



Audit Committee

February 2015

February 12, 2015

8:00 a.m. - 9:45 a.m.

East Committee Room, McNamara Alumni Center

AUD - FEB 2015

1. External Auditor's Review of Completed Audit Work and Letter to Management

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2. OMB Uniform Guidance and Its Impact on the University

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3. Internal Audit Quality Assurance Report

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4. Perspectives on the Higher Education Landscape

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

February 12, 2015

Agenda Item: External Auditor's Review of Completed Work and Letter to Management

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenters: Michael Volna, Associate Vice President & Controller
Kirsten Vosen, Partner, Deloitte & Touche LLP
Katie Knudtson, Partner, Deloitte & Touche LLP

Purpose & Key Points

This presentation will provide the Audit Committee with an update on FY 2014 audit services performed by Deloitte since their update in December. Services to be discussed will include:

- Federal A-133 compliance audit.
- MN Office of Higher Education financial aid programs examination.
- NCAA agreed-upon procedures engagement.
- Student fees agreed-upon procedures engagement.
- Weisman Art Museum audit (for MN State Arts Board grant).
- Northrop Auditorium audit (for MN State Arts Board grant).
- Management recommendations resulting from 2014 engagements.

Background Information

The external auditors present their audit results to assist the Board with its fiduciary responsibilities and to comply with professional standards for audit firms. This report is 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 2014 audit services

A-133 Single Audit

- Audit report on the schedule of expenditures of federal awards for the year ended June 30, 2014, issued in December 2014
- Audit performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, including the OMB Compliance Supplement dated March 2014
- Audit required for federal expenditures in excess of \$500,000
 - Total University of Minnesota (the "University") federal expenditures for the year ended June 30, 2014 were ~\$1.067 billion
- Identified the following as major federal programs to be tested:

Major Federal Program	2014 Expenditures (In thousands)
Research and Development Cluster	\$ 501,700
Student Financial Assistance Cluster	455,700
Cooperative Extension Service	12,900
Special Education Teacher Assistance	11,900
Supplemental Nutrition Assistance Program	5,900
Education and Human Resources	4,000

- The University continues to qualify as a low-risk auditee
- Decrease in major programs identified from eight in 2013 to six in 2014
- Unmodified opinions
- No significant deficiencies or material weaknesses in internal control over major programs
- No material instances of noncompliance for major programs
- No findings or questioned costs noted

Minnesota Office of Higher Education Financial Aid Programs examination

- Compliance examination for state grants performed in connection with A-133 Single Audit
- Report issued January 15, 2015
- No findings noted

NCAA agreed-upon procedures

- Procedures performed for the University of Minnesota Athletic Department's compliance with NCAA bylaws
- Report issued January 5, 2015

- No findings noted

Student fees agreed-upon procedures

- Procedures performed for 24 student organizations (11 full-scope and 13 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:
 - Lack of underlying account reconciliations
 - Lack of consistency of supporting documentation
- Reports issued January 23, 2015

Weisman Art Museum audit

- Audit of the statement of revenues, expenses, and changes in net position
- Report issued January 12, 2015
- Unmodified opinion
- Prior year errors noted related to understatement of depreciation expense and other revenue
 - Not deemed material to the statement of revenues, expenses, and changes in net position

Northrop Auditorium audit

- Audit of the statement of revenues, expenses, and changes in net position
- Report issued January 21, 2015
- Unmodified opinion
 - Single year financial statement presented for the year ended June 30, 2014 and now includes depreciation expense which previously had not been recorded in the stand-alone financial statements of Northrop Auditorium
- No misstatements noted

Management Recommendations Resulting from 2014 Other Procedures

During the course of our audits, we noted inconsistencies in the allocation of depreciation expense for departmental units for the purpose of reporting in stand-alone department financial statements for Weisman Art Museum and Northrop Auditorium. As a result of these historical and current year depreciation expense errors, we recommend that personnel from Central Accounting of the University take an oversight role in the stand-alone financial statements of these units of the University. Given the knowledge of personnel in Central Accounting, they are adequately informed of activities of the University and its departments throughout the year and have the requisite knowledge to review and appropriately challenge the stand-alone financial statements prepared and ensure the financial statements include all transactions of the department units

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

February 12, 2015

Agenda Item: OMB Uniform Guidance and Its Impact on the University

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenters: Pamela A. Webb, Associate Vice President for Research
Nicole Pilman, Uniform Guidance Implementation Coordinator
Sue Paulson, Assistant Controller

Purpose & Key Points

The United States Office of Management and Budget (OMB) has combined many federal circulars related to sponsored research into a single guidance document that can be used by all federal agencies. This combined document is known as "Uniform Guidance" and went into effect on December 24, 2014. This presentation will outline how the changes brought forth by the implementation as well as the current status of the implementation at the federal level impact the University of Minnesota.

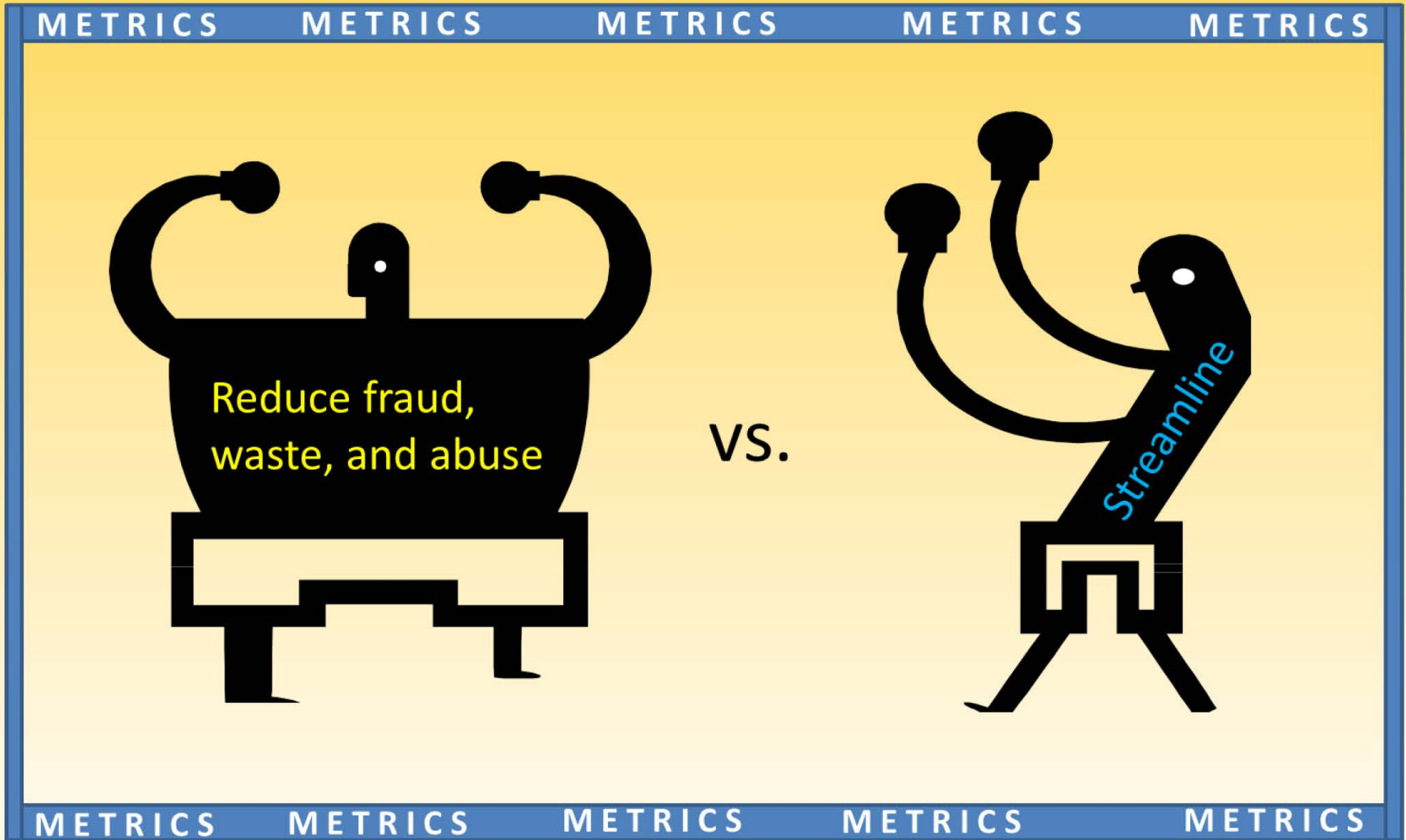
Uniform Guidance 2 CFR 200

Nicole Pilman, Uniform Guidance Implementation Coordinator
Sue Paulson, Assistant Controller
Pamela A. Webb, Associate VP for Research

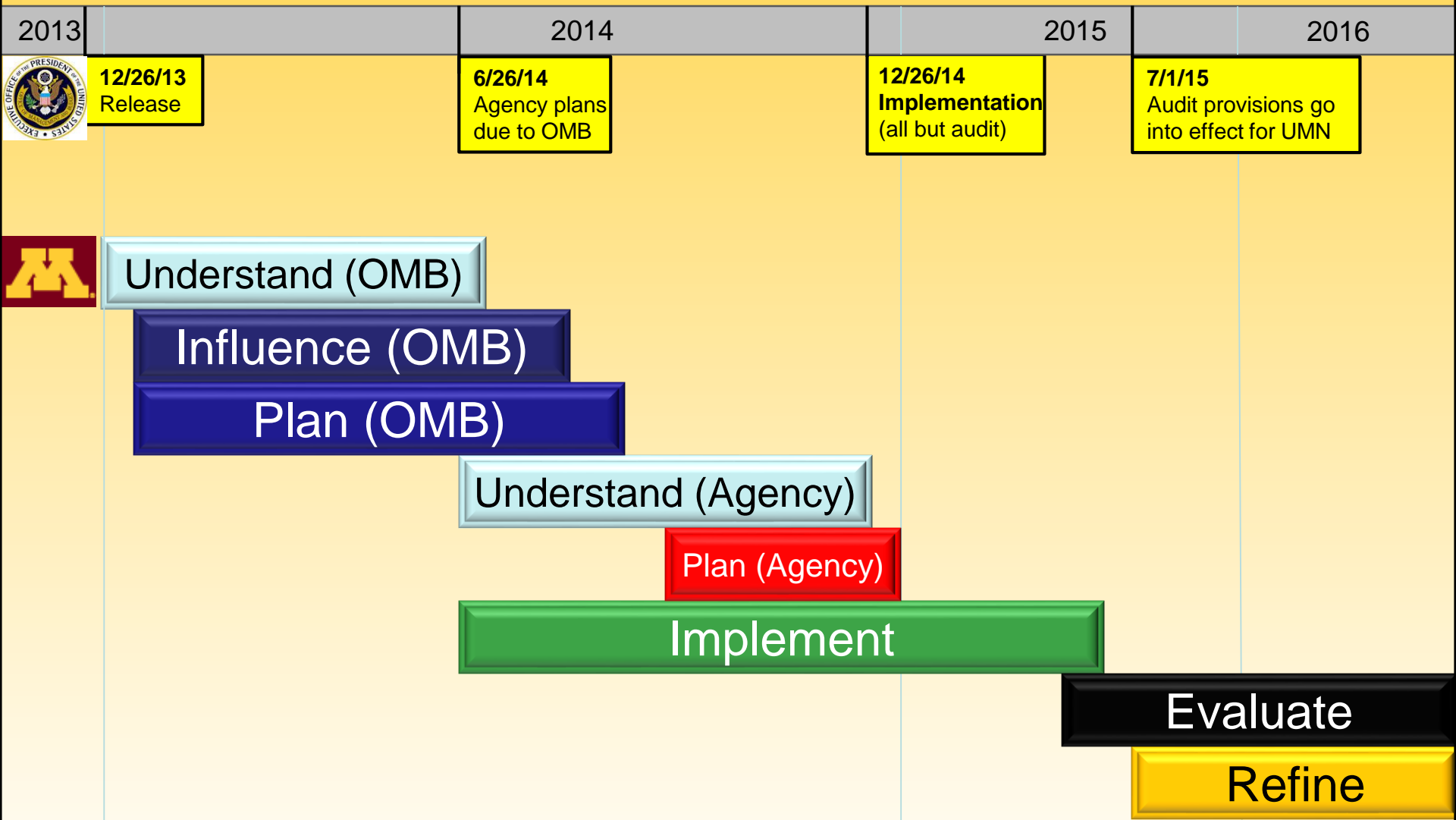


UNIVERSITY OF MINNESOTA
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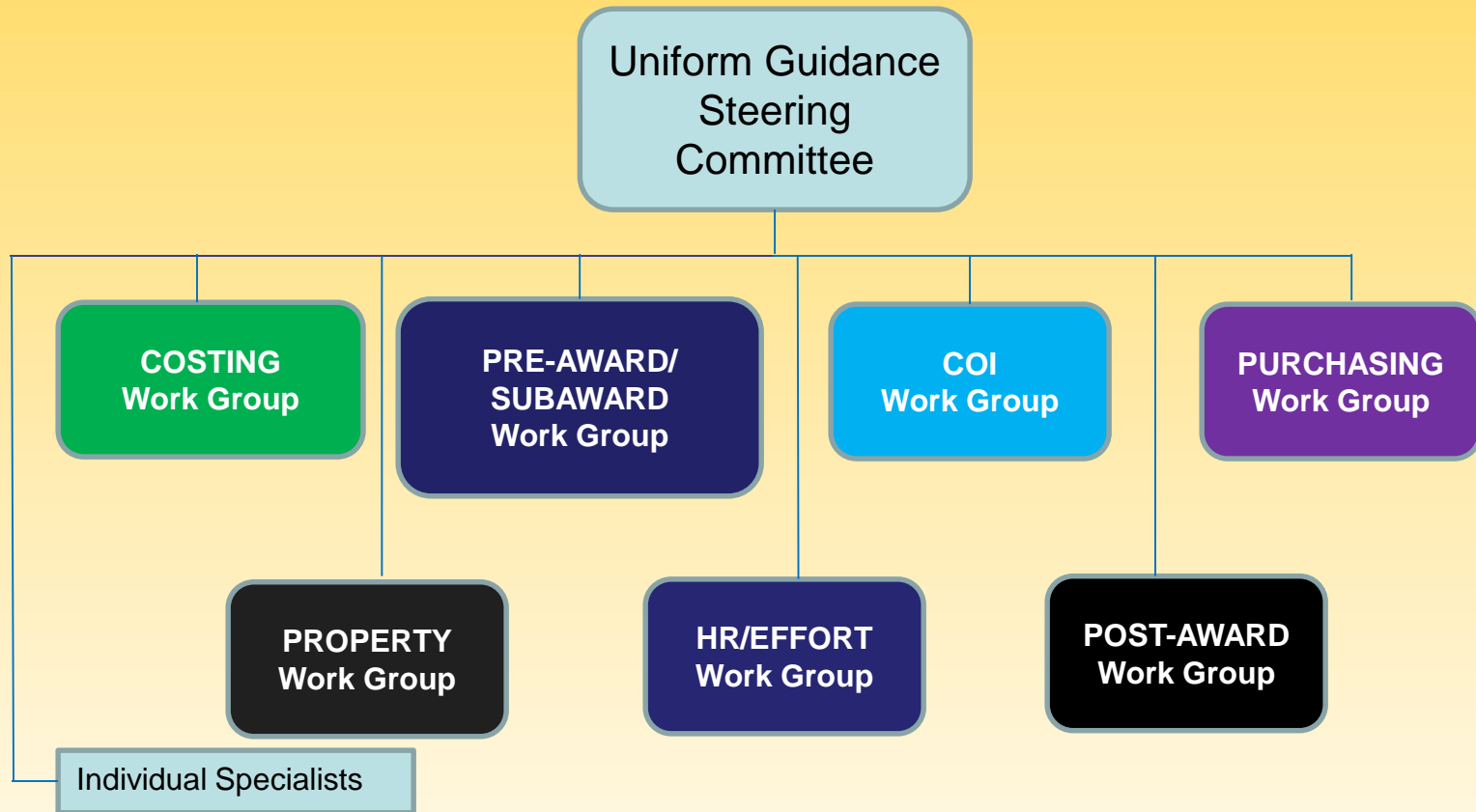
Goals of Updated Regulations



OmniGuidance Implementation Plan



Uniform Guidance Org Chart



Significance of Change

- Agency prior approvals
- Policies and business processes
- University's F&A rate
- University's FY16 audit



Status of Federal Rollout

- Two sets of regulations
- Research Terms and Conditions
- Inconsistent agency requirements
- Inconsistent implementation for ongoing awards
- Many awards will require duplicative handling



UG Terms with Greatest Impact to the University

- Direct Charges
- Subawards
- Award Closeout
- Procurement
- Dependent Care



Campus Readiness


- Road Shows
- Symposium Presentations
- Regular visits to CRAD & SRC
- PI Quick Guides



PI Quick Guides


- Proposals (September 2014)
- Subawards (February 2015)
- Awards (Spring 2015)
- Procurement (July 2016)

Uniform Guidance Implementation


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PI QUICK GUIDE
(Volume 1, Version 1 – September 3, 2014)
**MAJOR CHANGES IN THE UNIFORM GUIDANCE AFFECTING
 PROPOSAL BUDGETS AND CHARGING OF DIRECT COSTS**

The Office of Management and Budget (OMB) has combined many federal circulars into a single guidance document (known as Uniform Guidance, or 2 CFR 200) that can be used by all agencies. These new regulations will become effective December 26, 2014.

<p>CHARGING ADMINISTRATIVE/CLERICAL AND PROGRAMMATIC SALARY COSTS</p> <p> Applicable Uniform Guidance (UG) Sections: 200.413 200.430</p>	<p>Administrative and clerical salaries (in certain circumstances) AND programmatic salary costs can be included on competitive proposal budgets.</p> <p><u>Administrative and Clerical Salaries</u> In general, administrative and clerical salaries should still not be direct charged, but the rules governing "major project or activity" exceptions have been dropped and replaced by the following criteria, all of which must be met:</p> <ol style="list-style-type: none"> 1. Administrative or clerical services are integral* to a project or activity; 2. Individuals involved can be specifically identified with the project or activity; 3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and 4. The costs are not also recovered as indirect costs. <p>If all of these requirements are met, PIs/departments should add a new justification statement to proposals to facilitate the required agency approval.</p> <p><small>*UMN has determined that integral means: (1) the services are essential, vital, or fundamental to the project or activity; AND (2) a minimum of 15% FTE is budgeted in the grant's budget year or there are documented special circumstances</small></p> <p><u>Programmatic Salary Costs</u> Costs related to protocol development and maintenance, managing substances/chemicals, managing and securing project-specific data, and coordination of research subjects are allowable direct costs when they are "contributing and directly related to work under an agreement." Thus, these programmatic costs may be direct charged using the same underlying requirements as other types of direct costs, and are <u>not</u> subject to the extra approval requirements required of administrative and clerical costs. They are still subject to all regular costing requirements (e.g., allocability, reasonableness, allowable by terms of the award, incurred within award period).</p>
<p>COMPUTING DEVICES (UNDER \$5,000 UNIT COST)</p> <p>Applicable UG Sections: 200.33 200.48 200.89 200.439 200.453C</p>	<p>Computing devices can be included on competitive proposal budgets.</p> <p>Computing devices under \$5,000/unit may be direct charged to the project or activity under the following circumstances:</p> <ul style="list-style-type: none"> • The machines are <u>essential</u>* and allocable to the project in that they are necessary to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or "peripherals") for printing, transmitting and receiving, or storing electronic information. • The project does not have reasonable access to other devices or equipment that can achieve the same purpose; devices may not be purchased for reasons of convenience or preference. • Items costing more than \$5,000 per unit are considered equipment and follow federal equipment rules for when they can be direct charged. (SEE 200.33, 200.48, 200.89, 200.439)



Next Steps

- Continue to partner with COGR and FDP
- Continue to refine policies and business processes
- Additional information available at:
 - <http://www.ospa.umn.edu/documents/UG.html>





BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

February 12, 2015

Agenda Item: Internal Audit Quality Assurance Report

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenters: Gail Klatt, Associate Vice President
James Roth, President of AuditTrends and external review team leader

Purpose & Key Points

This presentation will discuss the purpose of external quality assurance reviews, the process followed, and the results of the recently completed review of the Office of Internal Audit. The requirements for external reviews of the audit function and the professional standards against which the Office of Internal Audit practices are evaluated will be explained, as will the opinions that can be rendered by the review team.

Background Information

Board of Regents Policy: *Audit Committee Charter* charges the committee with oversight of the internal audit function.

The *Standards for the Professional Practice of Internal Auditing* require that internal audit functions have a formal external quality assurance review performed every five years. The results of these reviews are required to be shared with the Audit Committee.

The results of the Office of Internal Audit's self-assessment, conducted as part of the quality assurance review process, were communicated to the Audit Committee on December 11, 2014.

AuditTrends, LLC

James Roth, Ph.D., CIA, CCSA, CRMA
President

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Gail Klatt
Office of Internal Audit
Suite 510 West Bank Office Building
1300 S 2nd Street
Minneapolis, MN 55454

Dear Ms. Klatt:

Our team was engaged to conduct an independent validation of the University of Minnesota Office of Internal Audit (the Office) self-assessment. The primary objective was to verify the assertions made in the self-assessment report concerning adequate fulfillment of the organization's expectations of the Office and its conformity to The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*.

The validation, conducted during the period February 3-5, 2015, consisted primarily of a review and test of the procedures and results of the self-assessment. In addition, we interviewed the chairman of the Board of Regents, the audit committee chair, the University president, other senior members of management, and the external auditors.

We concur with the Office's conclusions in their November 2014 self-assessment report, with one exception. It is our judgment that Standard 1220 (Due Professional Care) should be rated as Generally Conforms because the data analytics program in place is sufficient to conform with the Standard, even though the Office has plans to upgrade its supporting technology to enhance its capabilities in this area. Generally Conforms for individual standards means that the internal audit activity complies with the requirements of the standard or elements of the Code of Ethics in all material respects.

We concur with the overall rating of Generally Conforms – the highest rating in the IIA rating system – for the Office of Internal Audit as a whole. Generally

Conforms means that University Management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office of Internal Audit.

Our team, which collectively has extensive experience performing quality assessments, has seldom been as impressed with an internal audit activity as we were with the Office of Internal Audit. We would like to point out just a few noteworthy strengths:

- A highly qualified and experienced staff, with a positive work environment and culture of quality and professionalism
- Strong support for continuing professional education and certifications
- A well-designed audit process and work products, including an employee survey used on every audit that was featured as a best practice in an IIA research study

At the Office's request, we tried to contribute to their continuous improvement efforts. We noted the following opportunities for improvement:

- Develop rating scales and criteria for impact and likelihood for use in the Office's risk assessments and its evaluation of the University's risk management processes. We believe this will enhance the consistency of judgments about risk and enable the Office to better allocate their resources toward higher risks as well as evaluate the cost/benefit of controls.
- Implement automated workpaper software to improve efficiency. This will have to be timed to avoid conflicting with the enterprise upgrade and data analytics implementation, as there will be a learning curve with all three.
- Consider further reducing the extensive time spent on following up on audit issues. We discussed various options for doing this without overly increasing risk to the University. The Office will further discuss and, if appropriate, bring a proposal to the audit committee for consideration.
- Continue their ongoing succession planning for internal audit management. A great deal of institutional knowledge and leadership will be lost to retirement in the coming years.

We discussed several other minor opportunities for improvement with internal audit management.

We would like to thank management and staff for exceptionally well laid out self-assessment documents that, together with the strength of the people and process, made our jobs easy.

James Roth

James Roth, PhD, CIA, CCSA, CRMA on behalf of the other members of the validation team:

Patrick Copeland, CIA, CRMS, CISA, CPA

Barbara J Deily CPA, CISA

Donald Espersen, CIA, CRMA

**Office of Internal Audit
External Quality Assurance Review Team Members**

James Roth, PhD, CIA, CCSA, CRMA, (**team leader**) is president of AuditTrends LLC, a training firm devoted to identifying and communicating the best of current internal audit practice. Before forming AuditTrends in 1993, he was an internal auditor in the banking industry for 12 years. He has written eight books and numerous publications for the internal audit profession, and developed eight AuditTrends seminars, which range in topic and audience from Skills for the New Internal Auditor to Best Practices in Internal Auditing for audit management. He is the 2008 winner of The IIA's Bradford Cadmus Memorial Award for "individuals making the greatest contribution to the advancement of the internal audit profession." This is the highest level of award and recognition for the internal audit profession.

Patrick Copeland, CIA, CRMA, CISA, CPA, created Copeland Partners LLC after completing nearly 27 years with a global pharmaceutical company where he held a variety of leadership positions within audit and finance, including chief financial officer of operations in Asia, Europe, and the Caribbean. He performs quality assessment reviews of internal audit organizations for the The Institute of Internal Auditors (IIA), conducts seminars covering a range of audit-related topics, and has written several training courses offered by The IIA. He has worked with numerous governmental agencies across the United States, Canada, and the Caribbean as well as private sector clients from various industries.

Barbara Deily, CPA, CISA, retired in January 2015 from the University of Virginia after a 32 year internal audit career during which she served as the Chief Audit Executive since 2007. She was responsible for overseeing the University's comprehensive audit program including financial, operational, programmatic, and compliance audits of all University and Medical Center departments, activities, and systems. She provided support for the Audit Committee of the Board of Visitors and was an advisor to the President and senior leadership team. She coordinated the University's audit work with the Auditor of Public Accounts and the Department of the State Internal Auditor. Barbara holds degrees from both the Pennsylvania State University and the University of Virginia.

Donald Espersen, CIA, CRMA has led more than 20 external quality assessment for internal audit groups in a wide variety of industries, sectors, and international locations. He is also an independent internal audit advisor and professional trainer specializing in the design and delivery of customized training programs and internal audit quality improvement activities. He has worked with client groups in Africa, Asia, Canada, Europe, Mexico, the Middle East, South America, and the United States. He serves as a member of The IIA's Committee of Research and Education Advisors.



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

February 12, 2015

Agenda Item: Perspectives on Governance and Trends in the Higher Education Landscape

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenters: Robert Kueppers, Senior Partner, Deloitte Center of Corporate Governance,
Deloitte & Touche LLP

Purpose & Key Points

This discussion is intended to provide Audit Committee members with the opportunity to engage with a national leader in the area of corporate governance on current higher education issues and the role of the governing board in managing the changing landscape. Topics that will be discussed include:

- Governance best practices and how Boards are changing their practices in response to increasing expectations.
- Insights on the regulatory environment of higher education, the potential for regulatory relief, and best practices for managing the cost of compliance.
- Megatrends in higher education and disruptive innovative practices, including new business models, that could change its landscape.



Robert J. Kueppers Managing Partner, Center for Corporate Governance Deloitte LLP

Robert J. Kueppers is Managing Partner for Deloitte LLP's Center for Corporate Governance. Mr. Kueppers leads the Center's efforts to support boards of directors and audit committees on a variety of governance and risk matters.

Since 2008, he has developed and hosted the Deloitte Directors' Series, a live broadcast to thousands of directors across the United States discussing the latest issues and trends in corporate governance. In 2009 and 2012, Mr. Kueppers was recognized by NACD *Directorship* magazine as one of the top 100 influential professionals in corporate governance and in the boardroom. Mr. Kueppers is a frequent speaker and writer on issues impacting corporate governance and the audit profession.

Mr. Kueppers also serves as Senior Partner, Global Regulatory and Public Policy for Deloitte LLP. In this role, Mr. Kueppers represents the U.S. member firm of Deloitte Touche Tohmatsu Limited on global regulatory, public policy and accounting profession matters. He also serves major clients of the firm in an advisory capacity and has 36 years of professional experience. Mr. Kueppers previously served as Deputy CEO of Deloitte LLP and was responsible for regulatory and professional matters in the United States.

Mr. Kueppers is chairman of the board of directors of United Way of New York City; chair of the University of Minnesota's Carlson School of Management Board of Overseers; a board member of American Corporate Partners, a nationwide mentoring organization for United States veterans; a founding trustee and president of the SEC Historical Society; and a trustee of the Committee for Economic Development. He also helped create the Center for Audit Quality and since its inception in 2002 has chaired many committees and task forces with his peers and professional practice leaders from other national accounting firms.



University of Minnesota

Audit committee discussion

February 12, 2015



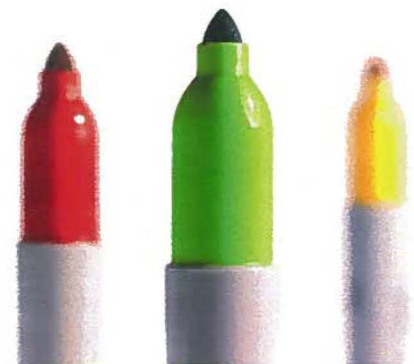
The role of the audit committee, leading practices and trends

The role of the audit committee leading practices and trends

Staying sharp on important matters

The roles will vary from institution to institution depending on the complexity and size as well as the requirements of the governing body, but typical audit committee responsibilities include:

- Financial reporting oversight
- Working with the independent auditors
- Working with the internal auditors
- Risk oversight and role of the audit committee in the process
- Ethics and compliance: whistleblower provisions and fraud oversight



The role of the audit committee leading practices and trends

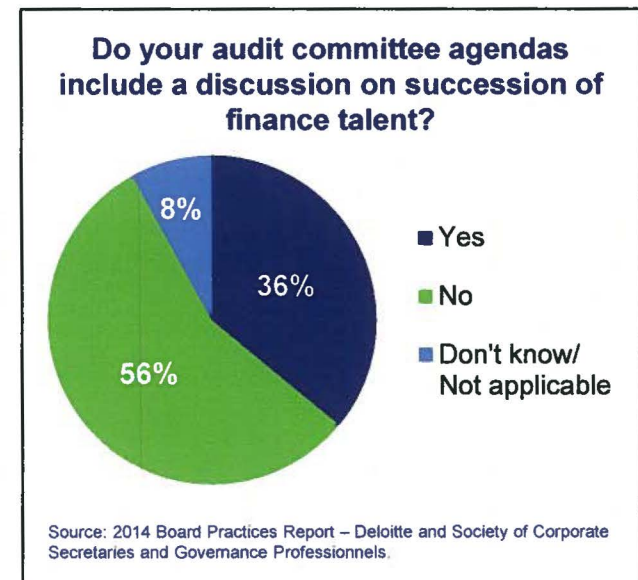
Financial reporting oversight

- The audit committee oversees the integrity of a institution's financial reporting processes and audits.
- Anticipate and understand how pending financial reporting and applicable regulatory developments may affect the institution; understand plans to address new accounting and reporting requirements – disclosures should be consistent, understandable and transparent
 - Hold training sessions
 - Meet with independent (and internal) audit teams on periodic basis.
- Understand key controls and reporting risk areas as assessed by independent auditors, internal auditors, and financial management, as well as mitigating controls and safeguards.
- Encourage coordination between audit committee and other board committees, specifically the compensation committee.

The role of the audit committee leading practices and trends

Financial reporting oversight

- Leverage the value of internal controls beyond compliance.
- Consider levels of authority and responsibility in key areas, including pricing and contracts, acceptance of risk, commitments, and expenditures.
- Understand complex accounting and reporting areas and how management addresses them.
- Understand significant judgments and estimates used by management and their impact on the financial statements, such as fair-value accounting and related assumptions.
- Partnership with the President and other management
 - Focus on the tone at the top, culture, ethics, and hotline monitoring – especially relating to financial reporting.
 - Engage in the identification of potential issues.
 - Understand plans to address new accounting and reporting requirements.
 - Provide input to management’s goal-setting process.
 - Discuss succession planning for the CFO and staff.



The role of the audit committee leading practices and trends

Working with the independent auditors

- Exercise ownership of the relationship with the independent auditor.
- Get to know the lead partner and meet with “specialists” (tax, IT, valuation) that are used in conducting the audit.
- Set expectations and annual agenda.
- Engage in consistent dialogue outside of the regularly scheduled meetings.
- Fulfill required communications between auditor and audit committee.
- Executive sessions at every audit committee meeting.
- Complete a formal evaluation of the audit team on an annual basis; provide ongoing feedback throughout the audit cycle.

Questions for audit committees to consider on oversight of independent auditors

- Did the auditor address issues of “tone at the top” and antifraud programs and controls in place in the institution?
- Did the auditors inform the audit committee of any risks of which the committee was not previously aware?
- Did the auditor communicate issues freely with the audit committee, or did he or she seem protective of management?
- Does it appear that management exercises undue influence on the external auditors?
- Is the audit committee satisfied with the planning and conduct of the audit, including the financial statements and internal control over financial reporting (as applicable)?
- Does it appear that the external auditors are reluctant or hesitant to raise issues that would reflect negatively on management?

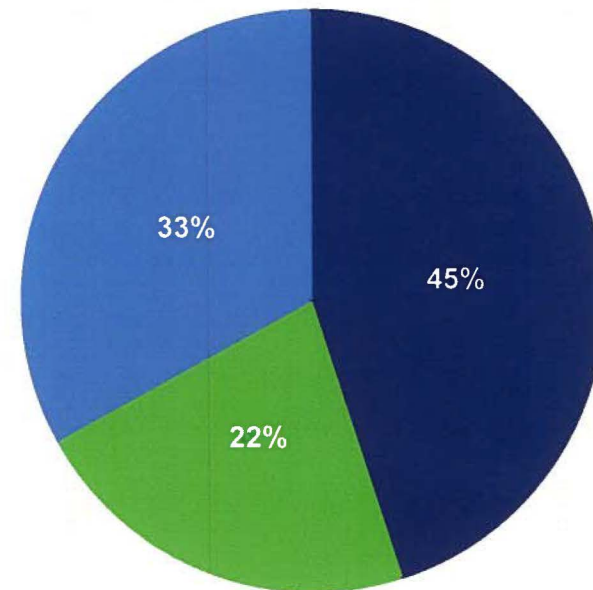
The role of the audit committee leading practices and trends

Working with the internal auditors

A focus on the following areas:

- Reporting structure
- Internal audit risk assessment and audit plans
- Annual evaluations of department and the Chief Audit Executive (CAE)
- Succession planning
- Holistic approach to risk management
- Peer review / benchmarking
- Resources / funding

Has your company done any benchmarking on its internal audit department (e.g., budget, resources)?



■ Yes ■ No ■ Don't know/Not applicable

Source: 2014 Board Practices Report – Deloitte and Society of Corporate Secretaries and Governance Professionals.

The role of the audit committee leading practices and trends

Working with the internal auditors

- The internal auditor is accountable to the audit committee.
- Hold regular private sessions with the internal auditors.
- Be available when contacted by the Chief Audit Executive (CAE) and engage in discussions regularly.
- Review the CAE's report on the status of corrective action plans in place and monitor programs.
- Actively participate in the CAE's goal setting and performance evaluation.
- Challenge the CAE and the internal audit department.
- See that the internal auditors have appropriate stature and respect.
- Support the CAE and his/her institution.

Questions for management to consider on oversight of internal auditors

- Does internal audit have a clearly articulated strategy that is reviewed periodically and approved by the audit committee?
- Is internal audit staffed with the appropriate mix of professionals to achieve its objectives?
- Does internal audit meet regularly with the external auditors to discuss risk assessments, the scope of procedures, or opportunities to achieve greater efficiencies and effectiveness in the institution's audit services?
- Are issues identified and reported by internal audit appropriately highlighted to the audit committee, and is the progress toward effective completed management actions tracked and reported?

The role of the audit committee leading practices and trends

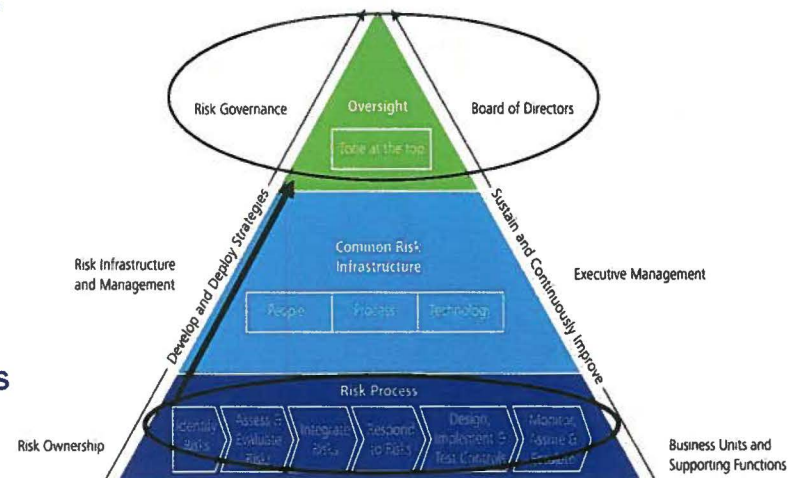
Risk oversight

Risk oversight

- The full board is ultimately accountable for risk oversight; a Risk Intelligent board is one in which all committees and the full board are discussing risks associated with each topic on their respective agendas.
- At the committee level, there is some shift from audit committees to other board committees being involved in oversight of risks identified.
 - Committee expertise drives which risks are overseen by certain committees.

The board's role in risk oversight includes six areas:

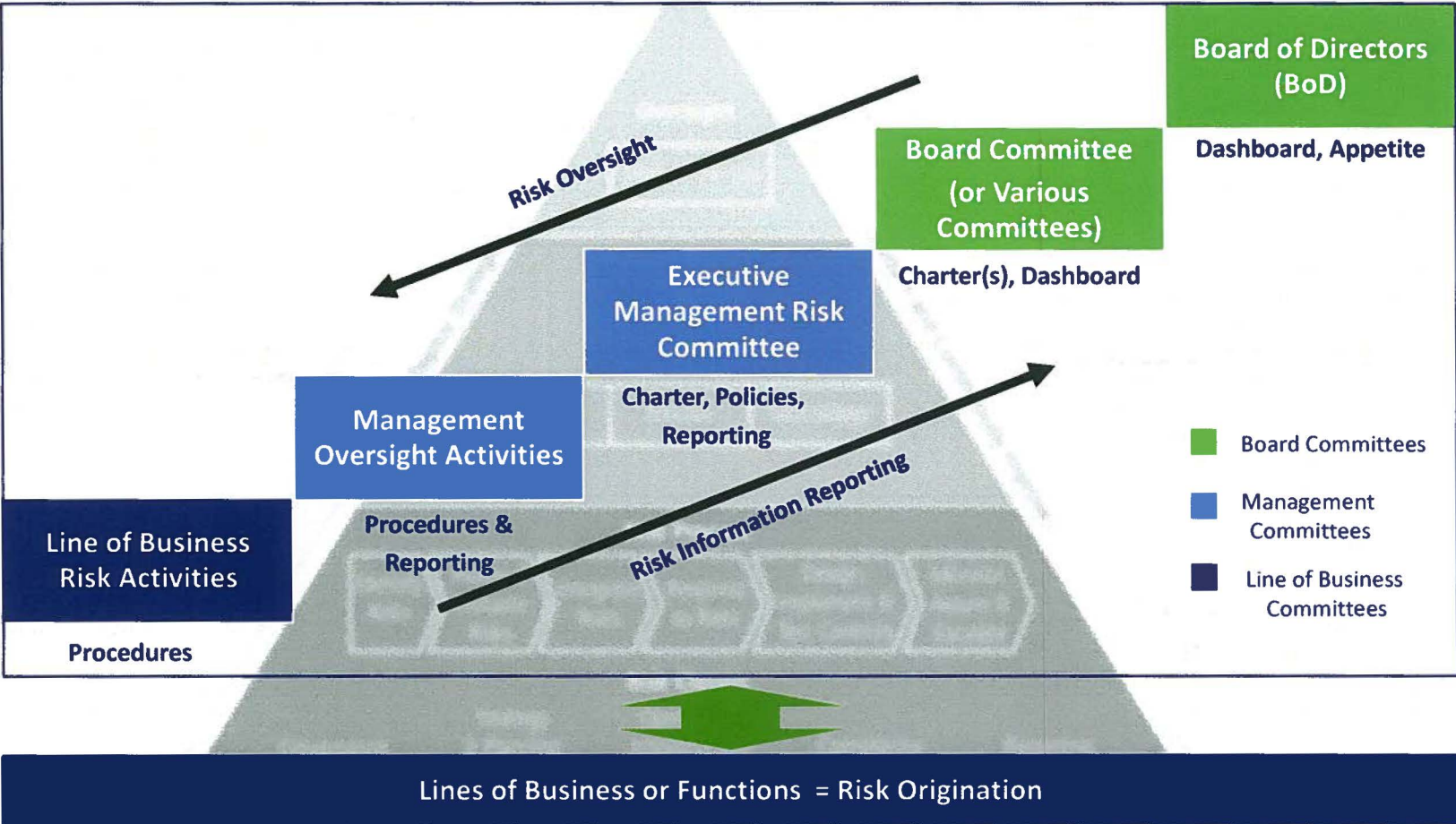
- Define the board's risk oversight role
- Foster a risk-intelligent culture
- Understand and set an appropriate risk appetite
- Help management incorporate Risk Intelligence into strategy development
- Assess the "maturity" of the risk governance process
- Communicate (level-set) the risk story to stakeholders



Source: Risk Intelligent governance: Lessons from state-of-the-art board practices

Overview of an audit committee's key responsibilities

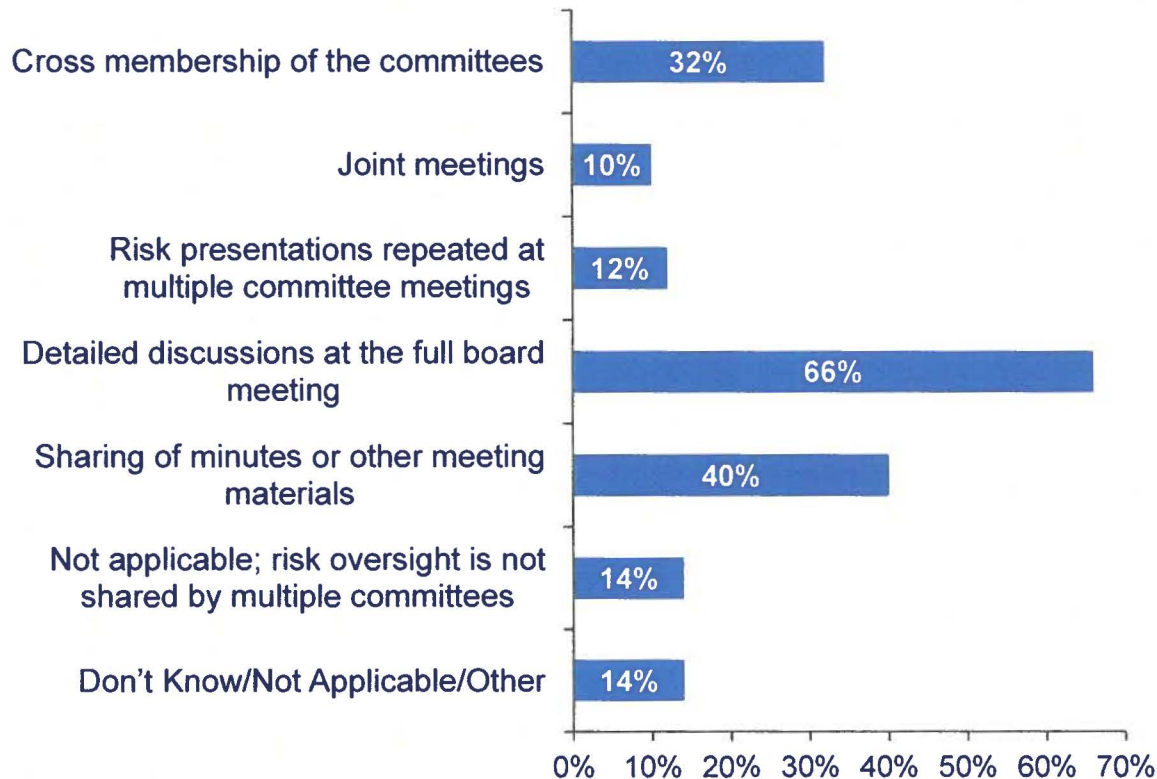
Risk oversight



The role of the audit committee leading practices and trends

Risk oversight

If risk oversight is shared by multiple committees, how does the board coordinate these activities? (Select all that apply)



Examples of the “other” answer choice included:

- An annual “deep dive” updated during the year
- Annually plus discussion at other meetings
- Semi-annually and more frequently when needed

Source: 2014 Board Practices Report – Deloitte and Society of Corporate Secretaries and Governance Professionals

The role of the audit committee leading practices and trends

Role in ethics and compliance

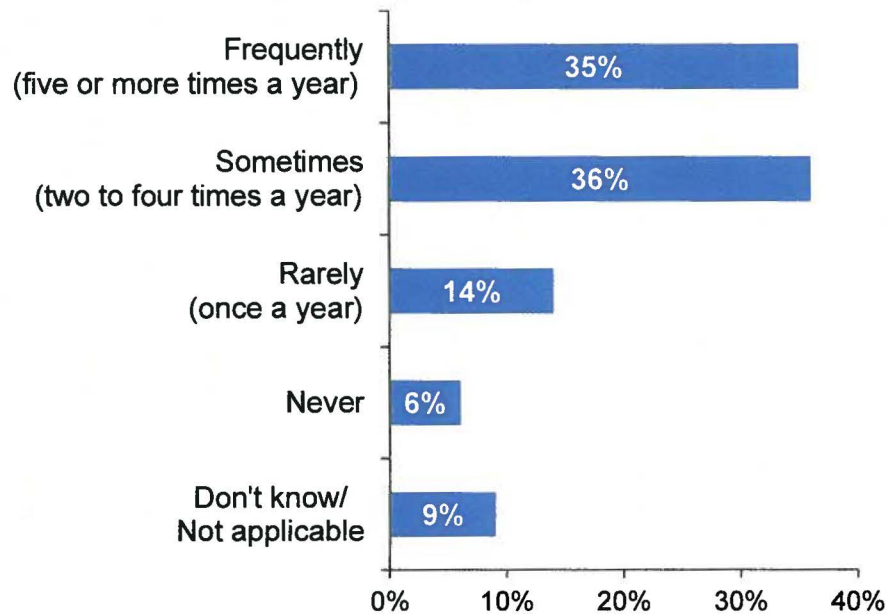
- Whistleblower/ helpline program oversight
- Fraud oversight: management override of controls
- Inspection of fraud risk assessment
- Responsible for initiating internal/ independent investigations
- Code of ethics/conduct compliance oversight
- Contributes to “tone at the top”

The role of the audit committee leading practices and trends

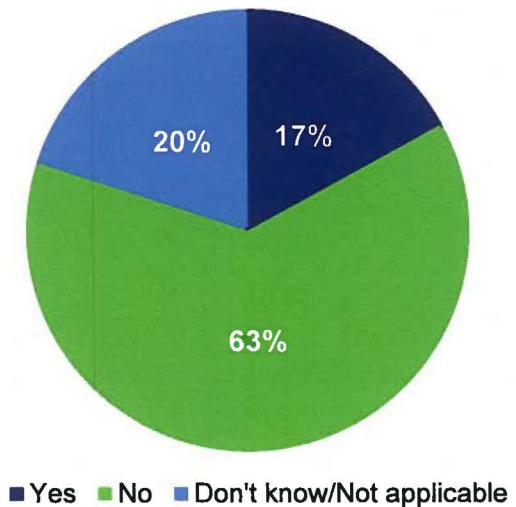
Role in ethics and compliance

- Ensure that the institution has an effective ethics and compliance program and that it is periodically tested.
- Promote a culture of compliance and financial reporting integrity throughout the institution.
- Insist that the tone set by management is clear, unambiguous and consistent.

How often does the audit committee receive reports on internal tips from a compliance hotline?



In the past year, has your helpline received an increase in tips?



Source: 2014 Board Practices Report – Deloitte and Society of Corporate Secretaries and Governance Professionals.

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Audit committee effectiveness

Audit committee effectiveness

Areas of focus

- Agenda setting and prioritization
- Composition and competency
- Executive sessions
- Performance evaluations
- Meetings and information
- Coordination with other committees



Audit committee effectiveness

Agenda setting

Agenda	
NACD	The chair of the audit committee should develop, in consultation with management, the committee's agenda. This agenda should reflect, as appropriate, a periodic review of risk by each significant business unit.
Business Law	Directors should be given an opportunity to place items on the agenda. Further, the board should satisfy itself that there is an overall annual agenda of matters that require recurring and focused attention.
The Conference Board	The audit committee chair is responsible for: <ul style="list-style-type: none"> • Finalizing the agenda in collaboration with management • Allocating the time to discuss each item in the agenda • Ensuring the agenda is fully covered and that each member is satisfied with the discussion that took place
Common Practices	A detailed calendar of activities is often helpful in guiding meetings and agenda development.

Sources: Identified practices from other audit committee benchmarking projects performed by Deloitte & Touche LLP. This information is anecdotal in nature and is provided for informational purposes. Also, identified practices recommended by governance organizations, thought-leaders and marketplace trends related to audit committee meetings: (1) *Audit Committee Practices: A Practical Guide 2004 Edition* – National Association of Corporate Directors (NACD), (2) *Corporate Director's Guidebook, Third Edition* – Business Law American Bar Association, (3) *Corporate Governance Handbook 2009: Legal Standards and Board Practices* – The Conference Board

Audit committee effectiveness

Executive Session: Questions for the audit committee to ask

President, Chief Financial Officer (CFO), Controller

- Do you believe the financial statements and applicable federal and state tax filings fairly present the institution's financial position and activities?
- Do you believe the disclosures are appropriate and complete and are understandable by the average reader?

President

- Discuss your impressions of the performance of the Internal Audit Director, CFO, Controller, IT Director, Endowment, Education, Administration, and General Counsel.

Chief Financial Officer

- Are you aware of any whistleblower activity in the institution?
- Are you aware of any conflicts of interest within management?
- Now that you have the opportunity, is there anything you want to tell the Audit Committee?
- Is there anything else that we need to know?

General Counsel

- Are you aware of any issues that could cause embarrassment to the institution?
- Have you ever been told anything in confidence or otherwise that would embarrass the institution if it were known publicly?
- Are there any items that have significant financial statement impact that you have discussed with the President, CFO or other officers, or outside counsel, that the audit committee should be aware of?

Source: *The AICPA Audit Committee Toolkit: Not-for-Profit Organizations*, AICPA, Inc., 2010

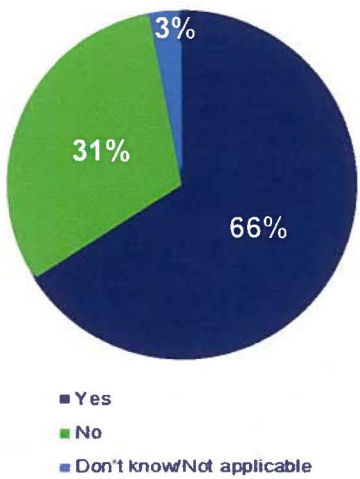
Audit committee effectiveness

Performance evaluations

- Conduct performance evaluation on an annual basis.
- Include self and peer evaluation and an evaluation of the audit committee itself.
- Communicate with the board on resulting activities and recommendations.

How are your directors evaluated? (Select all that apply)	
Board performance evaluation led by corporate secretary or other in-house personnel	34%
Board performance evaluation led by a 3 rd party facilitator	11%
Board performance evaluation led by the board chair or other director	45%
Individual peer evaluation led by corporate secretary or other in-house personnel	11%
Individual peer evaluation led by a 3 rd party facilitator	6%
Directors meet one-on-one with a designated board member	19%
Directors evaluate board performance in group discussion	34%
Our organization does not have a formal board performance evaluation process	6%

Does the audit committee conduct performance evaluations of its members?



Source: 2014 Board Practices Report – Deloitte and Society of Corporate Secretaries and Governance Professionals.

Trends in higher education

Risks and opportunities

Changing landscape for Universities

Risk factors that impact institutional strategy

A Board's role in oversight of an institution's strategy is one of a handful of foundational board responsibilities.

Strategy development and approval is where risks & opportunities come together: if a plan entails too much risk, it could fail in implementation; if a strategic plan fails to capitalize on prudent risks, opportunities will be lost.

One of the most elusive risks to identify and consider is **DISRUPTION** risk:

- What could undermine the institution's business model?
- How could unexpected change in customer demand or competition render the strategy ineffective? Consider iTunes, Netflix, & Kindle.
- How does the Board avoid being naïve on this front?

Changing landscape for Universities

Important trends impacting higher education

- **Deloitte sees the Industry being transformed by the convergence of several Key Forces:**
 - **Cost Pressures:** Institutions are responding through Smart Purchasing, Enterprise Technology solutions, Consolidation of administration, and use of Shared Service Centers
 - **The New Student:** Increased expectation of a consumer type experience, significant numbers of adult learners, families looking at alternatives to the 4-year degree due to high cost (average student debt is \$25k+)
 - **21st Century Classroom:** Emergence of blended learning model, experience with Massive Open Online Courses, video based learning of narrow skills, game and simulation based learning techniques gaining favor
 - **Rise of Digital:** Social media primacy with the millennials and younger, preference to communicate and take notes on tablets and similar devices, expectation for interdisciplinary collaboration in learning and research

Changing landscape for Universities

Important trends impacting higher education

When you examine these Key Forces in the context of the following trends, it is clear that the landscape could change in the near future:

- Entrants of new competitors into the higher education space: Udemy, College Abacus, Minerva, Kahn Academy, Coursera, DevBootcamp, etc.
- Fundamental shifts from four-year degrees and long-term employment to lifelong learning and multiple jobs over a lifetime.
- Declining enrollment due to population demographics.
- Recent announcement by the President of implementing “free” community college for all Americans.
- Declining financial support from the State with limited opportunities to cover costs with increased tuition and fees.

Changing landscape for Universities

What does this all mean?

Going forward, we expect big shifts in the model for Higher Education.

Of course, it is difficult to predict exactly how this will play out, but is it reasonable to expect the following:

- Experimenting with partnerships and other collaborations both among universities and between universities and some alternate education providers.
- More flexible programs and offerings to students of all ages
- Continued cost pressures necessitating additional IT investment and consolidation of duplicate cost structures

The key to success may be development of a long-term strategy based on multiple options.....



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BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

February 12, 2015

Agenda Item: Internal Audit Update

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenter: Gail Klatt, Associate Vice President

Purpose & Key Points

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.

- Since the last follow-up for the September 2014 meeting, University departments implemented 36 percent of the outstanding recommendations rated as “essential.” This is slightly less than our expected implementation rate of 40 percent. 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.
- 11 audit reports containing 32 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 12, 2015

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 2014

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

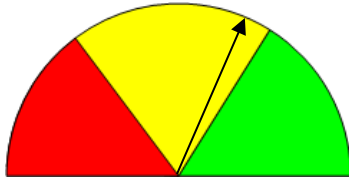
As part of our on-going efforts to provide the Audit Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snapshot” status report on work performed by the Office of Internal Audit.

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 2015 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).

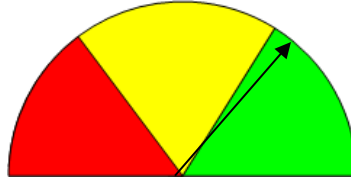
The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings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

Essential Recommendation Implementation



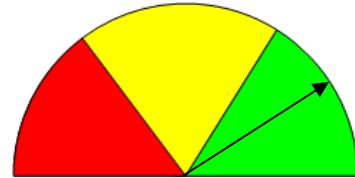
Implementation rates were 36% for the period, slightly less than our expected rate of 40%.

Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2015 audit plan is about what was expected and budgeted for the year to date.

Time Spent on Investigative Activities



Time spent on investigative activities and special projects is about what was expected and budgeted for the year to date.

Other Items

- Professional standards require that every five years internal audit organizations receive an independent review and assessment of their operations and practices to measure compliance with internal auditing standards. Office of Internal Audit staff completed our internal self-assessment, which was provided to the Audit Committee at their December 2014 meeting. We have been actively working to address and implement the recommendations identified during the self-assessment. A team of four external reviewers conducted their on-site formal quality assurance review during February 3-5, and their final report will be presented to the Audit Committee at the February 12th meeting.
- We recently filled a vacant IT Principal Auditor position through the hiring of an auditor from the Mayo Clinic. The IT audit group is now fully staffed. The financial audit group has recently had two auditors leave the University; one through resignation and one through retirement. Both open positions have been posted and we are actively recruiting their replacements.

Status of "Essential" Recommendations as of January 30, 2015

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
<i>Audits > 2 years old (see the following report for details on unresolved issues)</i>										
Oct-11	UMD School of Fine Arts	Adequate	10	2			1		1	Satisfactory
Feb-12	Dentistry - axiUm System (P)	Adequate	14	1			1			Satisfactory (1)
Dec-12	Network Segments Not Managed By OIT	Adequate	5	2	2					Completed
<i>Audits < 2 years old; have received prior follow-up</i>										
May-13	Travel & Employee Reimbursements (P)	Good	1	1			1			Satisfactory
May-13	UMD - College of Liberal Arts	Adequate	6	2	2					Completed
Jun-13	Research Data Storage (P)	Adequate	5	2	2					Completed
Dec-13	UMD Information Tech. Systems & Services	Good	6	4	1	1	2			Satisfactory
Feb-14	University-wide Purchasing Process (P)	Good	2	2			1	1		Satisfactory
Apr-14	UM - Crookston Campus	Good	6	2	1		1			Satisfactory
Apr-14	CLA East Bank 1 Financial Services Team	Good	1	1	1					Completed
May-14	UMD Parking Services	Good	1	1			1			Satisfactory
Jun-14	Identity Management	Needs Improvement	11	11	5	1	4	1		Satisfactory
Jun-14	Parking & Transportation Services	Adequate	10	10		10				Satisfactory
<i>Audits receiving first-time follow-up</i>										
Jul-14	UMD University for Seniors	Good	2	2	1	1				Satisfactory
Aug-14	Minnesota Sea Grant	Good	1	1	1					Completed

Total:

81

44

16

13

12

2

1

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

(1): Dentistry continues to make significant progress towards fully implementing this recommendation, which deals with reconciling their clinical patient accounting system to the University general ledger. Further refinement of their reconciliation, in conjunction with developing written procedures and training an individual to serve as a back-up are still needed. We have discussed this with Dentistry officials and they are in agreement.

"Essential" Recommendation Implementation Trends

Month / Year of Follow-up Report

	Feb. 2015	Sept. 2014	June 2014	Feb. 2014	Sept. 2013	June 2013	Feb. 2013	Sept. 2012	June 2012	Average
# of Essential Recommendations Receiving Follow-up	44	53	34	36	64	56	67	72	89	57
# of Recommendations Considered Fully Implemented	16	12	10	13	30	13	26	16	26	18
Implementation Percentage	36%	23%	29%	36%	47%	23%	39%	22%	29%	31%

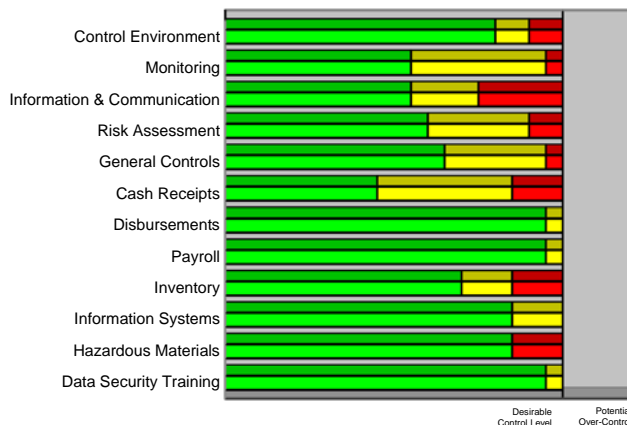
Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented

Audit/ Report Date	Status- Partially Implemented (P) or Not Implemented (N)	Senior Management Contact	Summary of the Issue/Risk Involved	Current Comments From Management
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 director of Glensheen significant progress has been made – over 3600 objects have now been entered into the online object database. However, the entire inventory may encompass more than 10,000 items, so considerable time will be required to complete the physical inventory.
	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.
# of Items	2			
Dentistry - axiUm System Feb-12	P	Jeff Ogden Leon Assael	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>University Administrative Policy entitled, Reconciling and Verifying General Ledger Accounts and Other Financial Information, states "Balance sheet accounts must be reconciled monthly. Accountability and procedures must be assigned and in place in each unit to ensure that inaccuracies or incomplete financial information identified during the reconciliation or verification process are investigated and corrected in a timely manner."</p> <p>We believe we are in compliance. With the exception of the lump sum unidentified reconciling items found by the consultant, which are discussed in further detail below, we are current with the following:</p> <p>Monthly, complete an accurate reconciliation of axiUm accounts receivable to the general ledger.</p> <p>All differences between axiUm and PeopleSoft are identified as follows: Date identified, what the issue is, how it is being resolved and by whom. Timing and other differences are clearly noted, carried forward and removed when reconciled. The method of removing previously unreconciled items from the reconciliation includes maintaining a history of all removed items. Our tracking and removal method has received approval from Central A/R.</p> <p>Bad debt is identified and entered into the GL monthly. An enhancement to the custom A/R reconcile report is in process that will ID the date of the receivable being written off. Production entry into PeopleSoft is occurring monthly and on-time. The A/R Reporting form to Central A/R is completed on a timely basis each month and includes the reconciliation spreadsheet.</p> <p>Monthly, held payments are identified as refund liability, earned income and/or unearned income, and auto-reversing journal entries, which keep axiUm and PeopleSoft in balance.</p> <p>The FY 14 reconciliation items identified by the consultant are not included in our current reconciliation because the monthly differences in deposits, adjustments and production that were identified were high level, single, monthly comparisons between both systems. The consultant assumed these were actual differences but she never did the detail work necessary to rule-out timing differences. With the exception of some small JE amounts from Athletics to PS and some refunds that we found and reconciled, and for which we changed our process to address in the future, we found no issues. To date, our investigation of these high level reconciling items, which include a complete re-do of two full months of deposit reconciliations, and investigation into all of the productivity differences, found that these differences were due to timing that the consultant did not take into account. Central A/R requests that we continue to break down and analyze the component parts of each aggregated, isolated reconcile item identified by the consultant. There are approximately 80 lines remaining. This process is time-consuming because we need to go all the way back to 7/1/2013 in order to break down and address all of the gross numbers found in her high level examination. We are in the process of completing this, and those reconciliation items do not reflect negatively on our current reconciliation process. Therefore, we believe that this recommendation is completely addressed.</p>
# of Items	1			

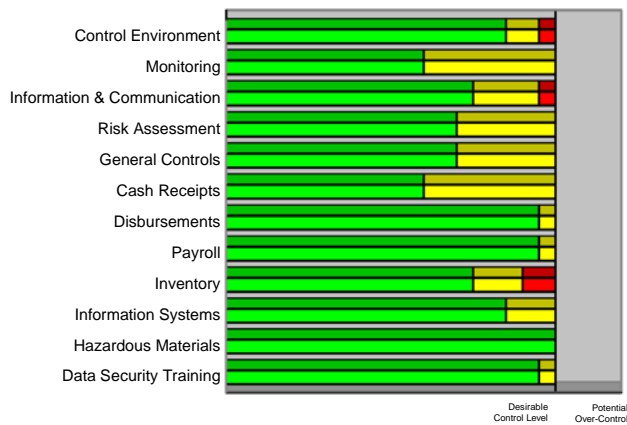
Total: 3

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 2014, 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.

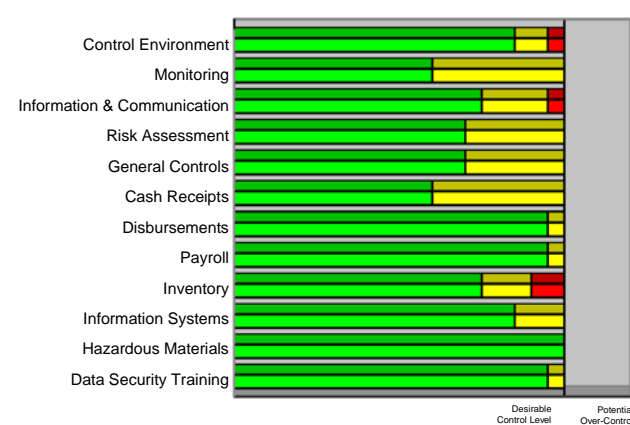
Original Report Evaluation



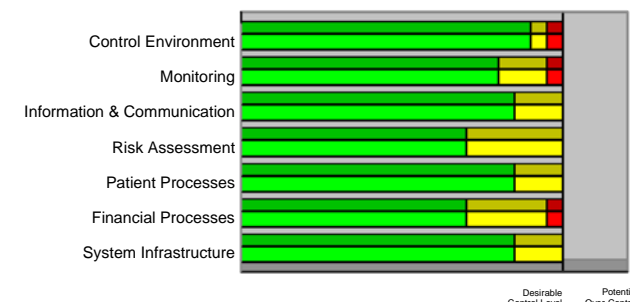
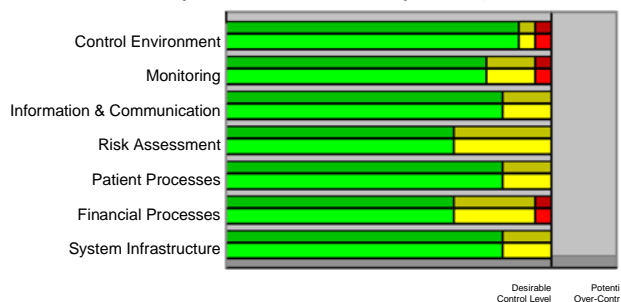
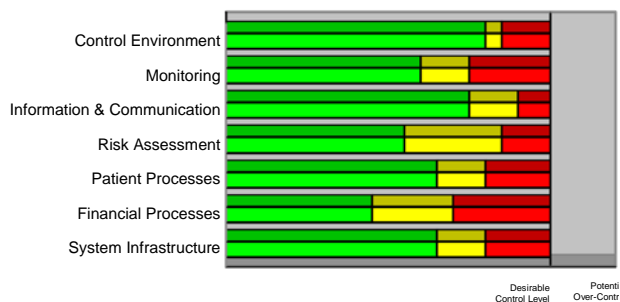
Previous Quarter Evaluation
U of MN Duluth - School of Fine Arts (October 2011)



Current Quarter Evaluation



Dentistry - axiUm (February 2012)



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

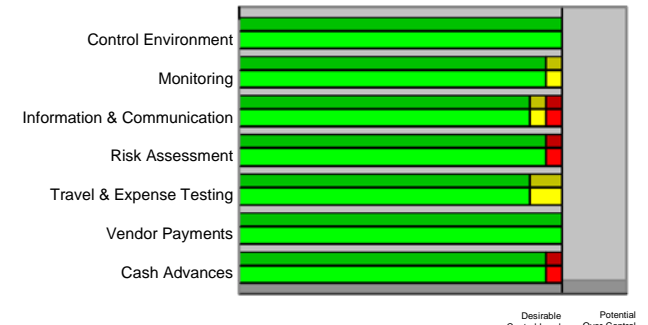
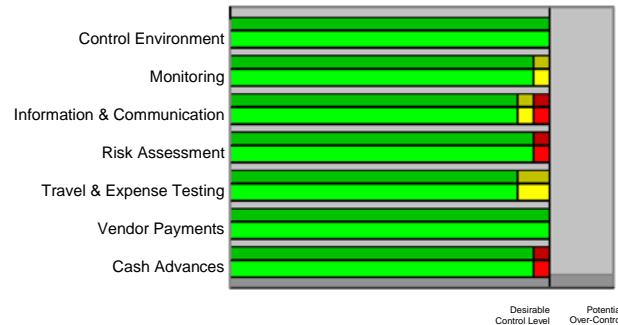
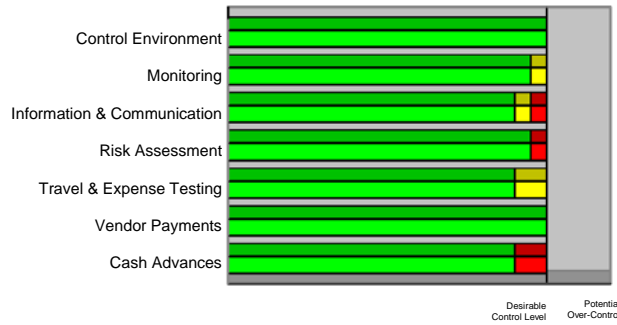
■ Potential Over-Control

Original Report Evaluation

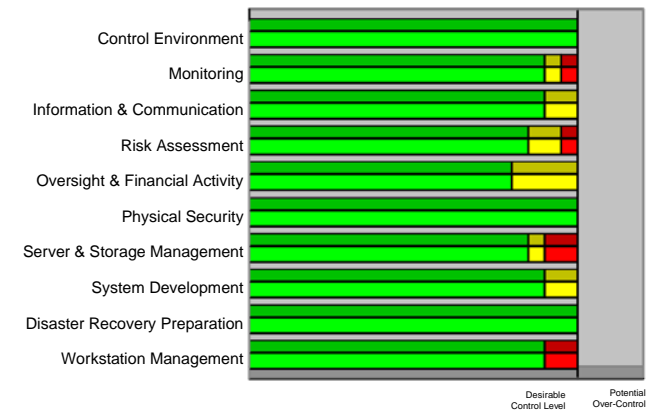
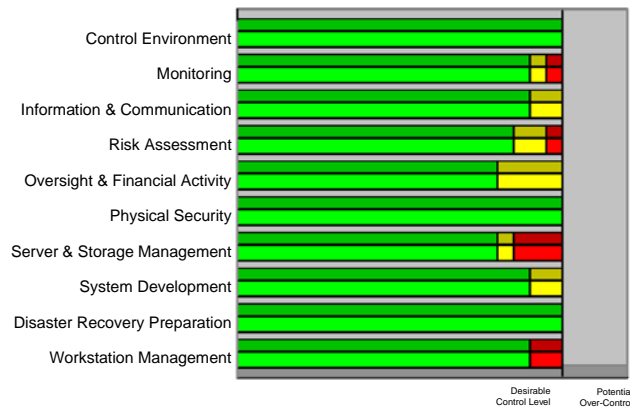
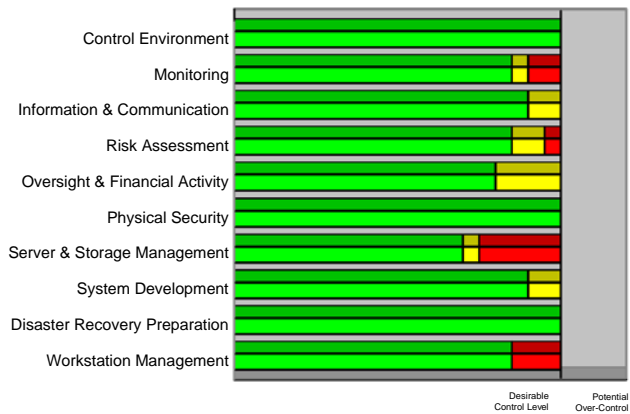
Previous Quarter Evaluation

Current Quarter Evaluation

Travel & Employee Expense Reimbursement Process (May 2013)



U of MN Duluth - Information Technology Systems and Services (December 2013)



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

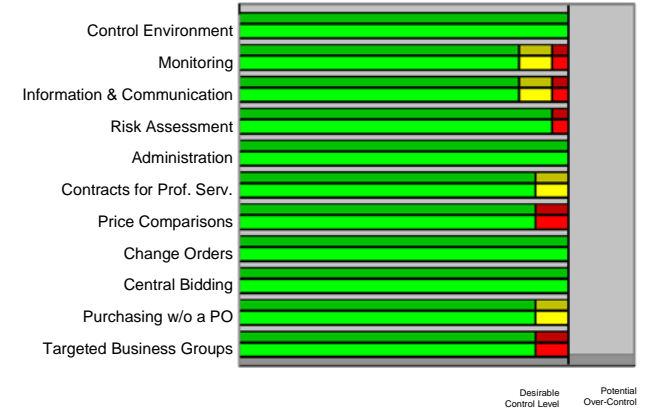
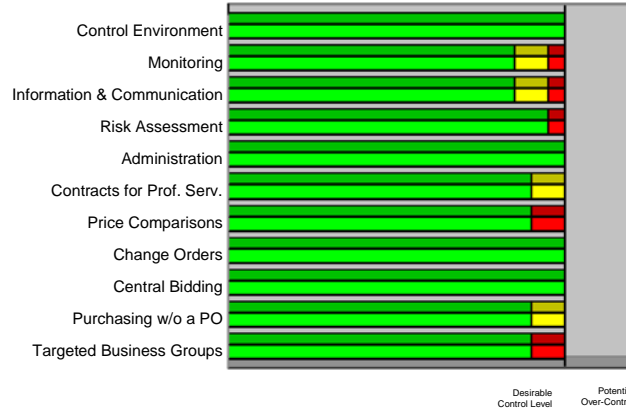
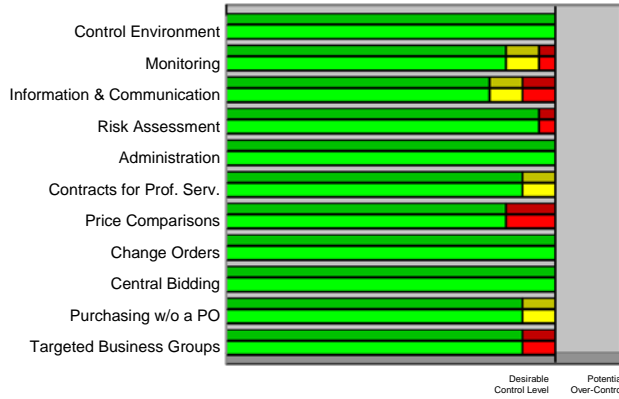
■ Potential Over-Control

Original Report Evaluation

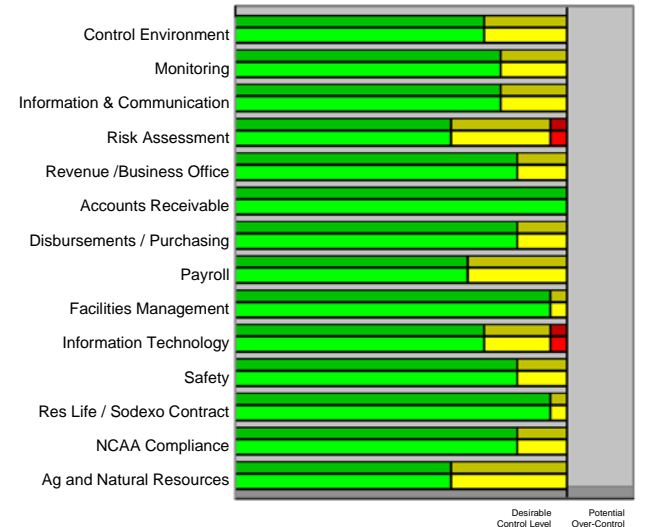
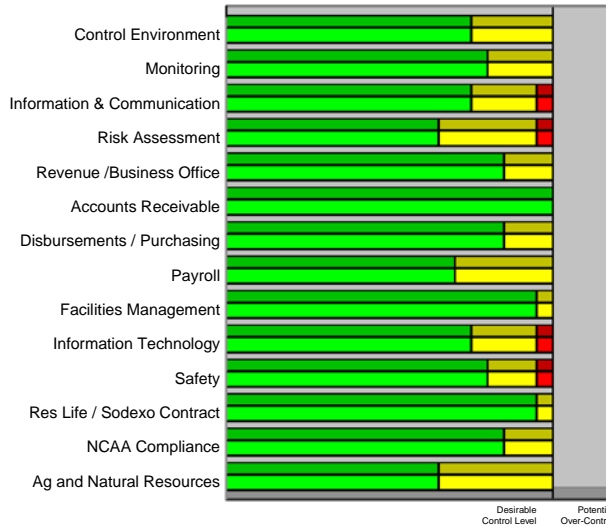
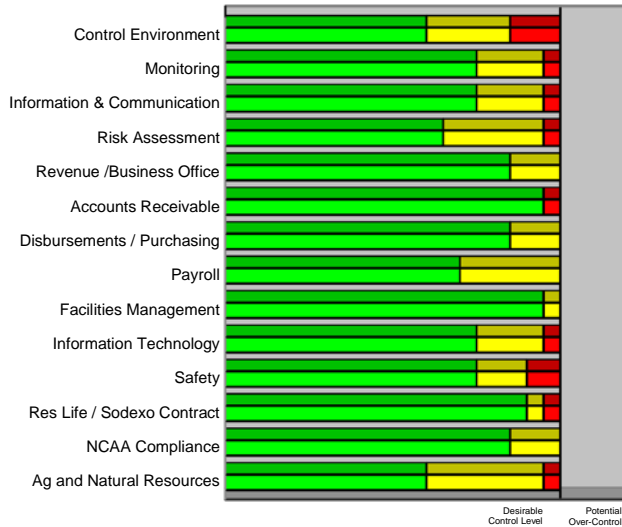
Previous Quarter Evaluation

Current Quarter Evaluation

University-wide Purchasing Process (February 2014)



UM - Crookston Campus (April 2014)



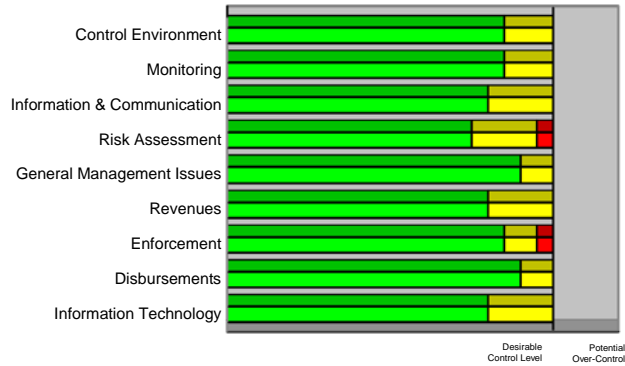
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

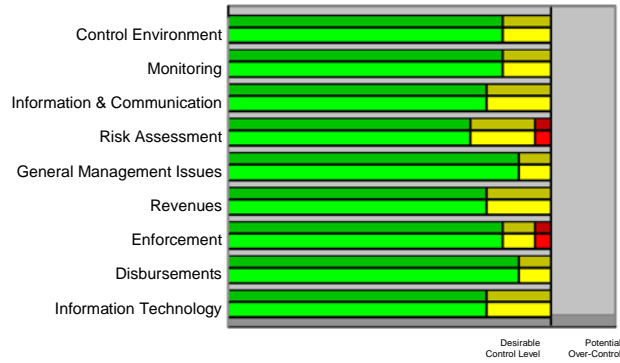
■ Potential Over-Control

Original Report Evaluation

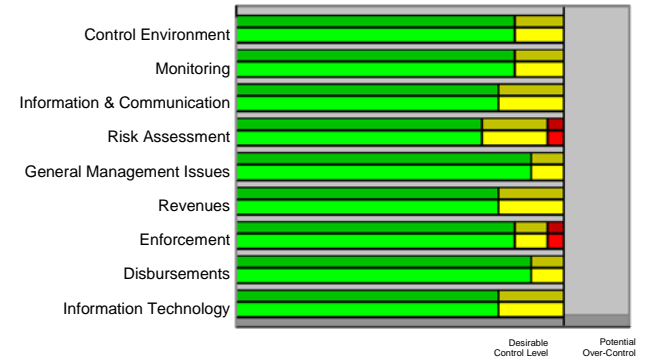


Previous Quarter Evaluation

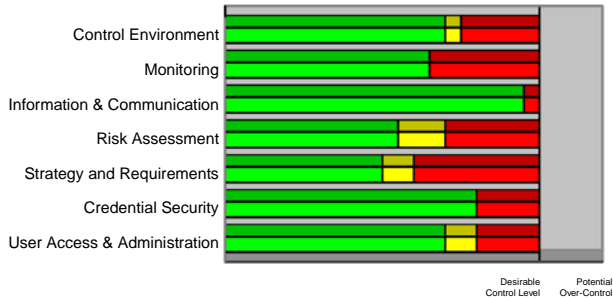
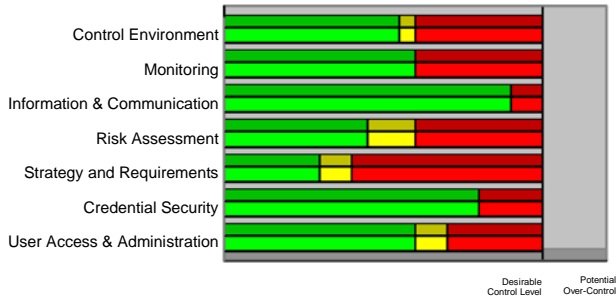
UMD Parking Services (May 2014)



Current Quarter Evaluation



Identity Management (June 2014)



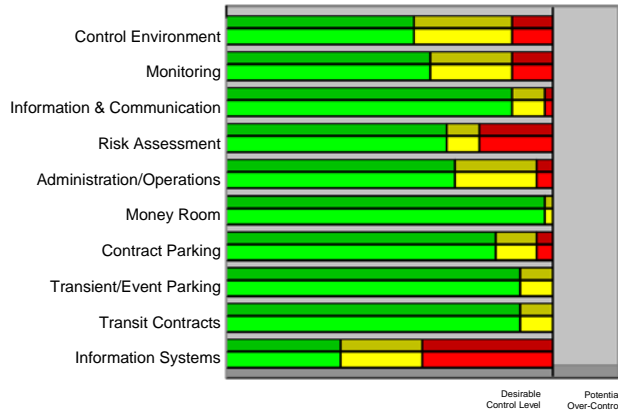
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

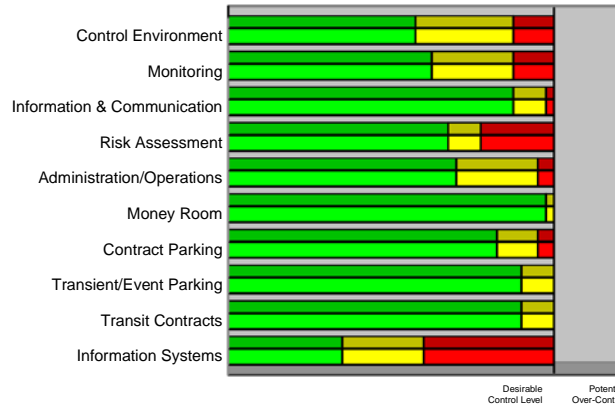
■ Potential Over-Control

Original Report Evaluation

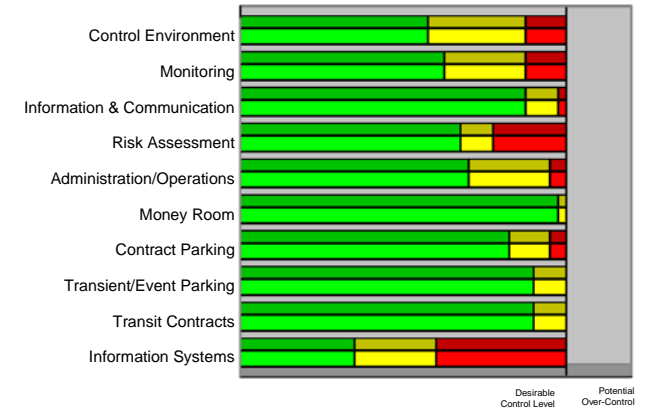


Previous Quarter Evaluation

Parking and Transportation Services (June 2014)



Current Quarter Evaluation



■ Adequate Control

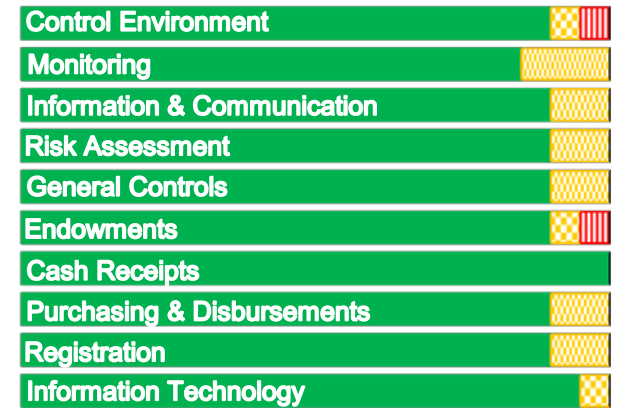
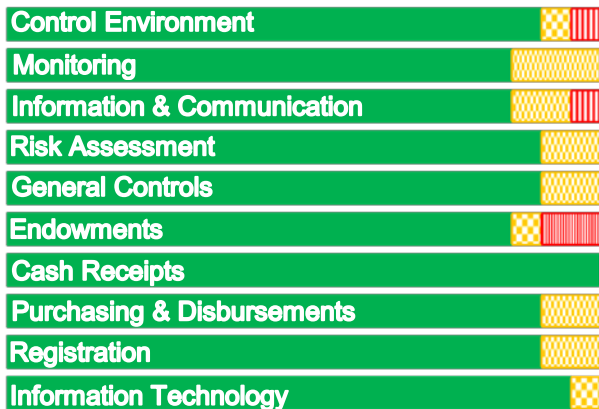
■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

UMD University for Seniors (April 2014)

NO PREVIOUS
CONTROL EVALUATION
CHART



■ Adequate Control

■ Significant Control Issue(s)

■ Critical Control Issue(s)

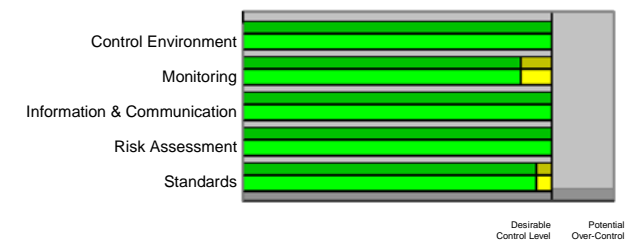
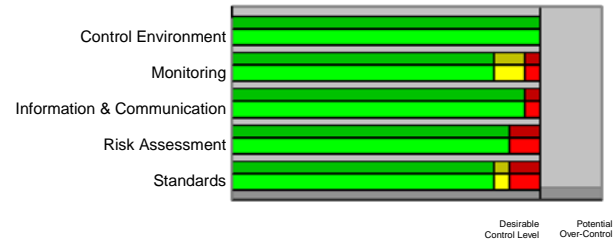
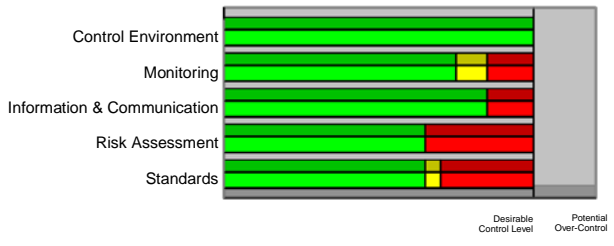
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

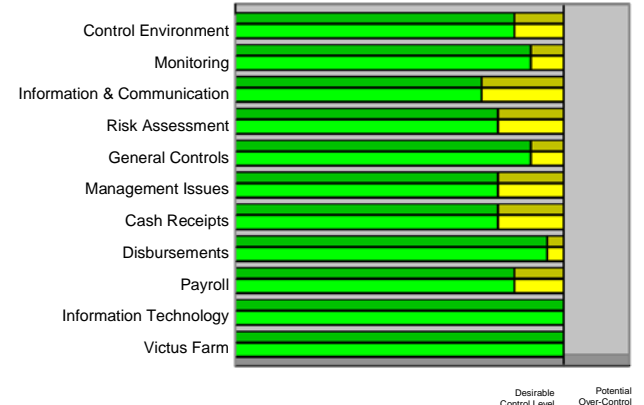
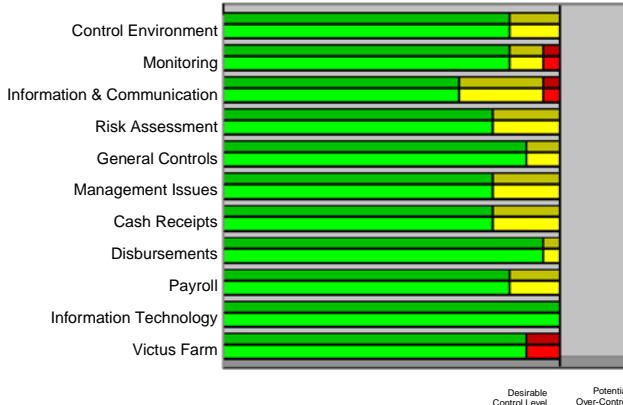
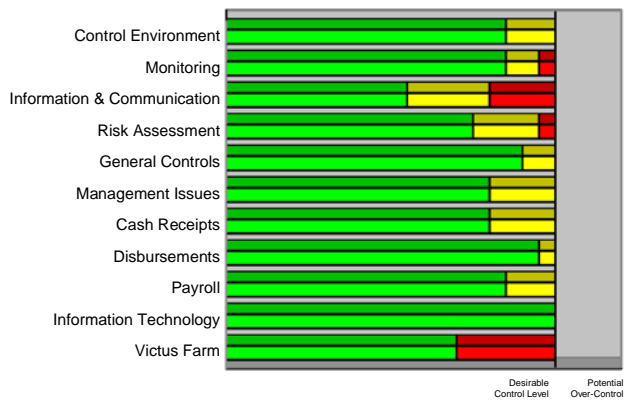
Previous Quarter Evaluation

Current Quarter Evaluation

Network Segments Not Managed By OIT (December 2012)



U of MN Duluth - College of Liberal Arts (May 2013)



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

Original Report Evaluation



Previous Quarter Evaluation

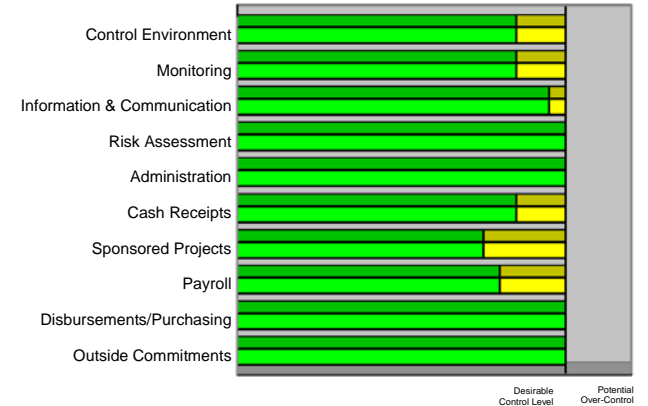
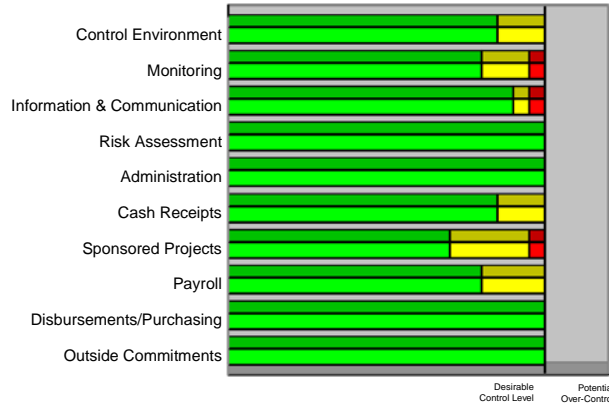
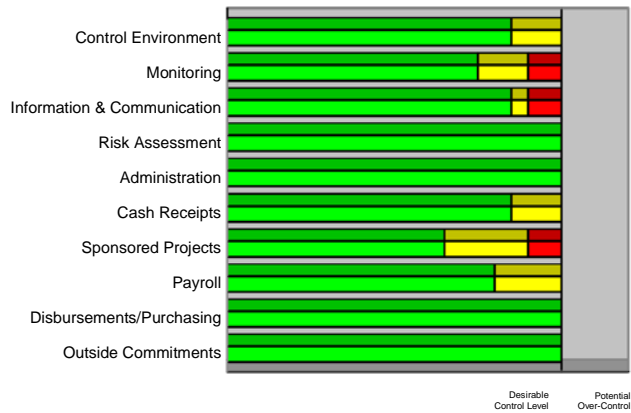
Research Data Storage (June 2013)



Current Quarter Evaluation



College of Liberal Arts, East Bank 1 Financial Services Team (April 2014)



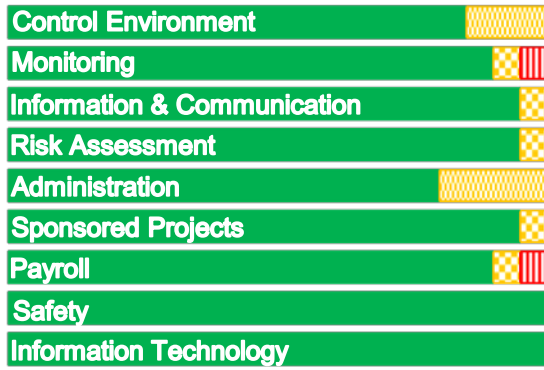
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

Original Report Evaluation

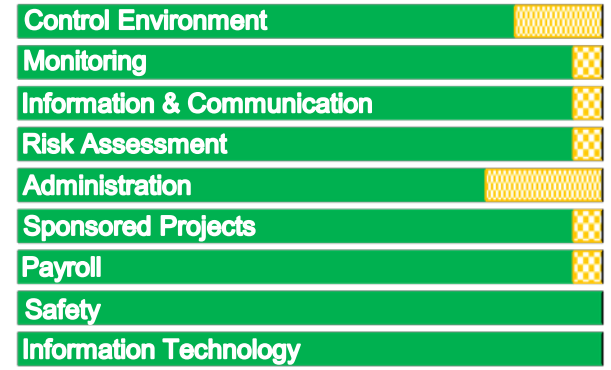


Previous Quarter Evaluation

Minnesota Sea Grant (September 2014)

NO PREVIOUS
CONTROL EVALUATION
CHART

Current Quarter Evaluation



■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Audit Activity Report

Scheduled Audits

- Completed audits of University Recreation & Wellness, a review of top University researchers, the Carlson School of Management, Executive Officer and Regent expenses, a review of the ESUP grading process upgrade, the Athletics Aspire contract, server room security and the Hormel Institute. Details are shown on the following charts.
- Began/continued audits of: Medical School Duluth campus, new technology due diligence, the Clinical Translational Sciences Institute (CTSI), Ophthalmology and Visual Neurosciences, 21st Century Development Funds, incentive compensation, the College of Science and Engineering Dean's Office and related centers, the College of Food, Agricultural and Natural Resource Sciences Dean's Office and related centers, UMD Athletics, and OIT server administration.
- Continued to monitor ESUP readiness for implementation.

Non-Scheduled Audits

- Completed requested audits of the St. Anthony Falls Lab NSF Renovation Grant, the Athletics Baseline Tennis Center and Medical School department head expenses. Reports were provided to management. Details are shown on the following charts.
- Began a requested audit of SimPORTAL & CREST (a unit within the Department of Urology).

Investigations

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

Special Projects

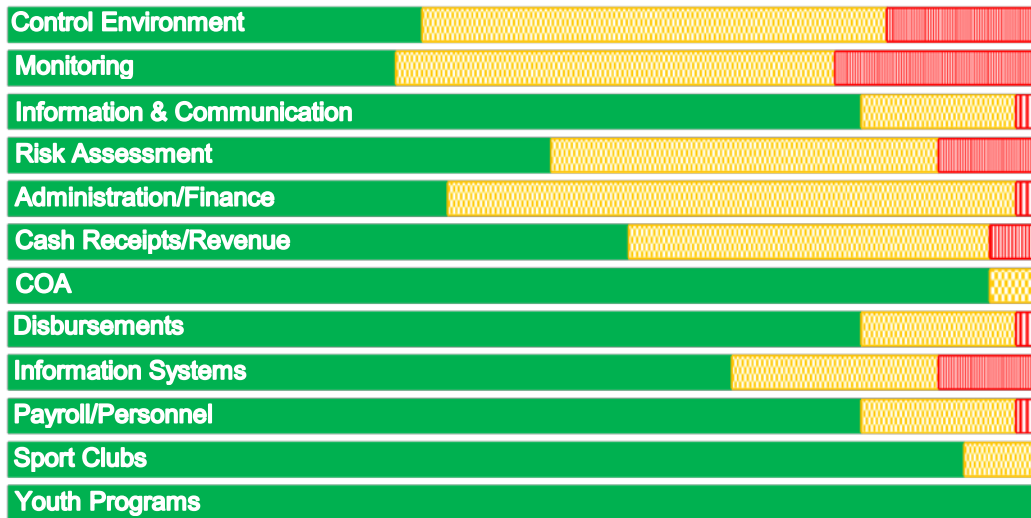
- Provided consulting services related to University payroll exception testing, performed work for the Law School related to external commitments, and began a project to review Medical School department head salary and reimbursement expenses funded by University of Minnesota Physicians.
- Participated in a search committee for an OIT Policy Analyst position, and provided technology consulting in several areas including the University's IT security framework, HIPAA security, the University's IT strategic plan, and external assessments of HIPAA security and the University's IT data security program.
- Received and reviewed an external consultant's construction audit report related to their review of the recently completed Physics Nanotechnology building.
- At the request of University Services, we are coordinating with their units to examine the potential of hiring an external consultant to assess current UM policies and procedures used for large energy-based construction projects such as the Combined Heating and Power Plant Project.

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
 - Uniform Guidance Steering Committee
 - IT Leadership Community of Practice & Advance Leadership Program

Audit Reports Issued Since September 2014

University Recreation and Wellness



Report #	1507	Issue Date	Oct-14
# of Essential Recs.	6	Total # of Recs.	34
Overall Assessment	Needs Improvement	Adequacy of MAP	Satisfactory

Results of the audit work performed show University Recreation and Wellness (RecWell) has not developed a control environment and effective monitoring to ensure internal controls are in place to address major business and technology risks. Oversight and formal procedures are critical for RecWell due to its decentralized structure and reliance upon self-directed student groups and student employees. The lack of oversight and monitoring was pervasive in RecWell operations; however, RecWell management has developed a management action plan that effectively addresses the issues in the report, and timelines for implementation of the recommendations are reasonable.

Baseline Tennis Center



Report #	1508	Issue Date	Nov-14
# of Essential Recs.	2	Total # of Recs.	7
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The Baseline Tennis Center (BTC) is the home of the University of Minnesota tennis teams in addition to serving the Twin Cities public. Results of the audit work performed show the BTC has developed a control environment and system of internal control that addresses most of its major business and compliance risks. The audit resulted in two issues considered "essential" involving conflicting employment roles for the Head Tennis Professional and not assigning accurate payroll earnings codes for bonus/commission payments.

■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

St. Anthony Falls Laboratory NSF Renovation Grant

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

Report #	1509	Issue Date	Nov-14
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Adequate	Adequacy of MAP	NA

In September 2010 SAFL received a National Science Foundation (NSF) Academic Research Infrastructure - Recovery and Reinvestment (ARI-R2) Grant totaling \$7,104,536. That award, funded by the American Recovery and Reinvestment Act (ARRA), plus Higher Education Asset Preservation and Renewal (HEAPR) funds totaling approximately \$8.7 million, were used to renovate laboratory infrastructure and facilities. From the results of our review and testing of the NSF-SAFL renovation grant expenditures, we believe there were several factors which led to several non-compliance issues, duplication of efforts and unnecessary delays that impacted this NSF sponsored award. These included inadequate communication, a lack of understanding of NSF/ARI/ARRA guidelines, and a lack of providing guidance and direction for the project team in a proactive manner by the NSF Program Officer.

A Review of Top University Researchers

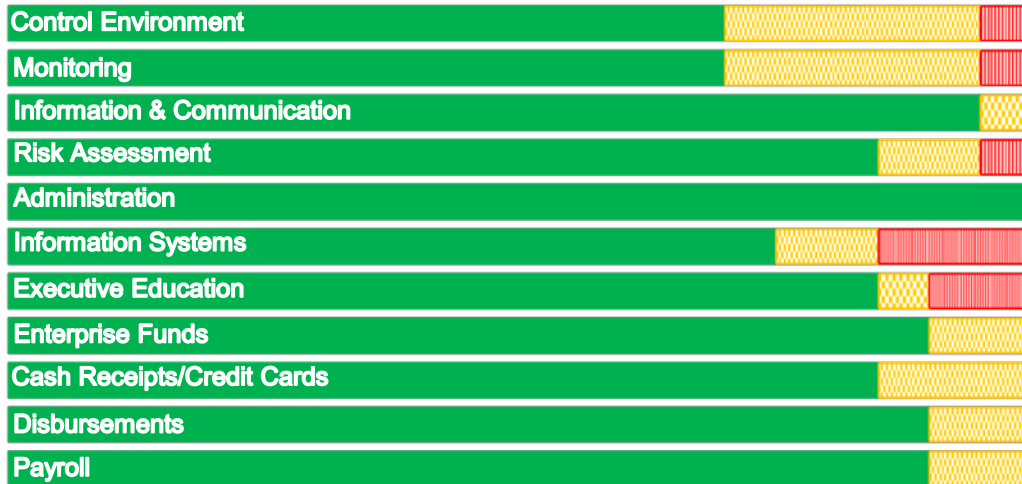


Report #	1510	Issue Date	Dec-14
# of Essential Recs.	1	Total # of Recs.	5
Overall Assessment	Good	Adequacy of MAP	Satisfactory

This audit included a review and assessment of current operating controls and procedures used by twelve of the University's top researchers. Collectively, these researchers were managing 107 sponsored awards with expenditures totaling \$83.4 million during the audit period. From the results of the audit work performed, we believe the twelve researchers tested are managing their sponsored projects in general compliance with both University and sponsoring agency policies and regulations. Any exceptions noted were for items we also typically identify during our ongoing audits of sponsored projects at the University. An "essential" recommendation was developed concerning the need for improved systems to better manage and monitor subcontracts.

■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Carlson School of Management



Report #	1511	Issue Date	Dec-14
# of Essential Recs.	3	Total # of Recs.	19
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The Carlson School of Management (CSOM) has developed a control environment and a system of internal control that addresses its most significant business, compliance and information technology risks. Issues considered “essential” to minimizing risks include access management processes for CSOM information systems, which has allowed users to have inappropriate access to some systems and insufficient logging and monitoring for its applications. Also, Executive Education and other units within the CSOM had not fully implemented a billing process that utilizes the EFS Nonsponsored Accounts Receivable module, resulting in increased cash handling duties and operational inefficiencies. We noted CSOM projecting a FY2015 operating deficit of \$2.1 million. Management continues to work with the Office of Budget and Finance to address their financial issues.

Executive Officer and Regent Expenses

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

Report #	1512	Issue Date	Jan-15
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Good	Adequacy of MAP	NA

This audit included a review and assessment of executive officer and regent expenses processed during fiscal years 2013 and 2014. The audit resulted in no issues considered “essential” to minimizing existing operational and compliance risks; however, for the criteria used to evaluate compliance with University policies, we noted one area of concern involving reimbursement for non-conference lodging expenses exceeding the 150% limit. Our review noted that 13% of all the lodging expenses reviewed exceeded the 150% limit, and prior approval had not been obtained to exceed the limits. We have worked with the respective University official(s) or business process owner(s) to ensure any expenses charged to an unallowable funding source are moved an appropriate fund code, any over/underpayments \$25 or greater are corrected, and controls are improved and processes are revised as necessary.

■ Adequate Control
 ▨ Significant Control Issue(s)
 ■ Critical Control Issue(s)

A Review of the ESUP Grading Process Upgrade



Report #	1513	Issue Date	Jan-15
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Good	Adequacy of MAP	NA

This audit included a review of the process used to manage the development and implementation of the new Grading Process, part of the Enterprise System Upgrade Program. From the results of the audit work performed, we believe Academic Support Resources has adequately addressed the major risks and concerns related to the Grading portion of the Upgrade. Grading is a piece of the Student Records module, which is undergoing significant redesign and improvements in the upgrade. Even though ASR was unable to provide a formal analysis of project risk, no major gaps were noted. Stakeholders, instructors and other staff were consulted on significant changes, and communication to future users has been frequent.

Athletics Aspire Contract

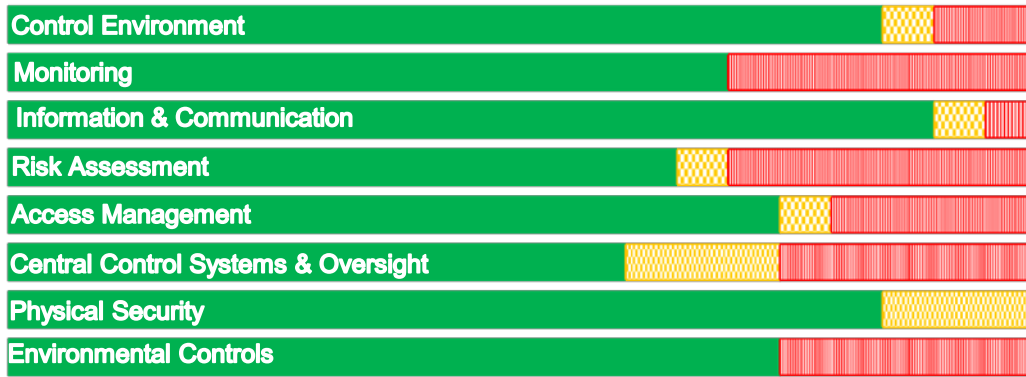


Report #	1514	Issue Date	Jan-15
# of Essential Recs.	1	Total # of Recs.	7
Overall Assessment	Adequate	Adequacy of MAP	Satisfactory

Athletics entered into a contract with The Aspire Sport Marketing Group LLC (Aspire) in April 2012. The goal of the contract is to maximize sales revenue, increase attendance, and build life-long relationships with fans. Aspire currently serves as the main sales personnel for new season ticket sales (not season ticket renewals), individual game sales, and group sales. We believe the controls and processes related to the Aspire Athletic ticketing contract are generally effective. Contract management controls relating to ticketing and commissions for the Aspire contract are stronger than those observed during our previous audits of Athletic contracts. The one item rated as "essential" is due to the miscalculation of management fees since the inception of the contract, resulting in Athletics overpaying Aspire.

■ Adequate Control
 ▨ Significant Control Issue(s)
 ■ Critical Control Issue(s)

Server Room Security



Report #	1515	Issue Date	Jan-15
# of Essential Recs.	17	Total # of Recs.	22
Overall Assessment	Needs Improvement	Adequacy of MAP	Satisfactory

Server rooms are facilities housing one or more servers and associated components. These rooms' physical security, access, and environmental controls are foundational requirements for data security. This audit found that the University has 24 critical server rooms managed by 18 different units. Several of these server rooms, including the University's primary server room, are well managed and have strong controls. However, we identified vulnerabilities in many non-centrally managed server rooms that could compromise critical systems' data confidentiality, integrity and availability. In addition, there is insufficient overall oversight of server rooms across the University, and problems exist with some central control systems and processes.

Medical School Department Head Expenses

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

Report #	1516	Issue Date	Jan-15
# of Essential Recs.	1	Total # of Recs.	2
Overall Assessment	Adequate	Adequacy of MAP	Satisfactory

This audit included a review of Medical School department head and select Dean's Office executive expenses incurred by the University during fiscal years 2013 and 2014. We believe the expenses of these individuals, while generally in compliance with University policies and procedures, would benefit from improved review and oversight. The majority of department heads are not obtaining the required "one-up approval" when submitting their expense reimbursements and procurement card transactions for approval.

■ Adequate Control
 ■ Significant Control Issue(s)
 ■ Critical Control Issue(s)

Hormel Institute



Report #	1517	Issue Date	Jan-15
# of Essential Recs.	1	Total # of Recs.	11
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The Hormel Institute was established in 1942 by an agreement between the Regents of the University of Minnesota and the Hormel Foundation as a research unit of the University's Graduate School. Oversight for the Hormel Institute has since moved to the Office of the Vice President for Research. The mission of the Hormel Institute is to conduct research and provide education in the biological sciences with applications in medicine and agriculture. We believe the Hormel Institute has developed a control environment and a system of internal control that addresses most major business, compliance and information technology risks. The audit resulted in one recommendation considered "essential", and it relates to a lack of adequate monitoring of the Animal Care Facility (ISO) operational and financial activity as well as poor maintenance of supporting records for ISO charges.