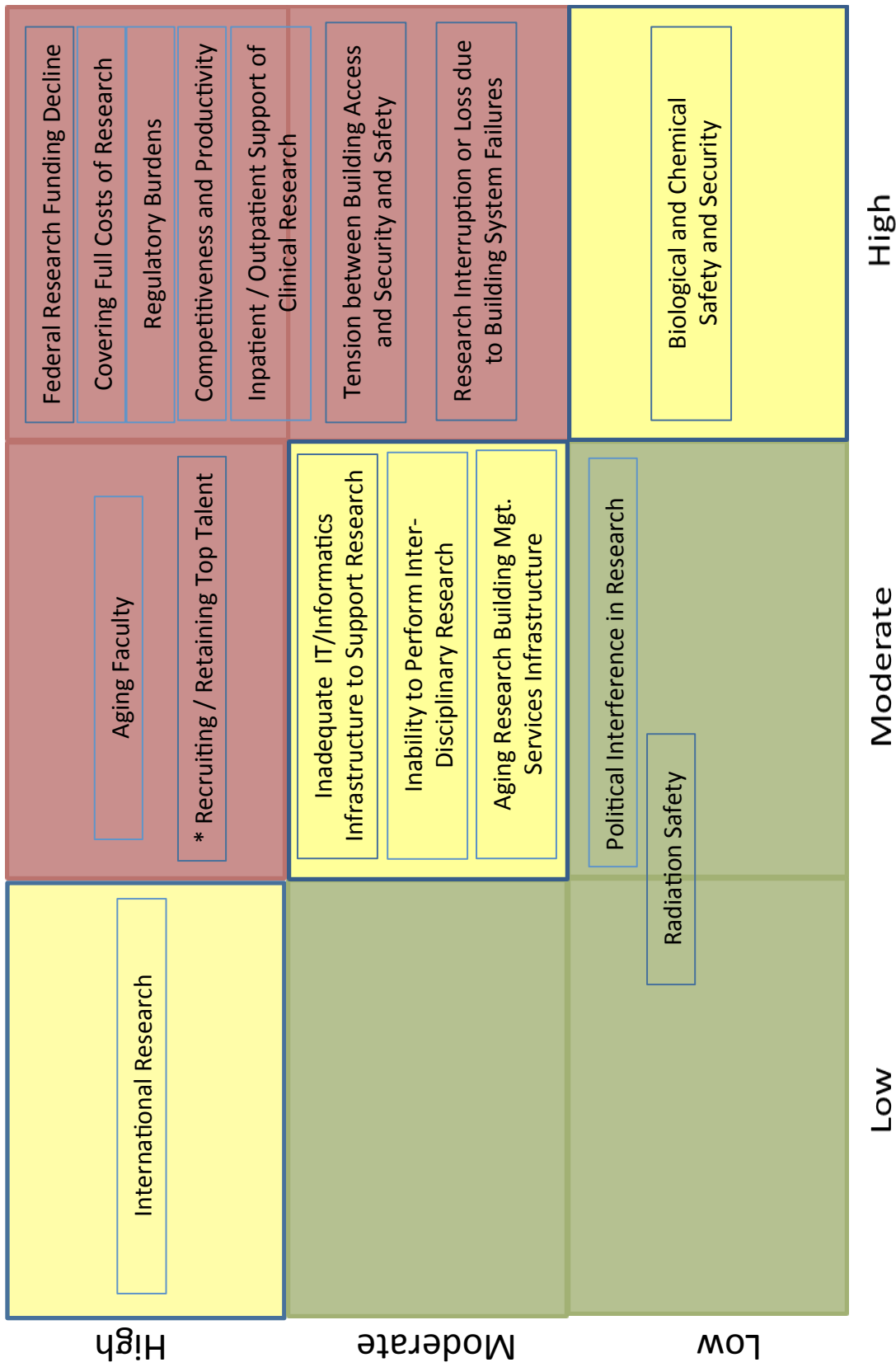
Background Information:

At its February 11, 2011 meeting, the Board expressed support for the Strategic Risk Management Work Group's operational strategy and risk principles that provided a framework to guide the University community toward a more strategic risk management approach across all aspects of its operations.

Previous risk discussions by the Audit Committee include:

- Research (December 2012)
- Human Resources (February 2013)
- Information Technology (May 2013)
- University Operations (June 2013)
- University Finances (September 2013)
- Intercollegiate Athletics (December 2013)

ACADEMIC HEALTH CENTER – RESEARCH RISK PROFILE

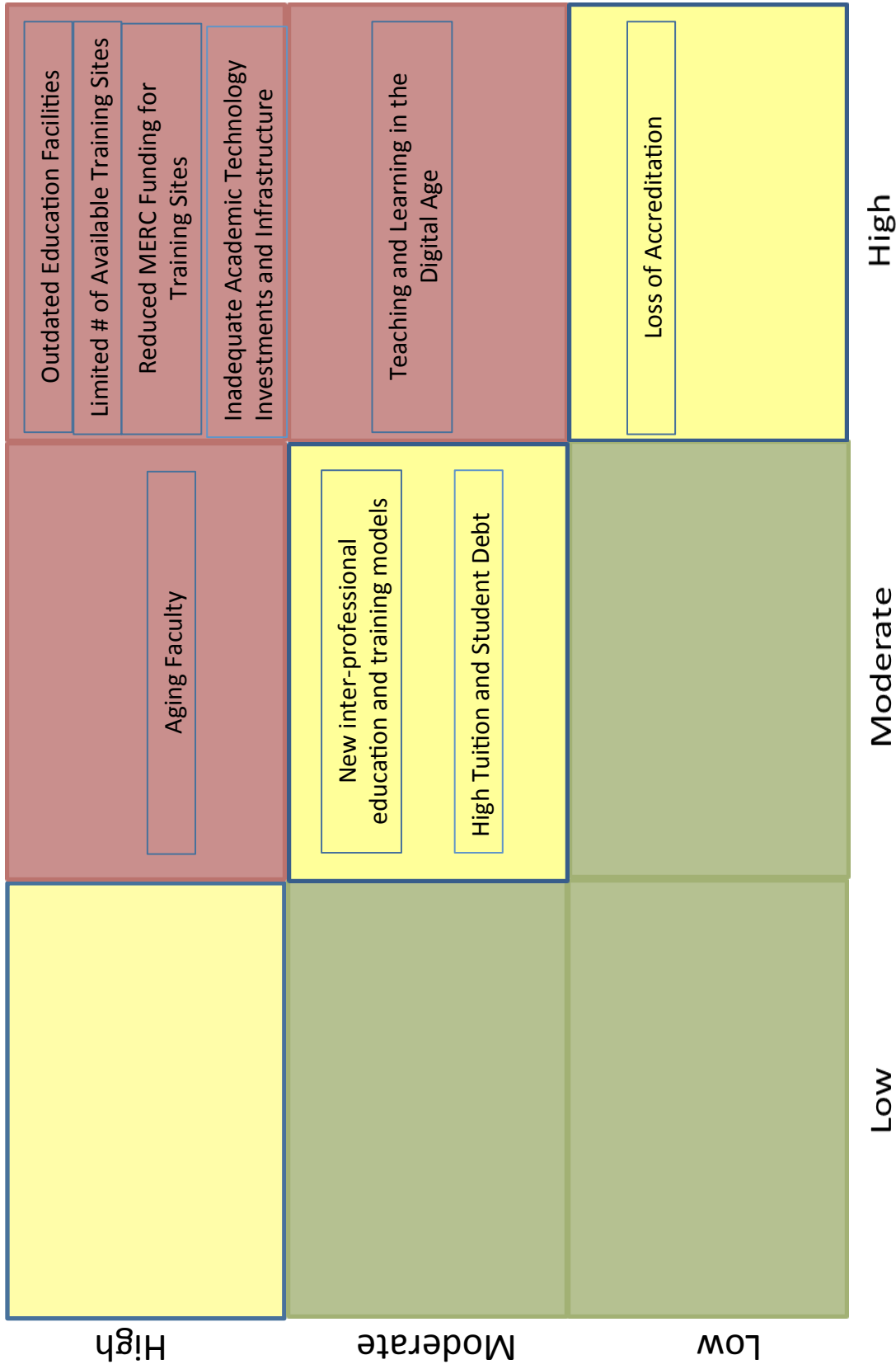


LIKELIHOOD ²²

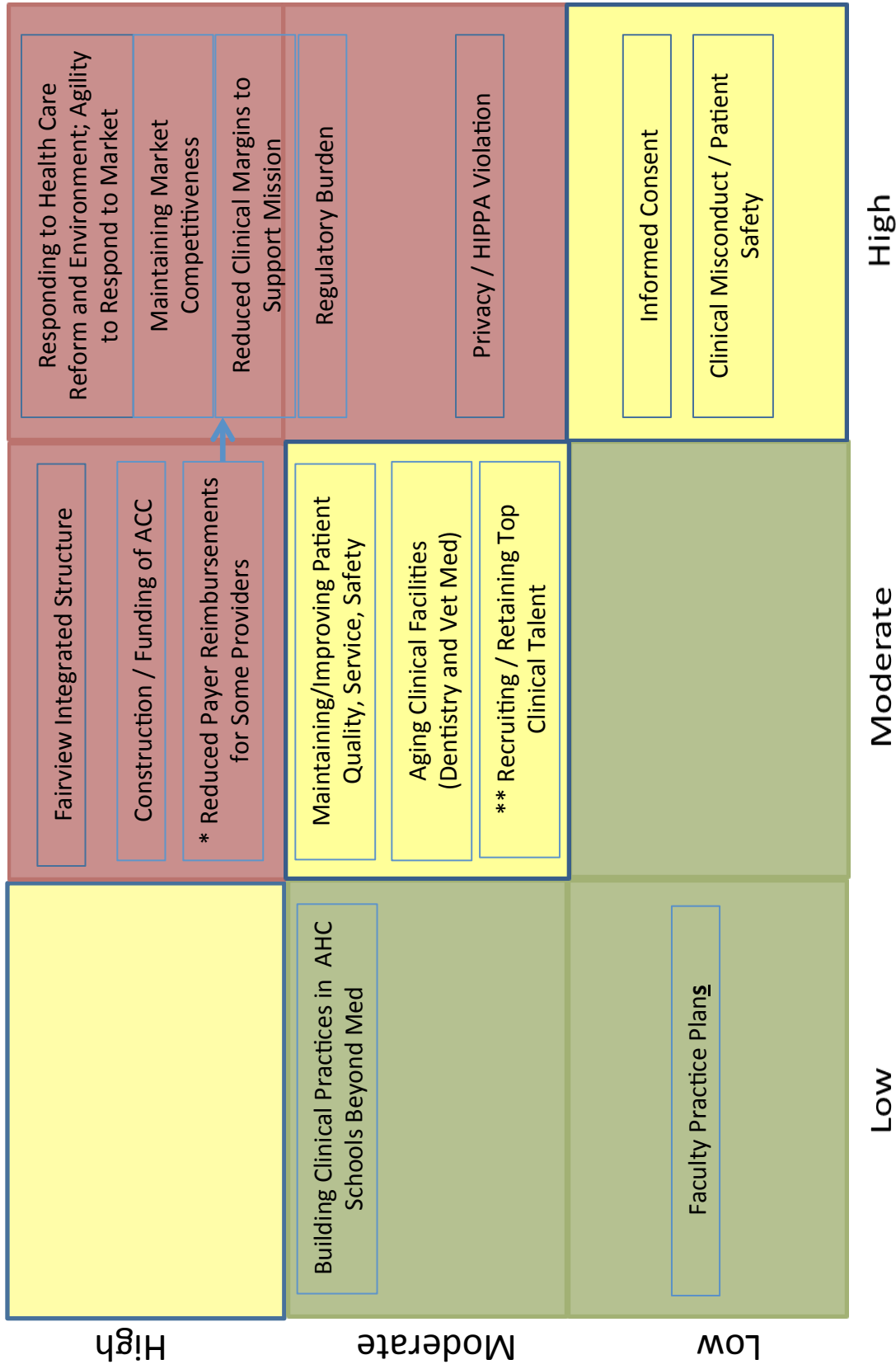
*Varies from school to school, by areas of need.

IMPACT

ACADEMIC HEALTH CENTER – EDUCATION RISK PROFILE



ACADEMIC HEALTH CENTER – CLINICAL RISK PROFILE

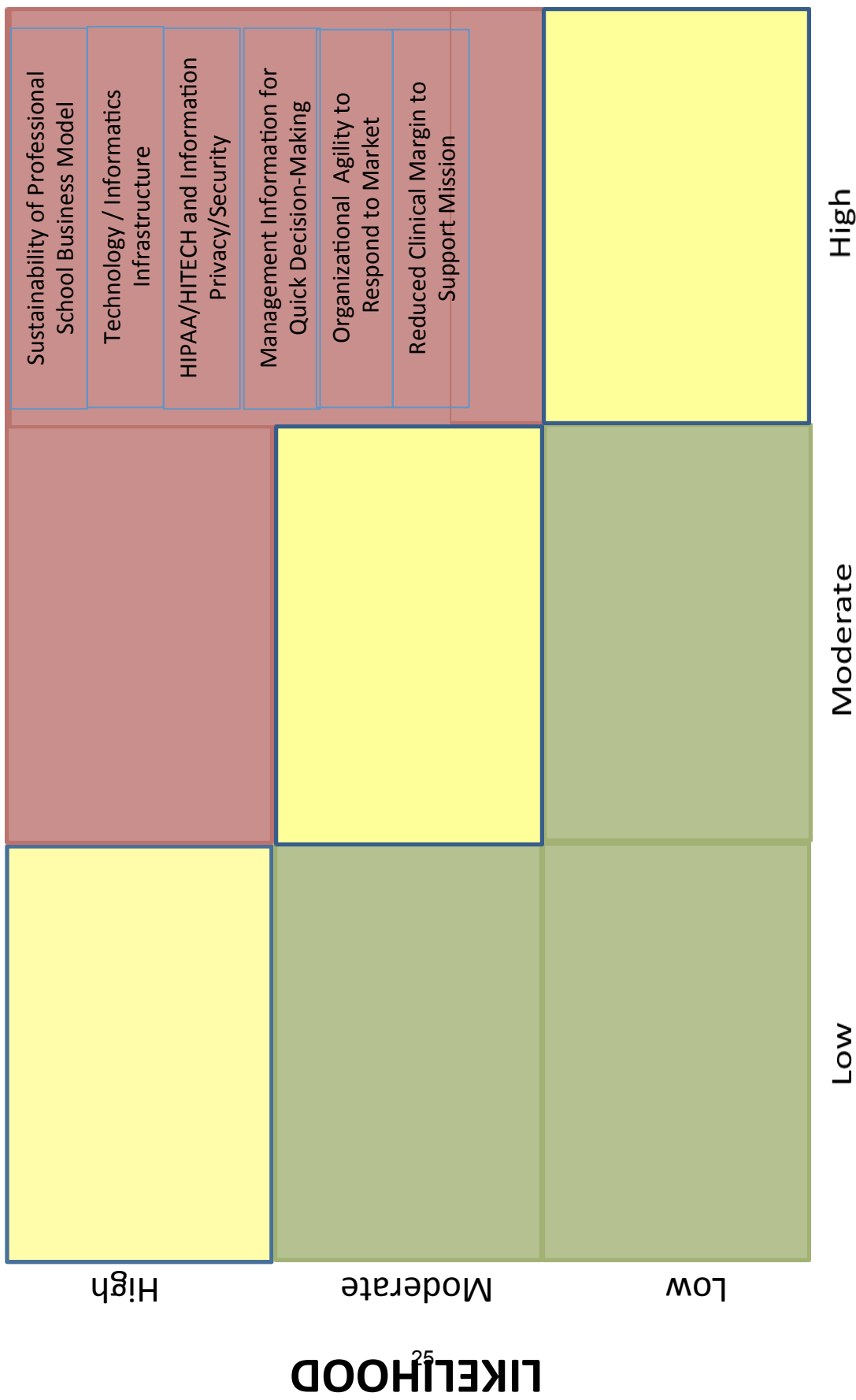


*Payer reform could differentiate between primary & specialty.

** Loss of key clinical talent poses risk to research enterprise.

IMPACT

ACADEMIC HEALTH CENTER – RISKS CUTTING ACROSS MISSION





UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

February 13, 2014

Agenda Item: Compliance Risk Profile

review review/action action discussion

Presenters: Lynn Zentner, Director, Institutional Compliance

Purpose:

policy background/context oversight strategic positioning

The Audit Committee work plan is structured around a series of discussions of risks associated with each of the major operational components of the University. These discussions provide the Audit Committee with the administration leadership's views on the risks facing the University and those risks deemed by the administration to be significant to the achievement of the University's strategic goals. This is the eighth discussion in the series.

This discussion will focus on the regulatory risks associated with institutional compliance at the University of Minnesota.

Outline of Key Points/Policy Issues:

The Director will briefly review the risk assessment process, completed by University compliance professionals last fall, and then present an institutional compliance inherent risk heat map based on regulatory risks. The risks categorized in high risk areas on the heat map have also been assessed for residual risk.

Background Information:

At its February 11, 2011 meeting, the Board expressed support for the Strategic Risk Management Work Group's operational strategy and risk principles provided a framework to guide the University community toward a more strategic risk management approach across all aspects of its operations.

Throughout FY 2013 the Audit Committee has reviewed and discussed the risks associated with each of the major operational components of the University. Previous risk discussions by the Board of Regents Audit Committee include:

- Research (December 2012)
- Human Resources (February 2013)
- Information Technology (May 2013)
- University Operations (June 2013)
- Finance (September 2013)
- Intercollegiate Athletics (December 2013)

INSTITUTIONAL COMPLIANCE RISK PROFILE

FEBRUARY 13, 2014

Introduction

The Institutional Compliance Risk Profile reflects the results of a risk assessment process completed by the University's Compliance Partners last fall at the request of the University's Compliance Office. In contrast to the risk profiles presented by other University senior offices which spoke to strategic, operational, and business risk, the Compliance Risk Profile focuses solely on regulatory risks managed within the University. A glossary has been included with the Risk Profile, providing more detailed descriptions for the risk areas presented on the Profile. This Profile also reflects those regulatory risk areas for which compliance professionals concluded that the University can reduce burden and still remain compliant as well as those risk areas that are co-owned or shared among Compliance Partners.

The Regulatory Risk Assessment Process

Staff of the Compliance Office met with the Compliance Partners and senior leaders on separate occasions during the summer and early fall of 2013 to discuss the need for and purpose of an institutional risk assessment and the proposed process to be used for this initiative. Consensus for this initiative was reached and the fall of 2013 was devoted to this effort.

Compliance Partners were asked to provide the following information:

- The key statutes and regulations governing their compliance risk areas together with a list of key provisions;
- The consequences associated with non-compliance;
- Whether the related administrative policies met, did not meet, or exceeded regulatory requirements;
- For higher risk areas, whether a monitoring approach was in place to evaluate risk on an on-going basis;
- The probability of a compliance failure and the impact of that failure should it occur;
- Considering both the probability of a compliance failure and the related impact, an assessment of the total level of risk as either high, medium or low;
- Whether the risk is owned or shared by more than one compliance area; and
- Whether there is an opportunity to reduce burden and, at the same time, remain compliant with the regulatory requirements.

The Compliance Office provided the Compliance Partners with instructions that would assist them in responding to each area of inquiry. For example, with respect to "Probability of Occurrence" we suggested they consider the following approach:

- High probability: the likelihood that a failure will occur multiple times a year
- Medium probability: the likelihood that a failure will occur once per year
- Low probability: the likelihood that a failure will occur once every ten years

The Compliance Partners were asked to evaluate risk from an “inherent risk” perspective, in other words, that level of risk that exists if no controls are in place.

Once the risk assessments were submitted by the Compliance Partners, the Compliance Office plotted each of the 30 risk areas on the Risk Profile template based on the provided information. Fourteen of the 30 risk areas are rated “medium” and eight are rated “high”. Of the eight designated “high risk,” only three are rated at the highest level of risk. Those three areas are noted by the asterisks below.

Medium Risk Areas

Athletics – Duluth	Food Safety
Biosafety	HIPAA
Clinical Billing	International Activities
Disability Access	International Sales Organizations
Environmental Health and Safety	IT Security
Equal Opportunity and Affirmative Action	Occupational Health and Safety
Export Controls	Title IX

High Risk Areas

Animal Research	Effort Reporting
Athletics – Twin Cities*	Human Subjects Research/Clinical Trials*
Clery Act	Sponsored Research – Cost Transfers*
Conflict of Interest	Tax Exempt Bonds and Private Use

For those compliance areas whose risks were evaluated as “high” the Compliance Partners were asked to evaluate them from a residual risk perspective; in other words, the level of risk that remains after controls are in place (i.e., training, monitoring for compliance with policies and regulations, etc.). All but one reflects overall reduced risk once controls are in place. A Risk Profile reflecting residual risk will be provided during the February 13 meeting of the Audit Committee.

The Volume of Statutory and Regulatory Requirements and Whether They Are Shared Across Compliance Partners

The Compliance Office was interested in determining the volume of statutory and regulatory schemes that apply to the University and learned that hundreds do. The numbers ranged from a low of three for Copyrights, Disability Services and the Family Educational Rights and Privacy Act to a high of 255 for Human Resources. We were also interested in determining how many Compliance Partners share risk areas. We learned that many do.

The Opportunity to Reduce Burden

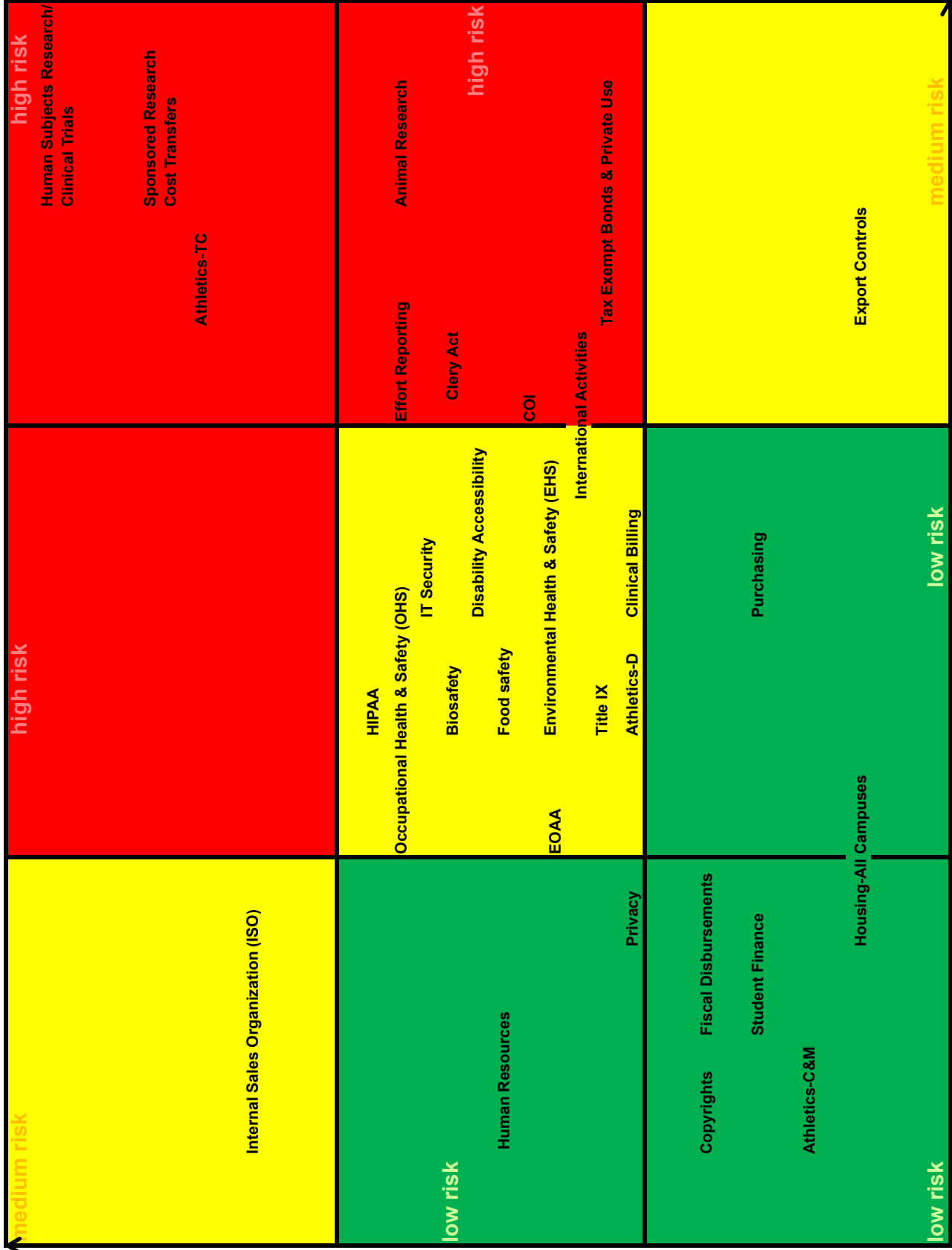
Of the 30 key risk areas, the Compliance Partners report that the opportunity to reduce burden exists in the following nine risk areas: Clinical Billing by the Community University Health Care Center, Environmental Health and Safety, Human Resources, International Programs, Occupational Health and

Safety, Public Safety in Duluth and the Twin Cities, Research, and the Health Insurance Portability and Accountability Act (HIPAA) (Privacy only).

Next Steps

We are engaged in conversations with the Compliance Partners and senior leaders about future monitoring efforts. In addition, we will follow up with each Compliance Partner who reported an opportunity to reduce burden to determine what those efforts will be.

INSTITUTIONAL COMPLIANCE INHERENT RISK HEAT MAP



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HEAT MAP GLOSSARY

Risk Area	Description of the Risk
Athletics C, D and M	Refers to Athletics at the Crookston, Duluth and Morris system campuses.
Biosafety	Refers to the practices, procedures, and use of equipment needed to ensure adequate safety conditions in facilities that work with potentially infectious microorganisms and other biological hazards. The offices of Occupational Health and Safety and Environmental Health and Safety share responsibility in this area.
Clery Act	Governs how institutions of higher education report on and work to prevent crimes on campus. Recent revisions to the law include additional requirements about the contents of sexual misconduct policies and procedures.
Clinical Billing	Pertains to the Medicare and Medicaid billing done by Boynton Health, the Dental Clinics, and the Community University Health Care Center (CUHCC) for the medical services provided by these entities.
Copyright	<p>Includes “fair use” issues and the Digital Millennium Copyright Act.</p> <ul style="list-style-type: none"> • “Fair use” pertains to the purpose and nature of the use of copyrighted materials. The Copyright Permissions Center, which is part of University Libraries, provides assistance to faculty and staff in determining when permission must be obtained from the author of the work. • The Digital Millennium Copyright Act, enacted in 1998, updated U.S. copyright law to meet the demands of the Digital Age and conform U.S. law to the requirements of the World Intellectual Property Organization and treaties signed by the U.S. in the late 1990’s. The law made no changes to the “fair use” doctrine or other user privileges and rights.
Cost transfers in sponsored research	Refers to transferring incurred costs on sponsored research projects from one expenditure cost center to another. These cost transfers are allowed only in a small number of defined circumstances.
Disability Accessibility	Refers to equitable access for students, faculty, staff, and guests with disabilities in the learning, working, and co-curricular environments as mandated by the Americans with Disabilities Act as Amended (2008) and Section 504 of the Rehabilitation Act of 1973.
Effort Reporting	Requires faculty and staff paid on sponsored research projects to certify the accuracy of the time spent on these projects. “Effort” is defined as the proportion of time spent on an activity and is expressed as a percent of the total activity for which an individual is compensated by his/her institutional base salary.
Environmental Health and	Includes Biosafety; Ergonomic Resources; Environmental Compliance; Hazardous Waste; Food, Water & Housing; Indoor Air Quality, Industrial Hygiene and Safety;

HEAT MAP GLOSSARY

Safety	Radiation Protection; Research Safety, and the shipping of biological materials, dry ice, radioactive materials, and hazardous materials.
EOAA	Refers to the Office of Equal Opportunity and Affirmative Action which addresses the following forms or discrimination: age, disability, gender, marital status, national origin, public assistance status, race and color, religion and creed, sexual orientation, gender identity and expression, and veteran status. The Office also addresses sexual harassment, pay equity, retaliation, nepotism, consensual relationships, and Title IX. The latter is separately defined below.
Export Controls	Pertains to laws and regulations that require federal agency approval before the export of controlled items, commodities, technology, software or information to restricted foreign countries, persons and entities, including universities.
Food Safety	Refers to the enforcement of food preparation and service standards to prevent contamination of foods served at University venues.
Grant Accounting	Includes Internal Sales Organizations, effort reporting, and cost transfers. Each is evaluated separately on the heat map and included in the broader category of “research”.
HIPAA	Refers to the Health Insurance Portability and Accountability of 1996 which resulted in the development of regulations protecting the privacy and security of certain health information. The regulatory framework has both a Privacy Rule and a Security Rule. The office that oversees the University’s compliance with the Privacy Rule is housed in the Medical School. The office that oversees the University’s compliance with the Security Rule is housed in IT.
Human subjects research/clinical trials	In the context of “Human Subjects Research,” refers to a systematic investigation that can either be solely research-focused or that is clinically oriented with both involving human subjects. In the context of a “clinical trial,” refers to research that studies how a particular medicine or other treatment works in people.
ISO’s	Refers to an Internal Sales Organization which involves the sale of goods or services by one University department to another. Although the Internal/External Sales Department sits in the Controller’s Office, the compliance risk/failure typically arises in the research context as very specific “charging” rules apply in the context of sponsored projects.
International Activities	Pertains to the globalization of teaching, learning, research, and engagement and the tax ramifications of these initiatives and activities.
Occupational Health and Safety (OHS)	Includes the following programs: Animal Allergen Exposure Control Program, Bloodborne Pathogen Exposure Program, BSL-3 Medical Surveillance Program, Drug and Alcohol Testing Program, Hearing Conservation Program, Research

HEAT MAP GLOSSARY

	Occupational Health Program, and the Respiratory Protection Program.
Privacy	Includes the Minnesota Government Data Practices Act (MGDPA) and the Family Educational Rights and Privacy Act (FERPA). The MGDPA, which applies to University records, creates a presumption that state and local government records are accessible to the public unless a statute or rule provides otherwise. FERPA is a Federal law that protects the privacy of student education records. It applies to all schools that receive funds under an applicable program of the U.S. Department of Education.
Tax Exempt Bonds & Private Use	Refers to the legal parameters associated with the issuance of tax-exempt bonds. As a governmental entity, the University qualifies for the issuance of tax-exempt bonds that offer the purchasers the advantage of tax-exempt interest. In order to retain tax-exempt status of the bonds, however, the University must use the funds, and any facilities financed by the funds, in accordance with IRS regulations. One important and often difficult to implement condition is that any bond financed facility may not be used for more than minimal “private business use” as defined by the IRS.
Research	Refers to multiple risk areas in the research context, including grant accounting (Internal Sales Organizations, effort reporting, and cost transfers), human subjects research, clinical trials, animal research, biosafety, and export controls.
Title IX	Although broader in scope, this statute’s most notable provision is the one that requires equal opportunity for women in athletics.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

February 13, 2014

Agenda Item: Internal Audit Update

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations to help the Committee fulfill its fiduciary responsibilities under its reserved authority for oversight of the internal audit function, as outlined in the Audit Committee charter.

Outline of Key Points/Policy Issues:

- Since our last follow-up for the September 2013 meeting 36% of the outstanding recommendations rated as “essential” were implemented by University departments. This is slightly less than our expected implementation rate of 40%. Five units fully implemented all their remaining “essential” recommendations.
- An updated control evaluation chart is included for each audit to show progress made on the “essential” items.
- Nine audit reports containing eleven recommendations rated as “essential” were issued in the last five months.

Background Information:

This report is prepared three times per year and is presented to the Audit Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

Internal Audit Update

University of Minnesota Regents Audit Committee
February 13, 2014

This report includes:

- Audit Observations/Information/Status of Critical Measures/Other Items
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since September 2013

Details for any of the items in this report are available on request. Individual reports were sent to the President, Provost, Vice Presidents, and Chancellors about these internal audit issues.

Audit Observations/Information

Status of Critical Measures

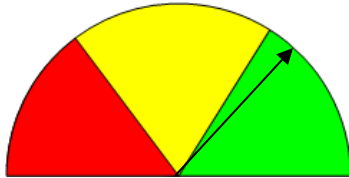
As part of our on-going efforts to provide the Audit Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snapshot” status report on work performed by the Office of Internal Audit.

The first chart, “Essential Recommendation Implementation”, provides our overall assessment of the success University departments had during the last quarter in implementing our essential recommendations. Readings in the yellow or red indicate implementation percentages less than, or significantly less than, our expected University-wide rate of 40%. Detailed information on this topic, both institution-wide and for each individual unit, is contained in the next section of this Update Report.

The second chart, entitled “Progress Towards Annual Audit Plan Completion”, is our assessment of how we are progressing towards completion of the FY 2014 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

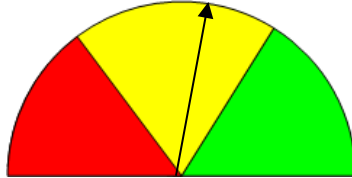
The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings in the yellow or red may result in seeking Audit Committee approval for modifying the Annual Audit Plan.

Essential Recommendation Implementation



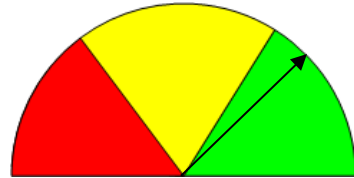
Implementation rates were 36% for the period, only slightly less than our expected rate of 40%.

Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2014 audit plan is less than what was expected and budgeted. One vacant auditor position is still being held open, as discussed with the Audit Committee at its June 2013 meeting. An additional open position is in the process of being filled.

Time Spent on Investigative Activities



Time spent on investigative activities and special projects is slightly more than what was expected and budgeted for the year to date. However, several large special projects (requested audits) are now either complete or nearly completed.

Status of "Essential" Recommendations as of January 31, 2014

Report Date	Audit (P) Indicates a University process audit	Original Report Control Rating	# of Essential Recommendations in the Report	# of Essential Recommendations Remaining From Prior Quarter	Current Quarter Results						Overall Progress Towards Implementation*
					Implemented		Partially Implemented		Not Implemented		
					Not Past Target Date	Past Target Date	Not Past Target Date	Past Target Date	Not Past Target Date	Past Target Date	
<i>Audits > 2 years old (see the following report for details on unresolved issues)</i>											
Aug-09	School of Dentistry	Adequate	11	2				2			Satisfactory (a)
May-11	Boynton Health Services	Adequate	10	1	1						Completed
Oct-11	UMD School of Fine Arts	Adequate	10	2				1			Satisfactory
Nov-11	Intercollegiate Athletics	Needs Improvement	5	2				2			Satisfactory
Feb-12	Dentistry - axiUm System (P)	Adequate	14	2				2			Unsatisfactory (b)
Feb-12	University Contract Management (P)	Adequate	17	3	2			1			Satisfactory
<i>Audits < 2 years old; have received prior follow-up</i>											
Sep-12	Vendor Payment & Imaging Process (P)	Good	1	1				1			Satisfactory
Dec-12	Network Segments Not Managed By OIT	Adequate	5	5				3		2	Satisfactory
Jan-13	UMD Recreational Sports Outdoor Program	Good	5	1	1						Completed
Apr-13	Student Registration Processes U-Wide (P)	Good	1	1			1				Satisfactory
May-13	UM - Rochester Campus	Good	4	1	1						Completed
May-13	Travel & Employee Reimbursements (P)	Good	1	1				1			Satisfactory
May-13	UMD - College of Liberal Arts	Adequate	6	6				2			Satisfactory
Jun-13	Lab Safety Process Review (P)	Adequate	1	1	1						Completed
Jun-13	Office of Technology Commercialization	Good	3	3	3						Completed
Jun-13	Research Data Storage (P)	Adequate	5	2						2	Satisfactory
<i>Audits receiving first-time follow-up</i>											
Aug-13	Employee Benefits - Retirement Plans (P)	Adequate	2	2	2						Satisfactory
Total:			101	36	13	5	13	0	5		

* The following bar charts provide details on progress made towards implementation

- (a) Issues pertaining to Dentistry's Faculty Practice Plan remain, but management continues to make progress on this issue. Details are provided in the following report of "Issues Greater Than Two Years Old".
- (b) Significant concerns exist regarding Dentistry's inability to adequately reconcile their axiUm clinical system to the University general ledger. Details are provided in the following report of "Issues Greater Than Two Years Old".

"Essential" Recommendation Implementation Trends

Month / Year of Follow-up Report

	Feb. 2014	Sept. 2013	June 2013	Feb. 2013	Sept. 2012	June 2012	Feb. 2012	Sept. 2011	June 2011	Average
# of Essential Recommendations Receiving Follow-up	36	64	56	67	72	89	82	78	57	67
# of Recommendations Considered Fully Implemented	13	30	13	26	16	26	55	12	16	23
Implementation Percentage	36%	47%	23%	39%	22%	29%	67%	15%	28%	34%

Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented

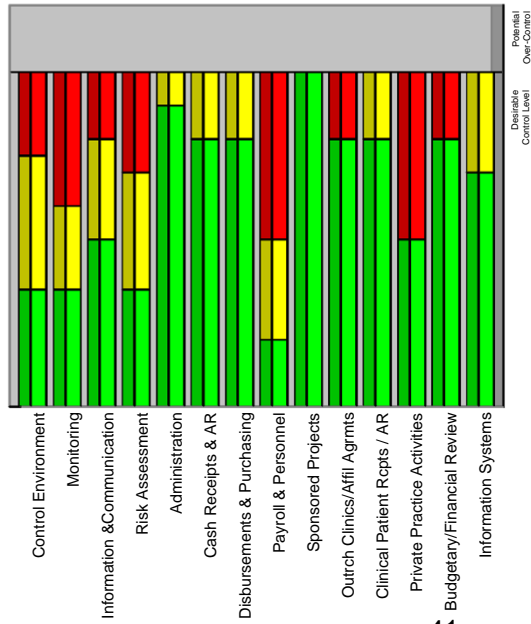
Audit/ Report Date	Status-Partially Implemented (P) or Not Implemented (N)	Senior Management Contact	Summary of the Issue/Risk Involved	Current Comments From Management
School of Dentistry Aug-09	P	Jeff Ogden Leon Assael	Dentistry administration should continue their efforts to implement changes to the FPC to improve revenue generation and financial performance. Dentistry should continue working with the AHC and the Board of Regents (as needed) to determine if the compensation model and Board of Regents policy for the Dentistry practice plan should be modified.	<p>The School of Dentistry continues to develop a well regulated faculty practice plan under the approved Regents policy and the supporting administrative processes. The financial results for the faculty practice located in PWB continue to improve and additional faculty practitioners have been added to better utilize the existing space. Faculty members operate under approved faculty practice plans.</p> <p>The external Oral Surgery faculty practice (MOSPA) will no longer operate within the School of Dentistry, effective March 1, 2014. The Oral Surgery faculty moved into the internal faculty practice and we expect significant revenue gains from that transition. This is a very significant step as the former outside practice, under a separate corporation, had been in operation for over twenty years.</p> <p>On an overall basis the faculty practice plans cover the overhead associated with the plans and we expect that the growth of these plans, especially in pediatric dentistry and orthodontics will provide improved capability to attract well qualified faculty and provide a reasonable return for the School.</p> <p>See comments above on the changes made to date and the ongoing implementation of the new faculty practice plan model.</p>
# of Items 2	P	Jeff Ogden Leon Assael	The practice of paying the faculty private practitioners prior to the recovery of overhead should be discontinued.	
UMD School of Fine Arts Oct-11	P	William Payne Bilin Tsai	Glensheen should update and expand its inventory records with the ultimate goal of having a complete record of the entire collection. Periodically, the presence and location of inventory items should be verified on at least a sample basis.	According to the interim director of Glensheen, the request for proposal was sent out and a firm has now been selected to conduct an inventory of Glensheen's collection. Work on the inventory will commence soon.
# of Items 2	N	William Payne Bilin Tsai	Glensheen management should work with Accounting Services to develop procedures for reporting the value of its collection.	Efforts to appraise the collection will commence after the inventory has been completed.

<p>Intercollegiate Athletics Financial Nov-11</p>	<p>P</p>	<p>Norwood Teague</p>	<p>Athletics management should review season comp/discounted ticket policies and procedures to address the issues noted below:</p> <ul style="list-style-type: none"> •Review criteria for Athletics department employees receiving season comp/discounted tickets for each sport. •Establish criteria for other University staff receiving season comp/discounted tickets. •Review criteria for retired Athletic department employees or other retired University staff receiving season comp/discounted tickets (job title, years of service, etc.). • Review criteria on how preferred seating points will be awarded, if at all, to Athletics staff who receive comp/discounted tickets. 	<p>The athletics comp ticket policy is being revised and finalized under the direction of the new athletic director, Norwood Teague. The plan is to have this policy in place prior to the distribution of athletic staff season tickets in August 2014.</p>
<p># of Items 2</p>	<p>P</p>	<p>Norwood Teague</p>	<p>Athletics management should establish procedures to formally review and approve lists of season comp/discounted ticket recipients for the three major revenue sports.</p>	<p>See comments made above on changes made to date.</p>
<p>Dentistry - axiUm System Feb-12</p>	<p>P</p>	<p>Jeff Ogden Leon Assael</p>	<p>Reporting and oversight mechanism should be enhanced to ensure completeness, accuracy, consistency, and timeliness of the admissions, registration, treatment, and approval processes. In particular, completeness of electronic records, verification of insurance, confirmation of appropriate registration status, validation of charges for visits and services, and approval of treatment records should be periodically reviewed to identify concerns. Action should be taken promptly when concerns are identified.</p>	<p>Since the last update and attempts at resolving this recommendation, the School has determined that auditing 16 charts per week with a part-time auditor is not sufficient. The sample size was too small and also was not going to be able to promptly address concerns when they were identified. In order to address the recommendations to a sufficient level, a new salary line was approved and the position of "Dental Compliance Specialist" has been created. HR is in the process of posting the position on the University website. This position will work full-time to address the recommendations. This position will report to the Quality Assurance Director. The position will ensure that any deficiencies in registration, treatment documentation, charging and billing are reported, and will work with the QA director to address them in a timely manner. In addition to support from the Quality Assurance Director, this position will have the full support of the Clinical Associate Dean and Patient Financial Services Manager in correcting billing and charging errors, and providing solutions, controls and remedies for non-compliance with standards as outlined in the recommendation.</p>

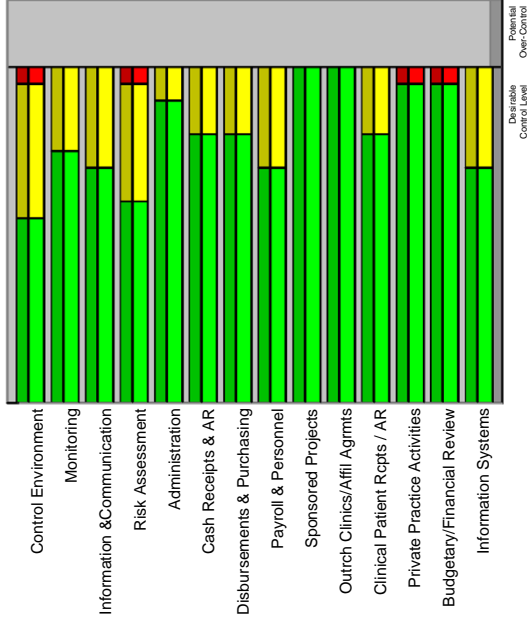
<p># of Items 2</p>	<p>P</p>	<p>Jeff Ogden Leon Assael</p>	<p>Dentistry should investigate the \$8,642 difference between axiUm accounts receivable and the general ledger. Going forward, the reconciliation between axiUm accounts receivable to the general ledger should be completed monthly. Any errors or reconciling items should be investigated and corrected timely. Oversight to ensure completeness and timeliness of reconciliations should be established. Discrepancies between the axiUm aging report and the patient detail accounts should also be investigated. Dentistry should determine whether any processes (i.e., held payments, unapplied adjustments, etc.) need to be modified based upon their findings.</p>	<p>The School continues to reconcile axiUm to the GL monthly. The new tools created to facilitate more timely and accurate reconciliations are not fully adequate to the task of balancing every month. In consultation with Jeff Ogden, CAO and Todd Thierer, Associate Dean, Clinic Administration and Patient Care, the School has hired an accounting consultant from Robert Half - Salaried Professionals Division. This is the same company Central Accounting, Central A/R and other University units use for similar projects.</p> <p>Consultant duties will be as follows: The way in which certain axiUm transactions and activities are recorded and stored is very different from an accounting process. As a result, it creates difficulty in reconciling to the GL. The consultant will create an initial assessment so that we can know what the process will entail and what it is likely to cost. The assessment will outline what information they would need and what the role of IT and Billing/Finance would be.</p> <p>Ultimately, the accounting consultant will analyze our practice management system and dissect the A/R activity through the lens of an accountant and accounting protocols. The objective is to point to where or how transactions are reported and should be handled in axiUm and/or the GL and come up with a day to day/monthly workable process to ensure we are balanced. There may be reports that can be created in axiUm to make this possible, and there may be reports and tools that will need to be created with axiUm IT development staff. The consultant will have the support of axiUm IT and Patient Financial Services to ensure they have the knowledge and tools necessary to accomplish these goals.</p>
<p>40 University Contract Management Feb-12</p>	<p>P</p>	<p>Tom McGinnis Norwood Teague</p>	<p>Athletics should ensure that adequate information is obtained, documented, and regularly monitored regarding:</p> <ul style="list-style-type: none"> Expenses incurred for Learfield's on-air talent. Advertising time to be provided by Learfield (which should be valued \$100,000 annually) solely for the promotion of the University, athletic departments, or ticket sales. Expenses for obtaining permits, licenses, and bonds to comply with pertinent laws and regulations. <p>Additional royalty of 50% of combined AGR (Adjusted Gross Revenue as defined by the contract) that exceeds the "hurdle" levels as set forth by the contract.</p>	<p>Athletics has reported they will work to proactively track the usage of the \$100,000 of complimentary advertising dollars granted to the University in the Learfield Broadcasting Contract. In addition to internally tracking the usage, Athletics will work to ensure the University takes full advantage of this benefit and does not leave dollars unspent to the best of their ability.</p>
<p># of Items 1</p>	<p>Total: 9</p>			

The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and the current status of the "essential" recommendations only (those bars that have red segments). The chart in the center column displays the status as of September 2013, while the chart on the right represents the current status. Charts are not presented for investigations. Charts for those units having implemented all "essential" recommendations during the current quarter are shown at the end of this report.

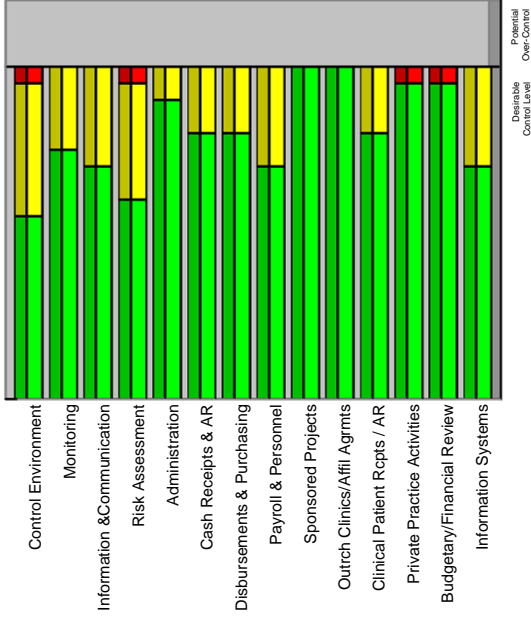
Original Report Evaluation



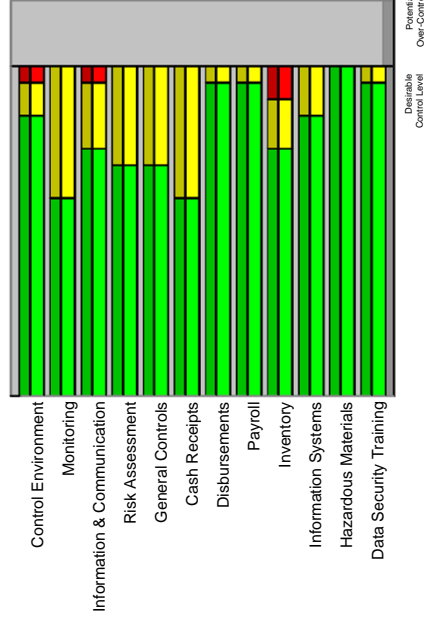
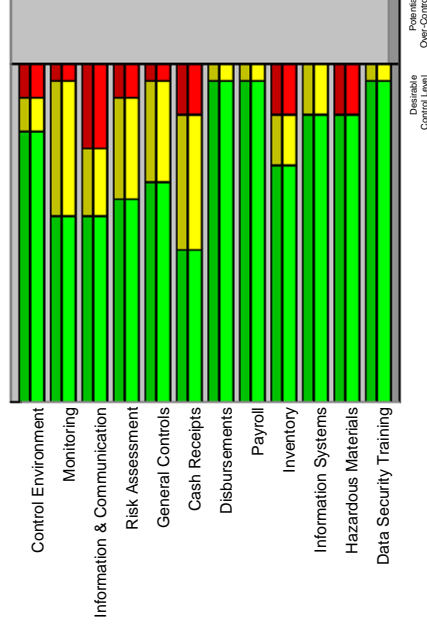
Previous Quarter Evaluation
School of Dentistry (August 2009)



Current Quarter Evaluation



UMD School of Fine Arts (October 2011)



Adequate Control

Significant Control Level

Critical Control Level

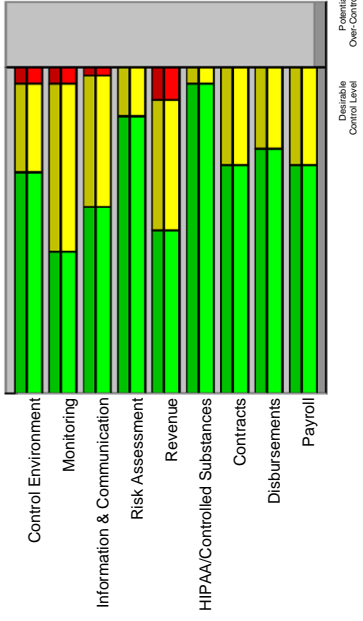
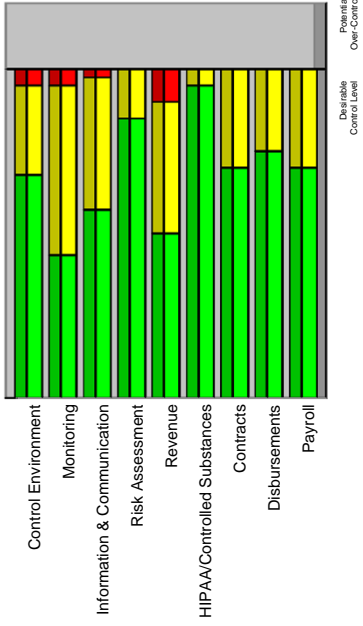
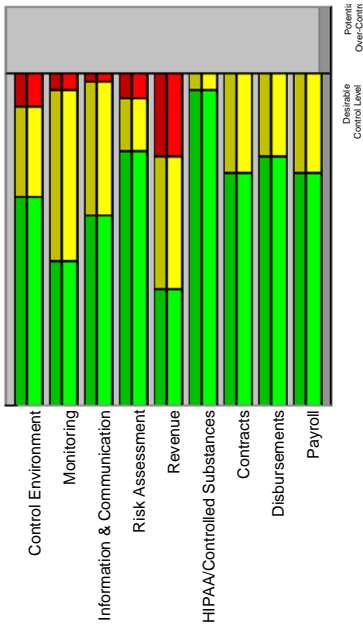
Potential Over-Control

Original Report Evaluation

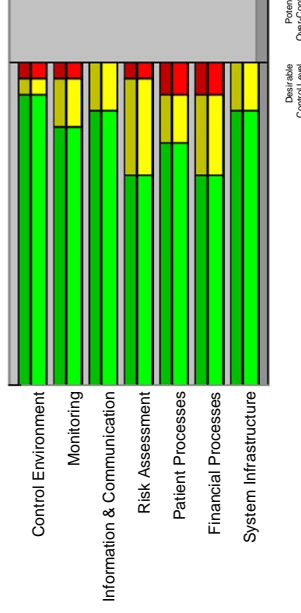
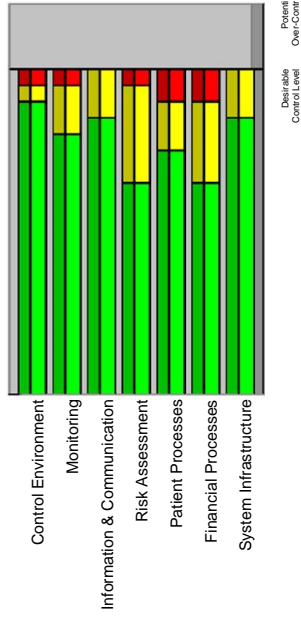
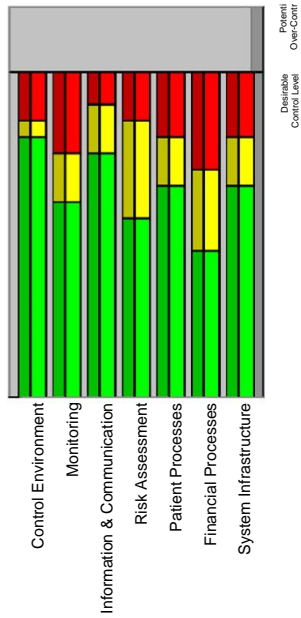
Previous Quarter Evaluation

Current Quarter Evaluation

Intercollegiate Athletics (November 2011)



Dentistry - axiUm (February 2012)



Adequate Control

Significant Control Level

Critical Control Level

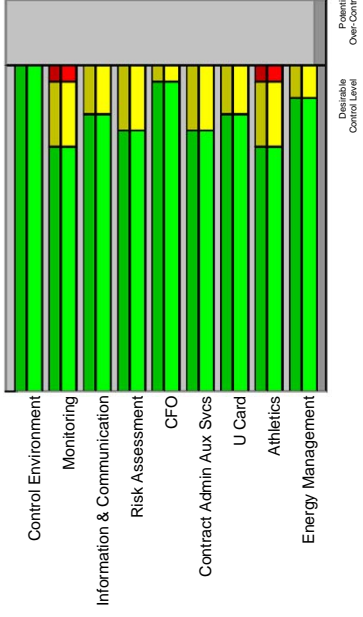
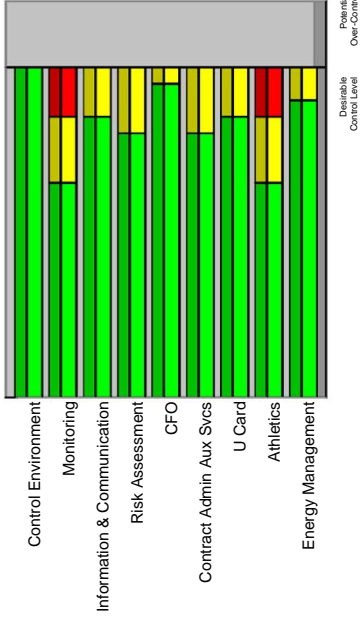
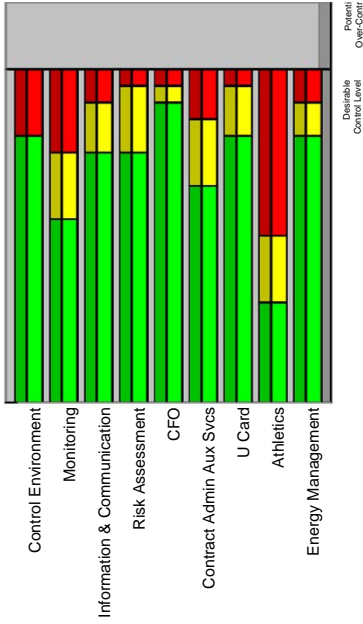
Potential Over-Control

Original Report Evaluation

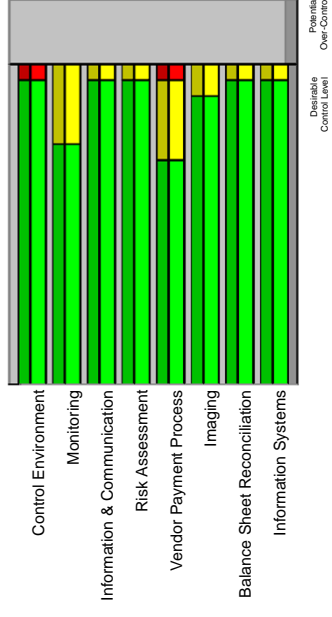
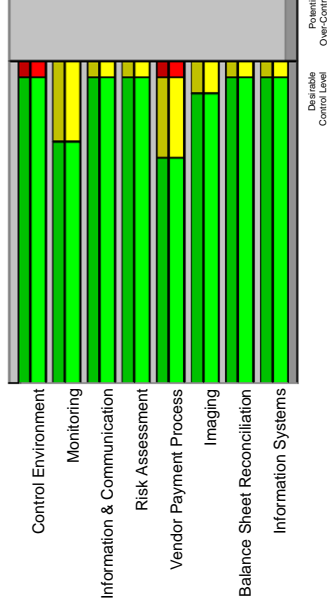
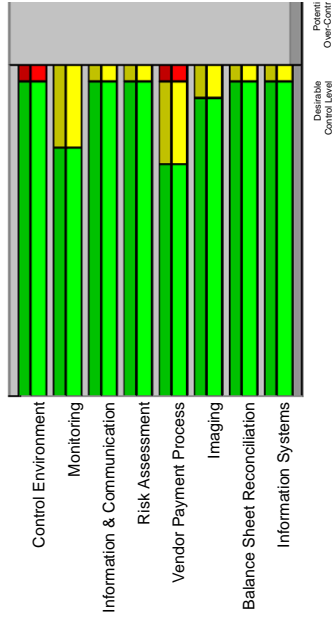
Previous Quarter Evaluation

Current Quarter Evaluation

University Contract Management (February 2012)



Vendor Payment and Imaging Process (August 2012)



Adequate Control

Significant Control Level

Critical Control Level

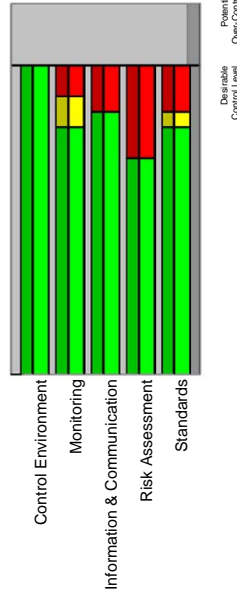
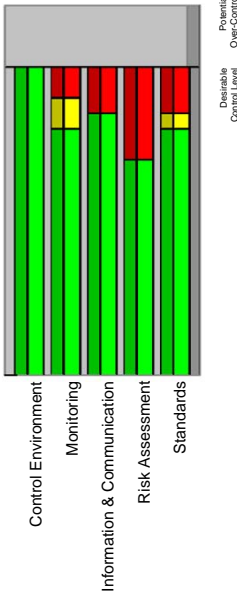
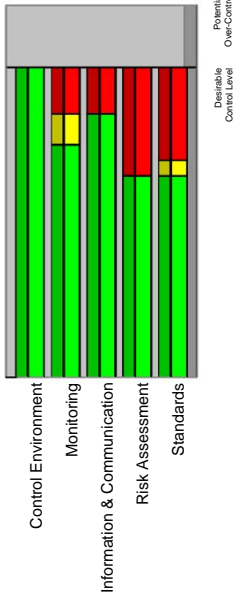
Potential Over-Control

Original Report Evaluation

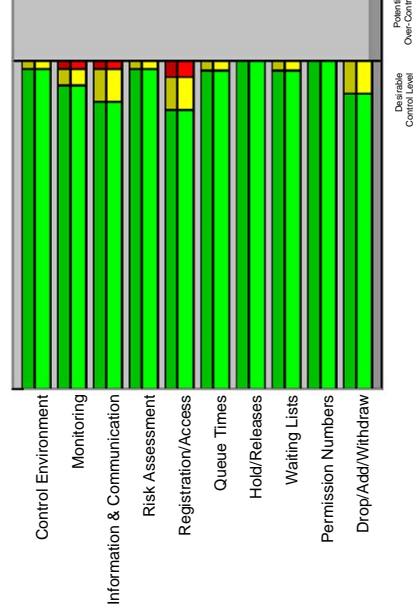
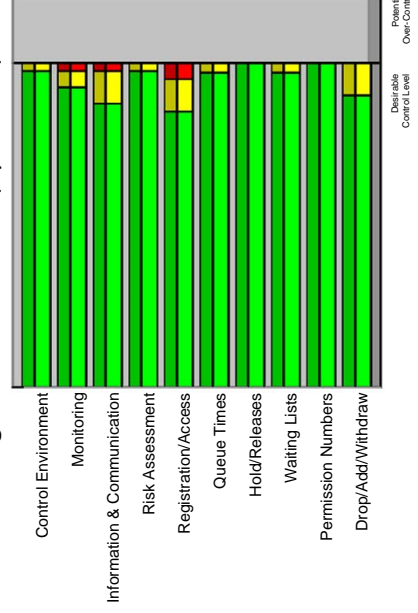
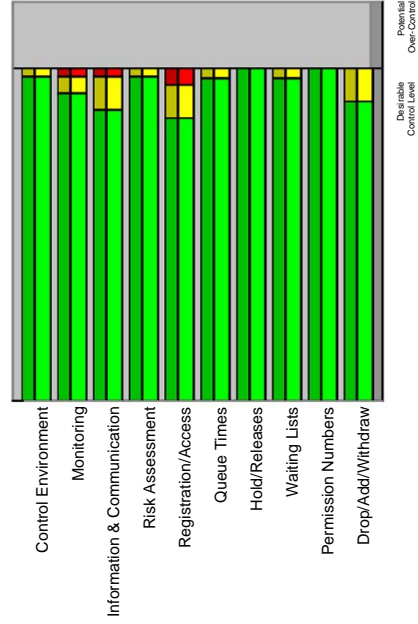
Previous Quarter Evaluation

Current Quarter Evaluation

Network Segments Not Managed By OIT (December 2012)



Student Registration Processes (April 2013)



Adequate Control

Significant Control Level

Critical Control Level

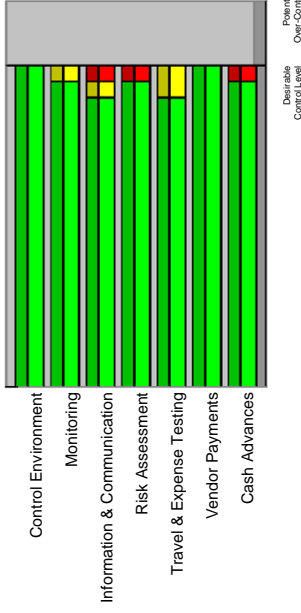
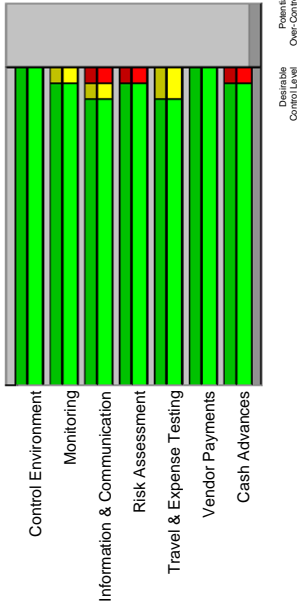
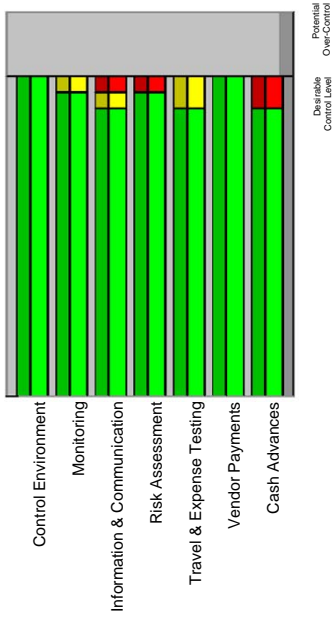
Potential Over-Control

Original Report Evaluation

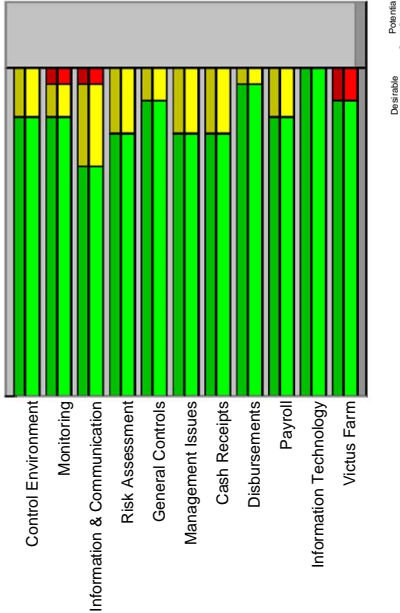
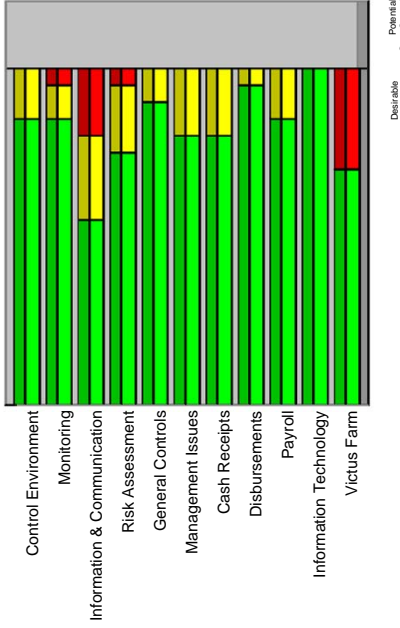
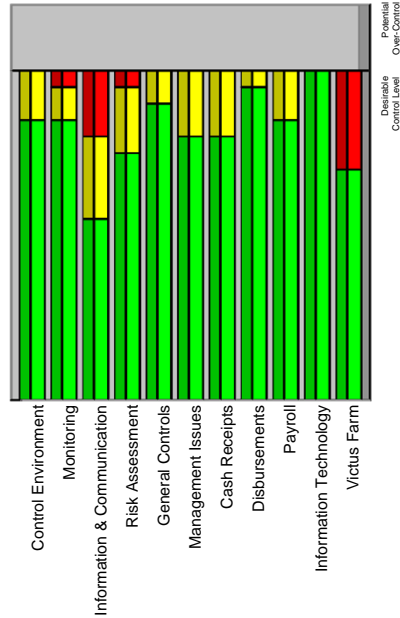
Previous Quarter Evaluation

Current Quarter Evaluation

Travel & Employee Expense Reimbursement Process (May 2013)



UMD College of Liberal Arts (May 2013)



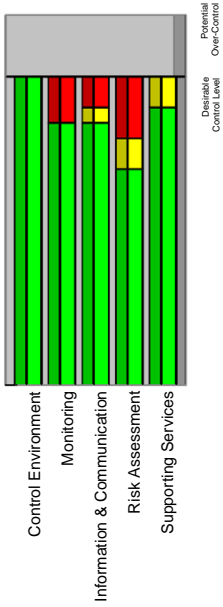
Adequate Control

Significant Control Level

Critical Control Level

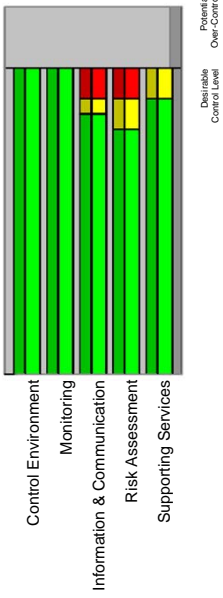
Potential Over-Control

Original Report Evaluation

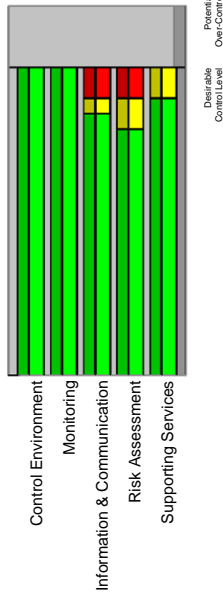


Previous Quarter Evaluation

Research Data Storage (June 2013)

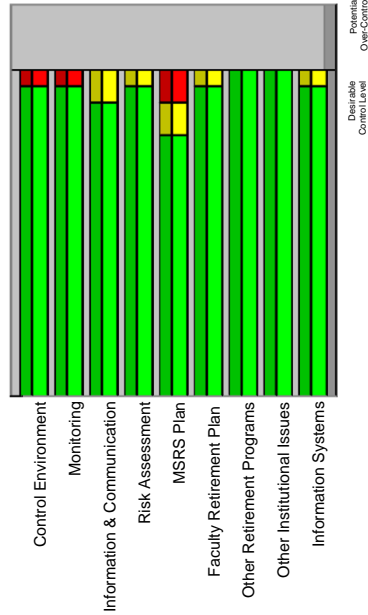


Current Quarter Evaluation



Employee Benefits – Retirement Plans (August 2013)

NO PREVIOUS CONTROL EVALUATION CHART



Adequate Control

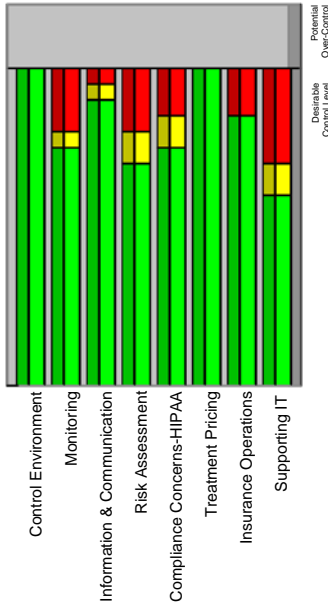
Significant Control Level

Critical Control Level

Potential Over-Control

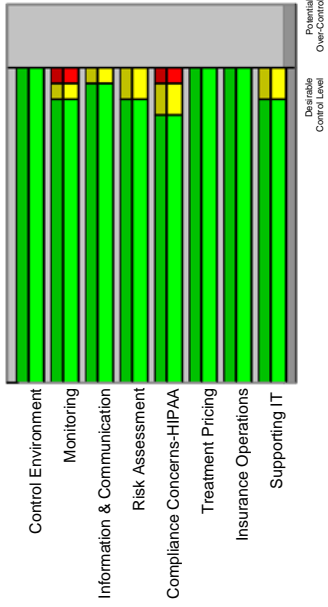
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

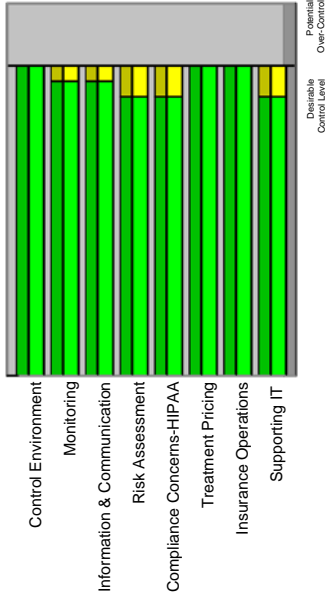


Previous Quarter Evaluation

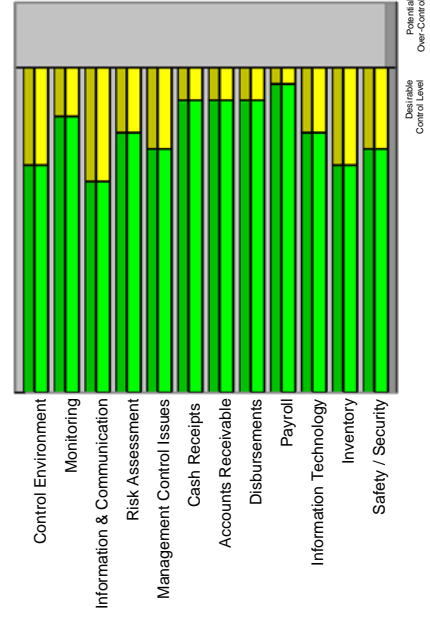
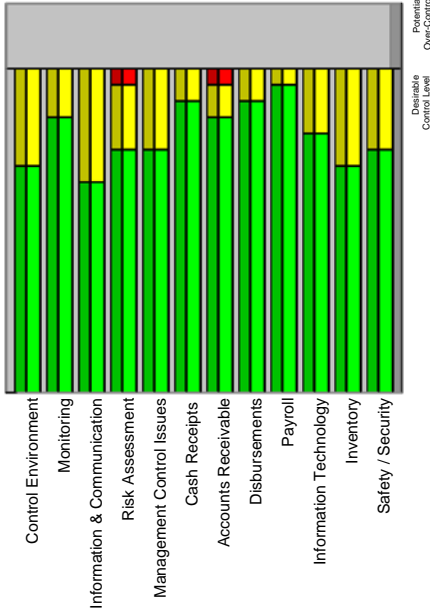
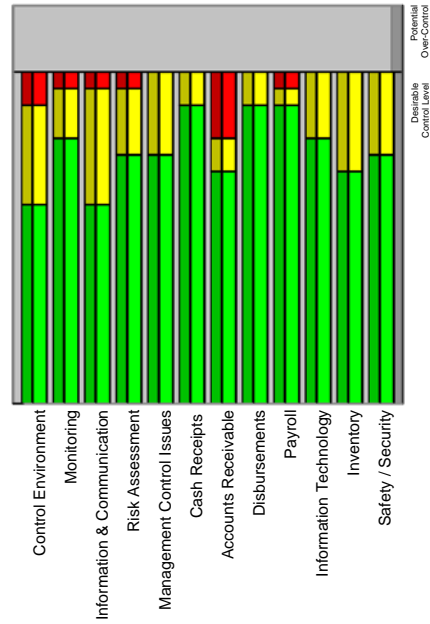
Boynnton Health Service (May 2011)



Current Quarter Evaluation



UMD Recreational Sports Outdoor Program (January 2013)



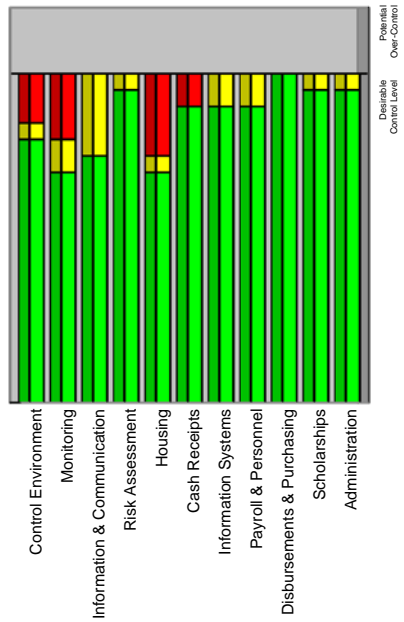
Adequate Control

Significant Control Level

Critical Control Level

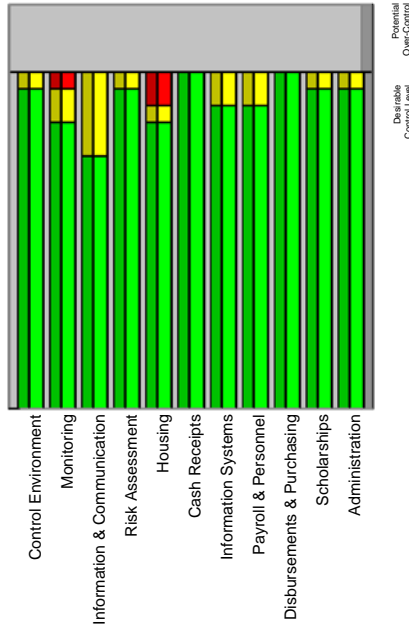
Potential Over-Control

Original Report Evaluation

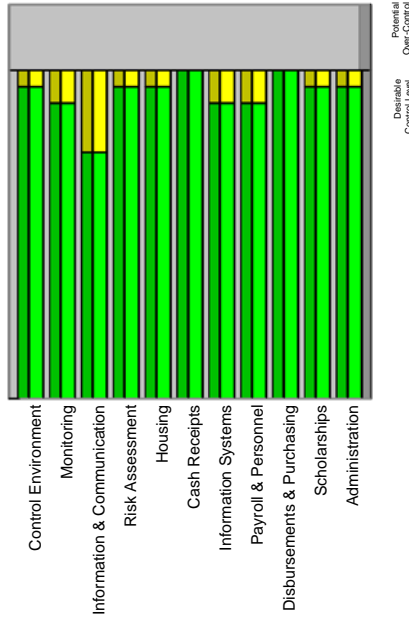


Previous Quarter Evaluation

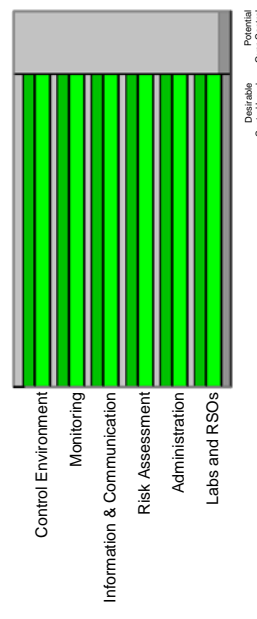
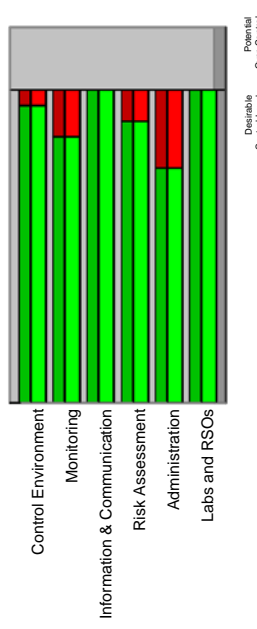
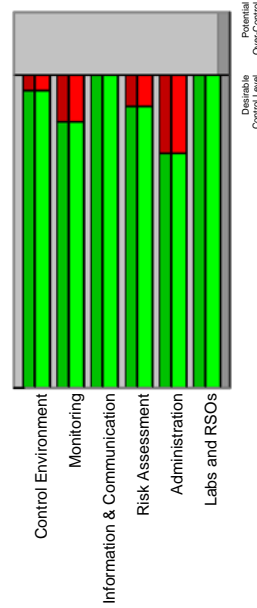
Rochester Campus (May 2013)



Current Quarter Evaluation



Lab Safety Process Review (June 2013)



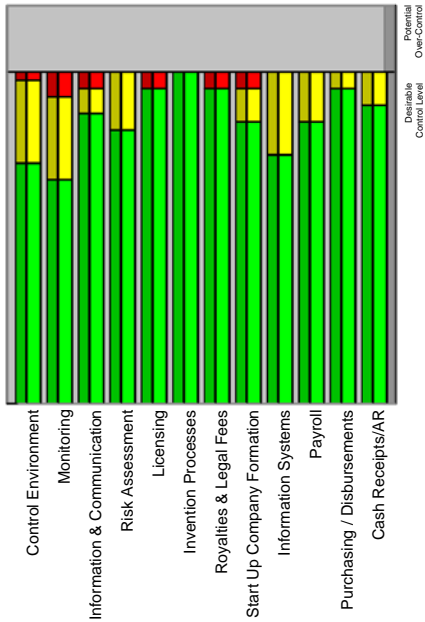
Adequate Control

Significant Control Level

Critical Control Level

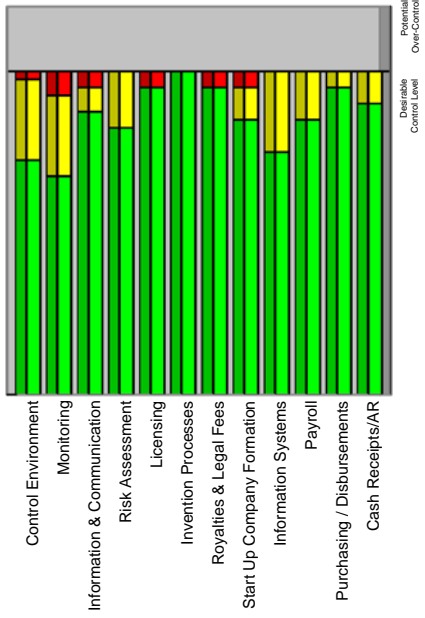
Potential Over-Control

Original Report Evaluation

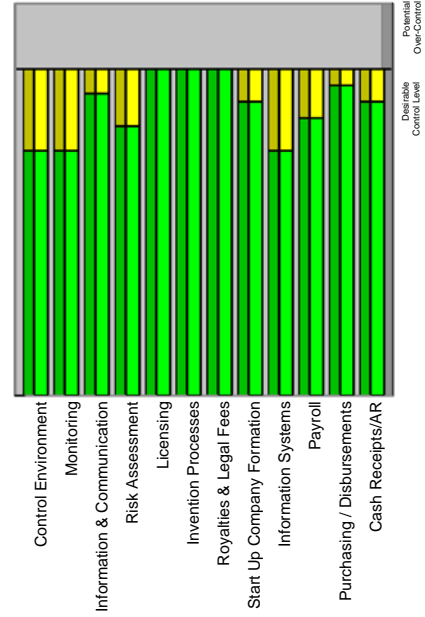


Previous Quarter Evaluation

Office of Technology Commercialization (June 2013)



Current Quarter Evaluation



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

Audit Activity Report

Scheduled Audits

- Completed audits of: the University's debt process, UMD Kirby Student Center, UMD Information Technology Systems & Services (ITSS), the Department of Chemistry, the Department of Pediatrics, the University's purchasing process and the external data reporting process. Details are shown on the following charts.
- Began/continued audits of: compliance-privacy/security of regulated data, mobile computing devices, identity management, Parking & Transportation Services (Twin Cities), the UM-Crookston campus, UMD Parking Services, the College of Liberal Arts East Bank 1 Financial Services Team, the processes being used to develop and implement the University's grading system upgrade, the University's new receipts depositing process and the University's state and federal appropriation draw process.

Non-Scheduled Audits

- Completed the audit work requested by the Legislative Auditor of the University's use of 2008 and 2010 general obligation bond funding. Details are shown on the following chart.
- Completed a requested audit of the Center for Transportation Studies. Details are shown on the following chart.
- Completed a requested audit of NCAA sport compliance for men's hockey & women's hockey (Twin Cities). A report was issued to University management.
- Continued a requested audit of the St. Anthony Falls Lab NSF Renovation Grant.

Investigations

- Performed investigative work on nine issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

Special Projects

- Provided consulting services related to University payroll exception testing.

Other Audit Activities

- Participated in the following:
 - Senior Leadership Group
 - Operational Excellence Leadership Team
 - President's Policy Committee
 - Board of Regents Policy Committee
 - Executive Compliance Oversight Committee
 - Institutional Conflict of Interest Committee
 - University of Minnesota Foundation Audit Committee
 - Fairview Health Systems Audit Committee
 - Enterprise System Upgrade - Human Resource Functional Steering Committee
 - OHS Steering Committee
 - Investigational New Drug & Investigational Device Exemption Process Review Group
 - Global Operations Advisory Team

Audit Reports Issued Since September 2013

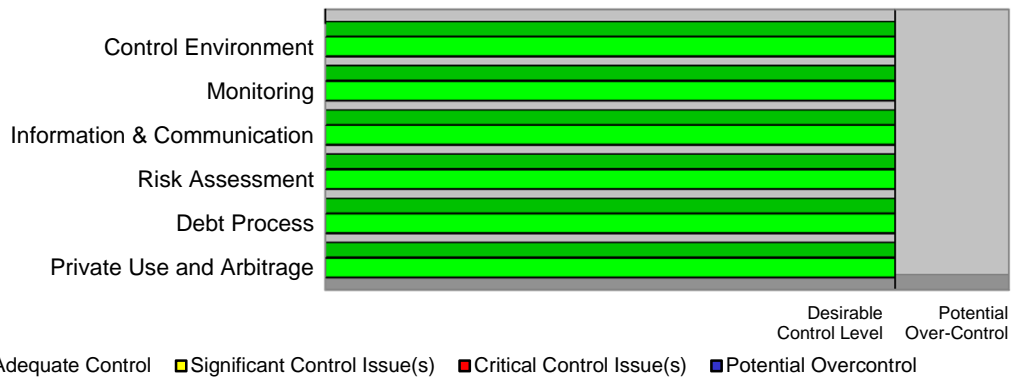
General Obligation Bond Funding



Report #	1403	Issue Date	Sep-13
# of Essential Recs.	0	Total # of Recs.	2
Overall Assessment	Good	Adequacy of MAP	Satisfactory

This audit was conducted in conjunction with a statewide audit the Office of the Legislative Auditor (OLA) is performing in state agencies that also received this funding. We agreed to perform the audit of the University's expenditures on their behalf. In our opinion, the University has an effective process in place to monitor expenses applied to the state funding for allowability according to state legislation. However, the University does need to ensure pre-design documents are submitted to the Commissioner of Administration, and the state Minnesota Management and Budget is notified when expenses are to be charged to state funding if they were incurred before approval of the bonding bill.

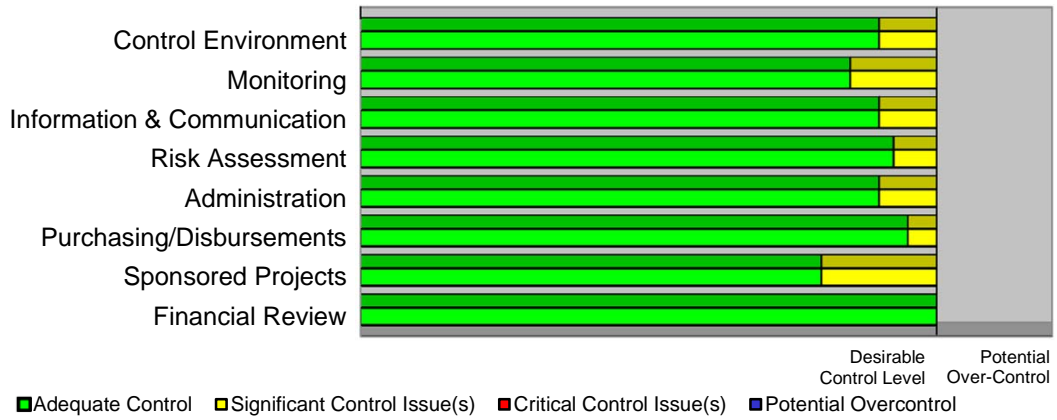
Debt Process Review



Report #	1404	Issue Date	Oct-13
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Good	Adequacy of MAP	NA

Our audit reviewed whether the current processes used for the issuance, redemption, accounting and management of University debt are efficient, well controlled, and ensure appropriate compliance with applicable laws, regulations and policies. We believe the debt management process has a control environment and a system of internal control that addresses its major business and compliance risks. The many units involved in the debt process across the University work well together and the processes appear well coordinated. A manual entitled "Debt Management Guidelines" has been developed to formalize much of the activities surrounding the debt process, and we found it to be both comprehensive and well written.

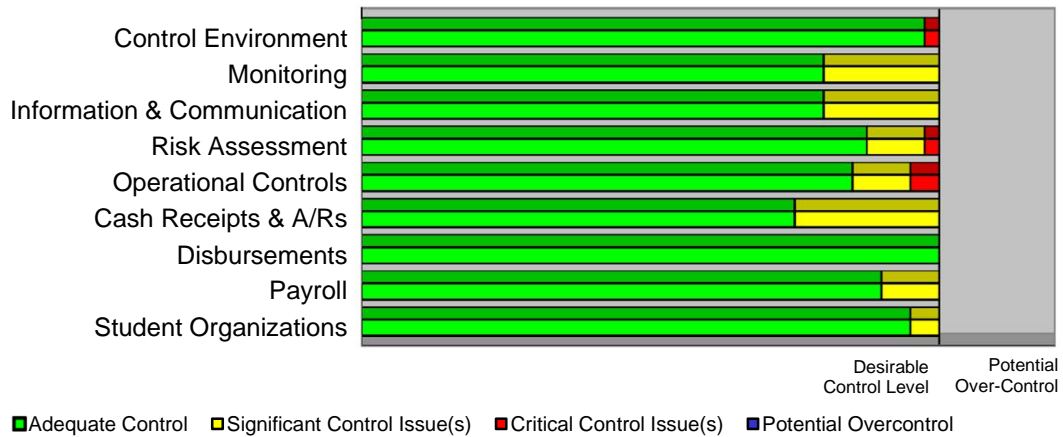
Center for Transportation Studies



Report #	1405	Issue Date	Nov-13
# of Essential Recs.	0	Total # of Recs.	10
Overall Assessment	Good	Adequacy of MAP	Satisfactory

Our audit found that despite a sharp decline in overall research allocations within the University's transportation community over the last seven years, CTS finances (revenues and expenses) have remained relatively stable. CTS management, however, continues to work on developing strategies that will allow them to adapt to the changing transportation environment on an international, national and local level. We believe the CTS has developed a control environment and a system of internal control that addresses most major business and compliance risks. The results of an employee survey routinely utilized on scheduled audits were among the most positive we have observed. Our recommendations addressed operational controls relating to various sponsored project activities, ensuring all required employees file annual REPA forms in a timely manner and ensuring research personnel have completed all required training.

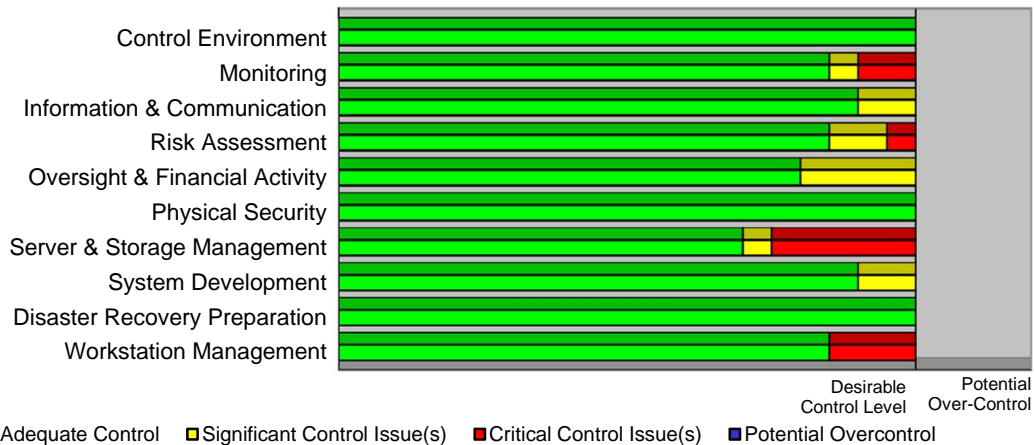
UMD - Kirby Student Center



Report #	1406	Issue Date	Dec-13
# of Essential Recs.	1	Total # of Recs.	11
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe KSC has developed a control environment and a system of internal control that addresses most major business and compliance risks. The results of our employee survey indicated KSC employees have high regard for the departmental administration's efforts to establish a positive work environment. Opportunities do exist for KSC to improve efficiency and further strengthen procedures and controls, particularly in the areas of reconciling the department's financial records, maintaining an outside checking account, and maintaining an administrative structure to support very low-dollar cash sales.

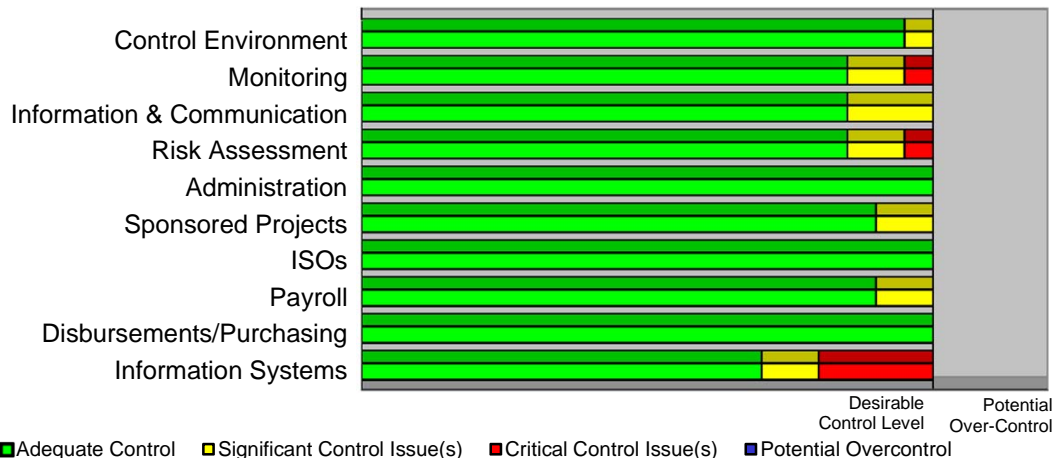
UMD Information Technology Systems and Services



Report #	1407	Issue Date	Dec-13
# of Essential Recs.	6	Total # of Recs.	12
Overall Assessment	Good	Adequacy of MAP	Satisfactory

Our audit found that ITSS administrative and management processes are robust. ITSS has established a number of processes and practices to help ensure the IT infrastructure and applications it manages have integrity and reliability. Our audit work and system testing identified some instances of noncompliance with University IT security standards. The issues of most concern revolve around server and storage equipment management practices. ITSS leadership helps ensure the integrity of IT operations not just in ITSS but throughout UMD. In some cases ITSS has established standards and processes for the entire campus to help UMD units better understand and manage IT risks and compliance with University IT security policies and standards.

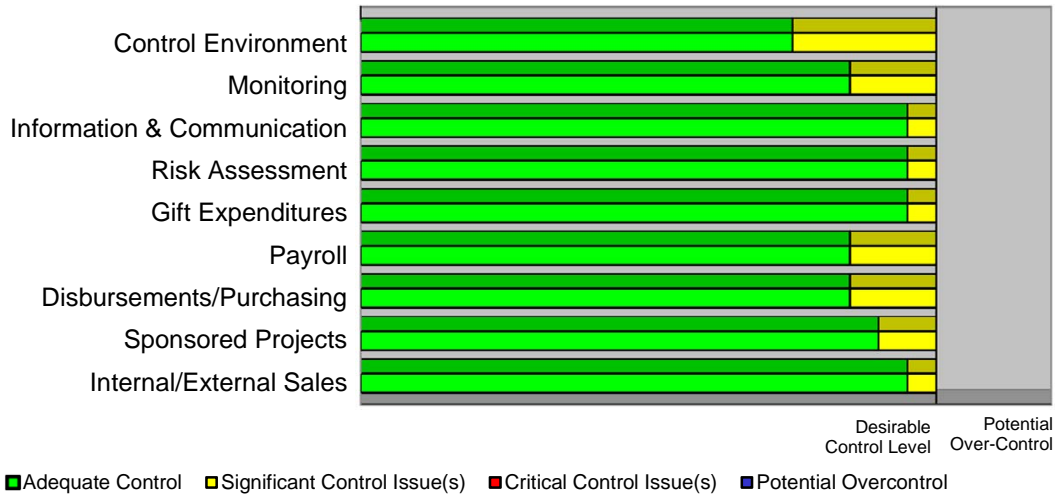
Department of Chemistry



Report #	1408	Issue Date	Jan-14
# of Essential Recs.	2	Total # of Recs.	8
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe the Department of Chemistry has developed a control environment and a system of internal control that addresses most major business and compliance risks. Results of the employee survey indicated that employees share an exceptionally positive view of management and support staff. Information system testing noted a lack of log monitoring and the sharing of passwords on the critical Chembiz system, and physical and environmental security of the Chemistry server room does not follow University security and environmental requirements. Other recommendations were made to assist Chemistry in their efforts to improve procedures and controls in the management of computer workstations and data storage, timeliness and accuracy of payroll/HR transactions, and sponsored project processes.

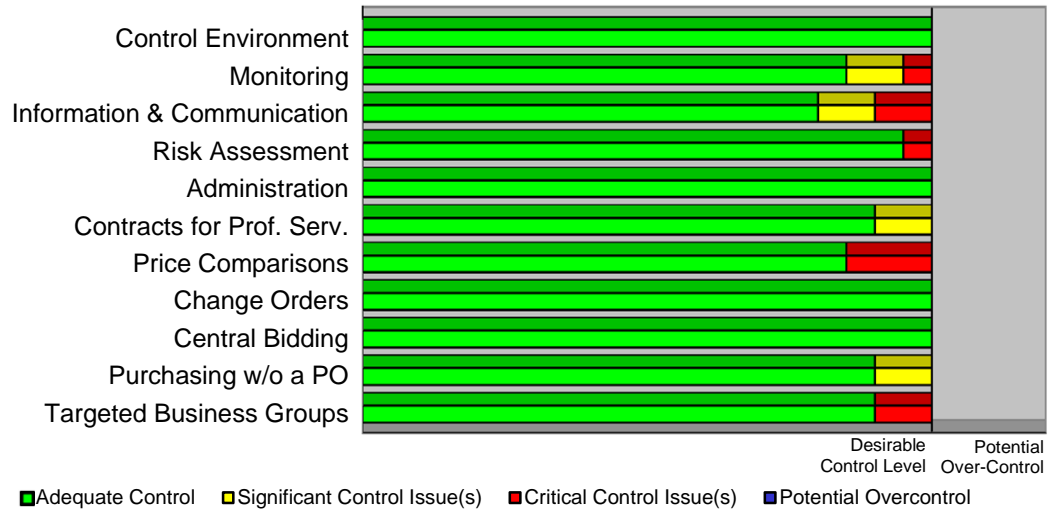
Department of Pediatrics



Report #	1409	Issue Date	Jan-14
# of Essential Recs.	0	Total # of Recs.	8
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe the Department of Pediatrics has developed a control environment and a system of internal control that addresses most major business and compliance risks. These results show a marked improvement compared to our last audit of Pediatrics in 2002. Recommendations addressed the topics of: ensuring all disbursements are allowable and appropriate to pay, procurement policies are followed, monitoring of subject incentives is adequate, all payroll transactions are allowable, creating a separation of duties in payroll, and ensuring all external sales agreements are complete, accurate, and timely.

University-wide Purchasing Process



Report #	1410	Issue Date	Feb-14
# of Essential Recs.	2	Total # of Recs.	4
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe Purchasing Services has developed a control environment and a system of internal control that addresses most major business and compliance risks. Adherence by University departments to policy regarding purchasing processes is generally good. In addition, we believe the policies and procedures governing these processes are generally clear, concise and well documented. We did, however, develop recommendations related to purchases from Targeted Business Groups, and the use of the Price Comparison forms by University departments as they procure goods costing from \$10,000 - \$49,999.

■ Adequate Control
 ■ Significant Control Level
 ■ Critical Control Level
 ■ Potential Over-Control


Externally Reported Data Processes

Due to the limited scope of this audit
a control evaluation chart was not developed for this report.

Report #	1411	Issue Date	Feb-14
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The general purpose of this audit was to review the processes and procedures used by the University to ensure the accuracy of externally reported data. The reporting of this data is taking on greater importance as expectations around higher education accountability increase at both the state and national levels. We noted areas where improvements could be considered, including creation of an inventory of the most vital external reports along with an assessment of each report's relative importance and the risks of inaccurate or misleading information. Another enhancement could include encouraging University units to utilize, as much as possible, data that has already been created and/or is available from central, reliable sources such as the Office of Institutional Research.

Although we did not develop any formal recommendations or require a Management Action Plan, management did provide a response to our suggestions for enhancements that were in the report. There are many initiatives already in process to further strengthen institutional reporting and improve data integrity.

 Adequate Control  Significant Control Level  Critical Control Level  Potential Over-Control



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

February 13, 2014

Agenda Item: Information Items

review review/action action discussion

Presenters: Associate Vice President Michael Volna

Purpose:

policy background/context oversight strategic positioning

External Auditor's Review

To provide Deloitte's update on completed FY 2013 audit services.

Report of Engagements with Accounting Firms

To report a previous consulting engagement with Deloitte & Touche, which did not obtain the required approval from the Board of Regents

Outline of Key Points/Policy Issues:

External Auditor's Review

Deloitte provided a complete presentation to the Audit Committee at the December 2013 Audit Committee meeting on the status of FY 2013 audit engagements. At that time, only a few engagements were unfinished. Those engagements have been completed, and Deloitte's report summarizing the conclusion of those audit engagements is provided for review.

Report of Engagements with Accounting Firms

Deloitte Consulting LLP was awarded a contract valued at \$233,200 for consulting services related to the University's enterprise asset management program on December 13, 2012. The contract should have been subjected to Audit Committee and Board of Regents review and approval prior to Deloitte beginning the engagement. However, the engagement did not receive the necessary approvals.

Both Deloitte and the University conducted separate reviews of the engagement for possible impairment of independence in August 2012, at the time Deloitte responded to the RFP, and both parties concluded there would be no impairment of independence. Due to an oversight, the contract did not go through the required Board approval process when it was awarded to Deloitte in December. University administration has since added internal processes for Purchasing to notify the Controller any time a contract will be awarded to an independent accounting firm.

Background Information:

These engagements are performed annually but the external auditors, and the results are presented to the Board of Regents Audit Committee in conformance with the Board of Regents Policy: *Board Operations and Agenda Guidelines*.

University of Minnesota Presentation to the Audit Committee of the Board of Regents



Summary of other 2013 audit services

Compliance audit

- Audit report on the schedule of federal expenditures for the year ended June 30, 2013, issued in December 2013
- Determined testing methodology in accordance with Office of Management and Budget (OMB) Circular A-133 and OMB compliance supplement dated March 2013
- Audit required for federal expenditures in excess of \$500,000
 - Total University of Minnesota (the “University”) federal expenditures for the year ended June 30, 2013 were ~\$1.089 billion
- Identified the following as major award programs to be tested:

Major Federal Program	2013 Expenditures (in thousands)
Research and development cluster	\$ 506,000
Student financial aid cluster	465,000
Cooperative extension service	12,868
Trade adjustment assistance for farmers	5,736
Trans-NSF recovery act research support	3,273
Special education technical assistance	2,356
Occupational safety and health	1,603
Biomedical research and research training	1,560

- The University continues to qualify as a low-risk auditee
- Decrease in major programs identified from nine in 2012 to eight in 2013
- No significant deficiencies or material weaknesses in internal control noted
- No material instances of noncompliance for major programs
- Continued successful tracking and compliance over ARRA funds
- No findings or questioned costs noted

Minnesota Office of Higher Education Financial Aid Programs examination

- Compliance examination for state grants performed in connection with audit of federal programs
- Report issued November 22, 2013
- No findings noted

NCAA agreed-upon procedures

- Procedures performed for the University of Minnesota Athletic Department's compliance with NCAA bylaws
- Report issued January 10, 2014
- No findings noted

Food and Drug Administration agreed-upon procedures

- Agreed-upon procedures performed over the cost calculation for the 131I-Metaiodobenzylguanidine (131I-MIBG) Therapy for Refractory Neuroblastoma and Pheochromocytoma: A Best Available Therapy/Compassionate Use Protocol
- Report issued October 11, 2013
- No findings noted

Weisman Art Museum audit

- Audit of the statement of revenues, expenses, and changes in net assets
- Report issued January 10, 2014
- Prior year errors noted related to understatement of depreciation expense and other revenue
 - Prior year errors not deemed material to the statement of revenues, expenses, and changes in net assets

Northrop Auditorium audit

- Audit of the statement of revenues, expenses, and changes in net assets
- Report issued January 10, 2014
- No misstatements noted

Student fees agreed-upon procedures

- Procedures performed for 23 student organizations (14 full-scope and 9 limited-scope) with respect to the financial affairs and accounting records of the student organizations
- Findings noted and communicated to management of the student organizations and student fees committee, as applicable:
 - Underlying account reconciliation
 - Consistency of supporting documentation
- Reports issued January 24, 2014

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