



# Audit & Compliance Committee

December 2015

December 10, 2015

3:30 p.m.- 5:15 p.m.

West Committee Room, McNamara Alumni Center

# AUD - DEC 2015

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**December 10, 2015**

**AGENDA ITEM:** External Auditor Report

Review

Review + Action

Action

Discussion

*This is a report required by Board policy.*

**PRESENTERS:** Michael Volna, Associate Vice President & Controller  
Katie Knudtson, Partner, Deloitte & Touche LLP  
Judith Dockendorf, Senior Manager, Deloitte & Touche LLP

## **PURPOSE & KEY POINTS**

Deloitte will present the audit results for the FY 2015 annual financial report. Information presented by Deloitte will cover:

- The auditor's opinion on the University's financial statements.
- Significant accounting policies.
- Accounting estimates.
- Audit adjustments.
- Other required communications.

## **BACKGROUND INFORMATION**

The Audit & Compliance Committee oversees external audit engagements on behalf of the Board of Regents. The FY 2015 annual financial report is included in the December 11, 2015 Board docket.

## University of Minnesota

### Presentation to the Audit & Compliance Committee of the Board of Regents



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Our professional standards require that we communicate with you concerning financial, accounting, and auditing matters that may be of interest to you in fulfilling your oversight fiduciary responsibilities. We have prepared the following comments to assist you in that regard.

# Summary financial information

## Consolidated Statements of Net Position (excluding component units)

(In thousands)

As of:	June 30, 2015	June 30, 2014	June 30, 2013
<b>ASSETS</b>			
Current assets	\$ 694,115	\$ 589,977	\$ 629,376
Other noncurrent assets	2,281,179	2,231,939	2,040,048
Capital assets, net	<u>2,957,133</u>	<u>2,900,494</u>	<u>2,876,914</u>
Total assets	<u>\$ 5,932,427</u>	<u>\$ 5,722,410</u>	<u>\$ 5,546,338</u>
<b>Deferred outflows of resources</b>	\$ 25,100		
Total assets and deferred outflows of resources	<u>\$ 5,957,527</u>	<u>\$ 5,722,410</u>	<u>\$ 5,546,338</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 473,587	\$ 444,319	\$ 443,100
Other noncurrent liabilities	502,318	208,518	184,726
Long-term debt	1,421,428	<u>1,282,507</u>	<u>1,300,730</u>
Total liabilities	<u>\$ 2,397,333</u>	<u>\$ 1,935,344</u>	<u>\$ 1,928,556</u>
<b>Deferred inflows of resources</b>	\$ 368,220		
<b>NET POSITION</b>			
Unrestricted	\$ 290,546	\$ 812,356	\$ 820,146
Restricted-expendable	927,440	1,004,191	865,819
Restricted-nonexpendable	297,469	289,366	277,601
Invested in capital assets, net of related debt	<u>1,676,519</u>	<u>1,681,153</u>	<u>1,654,216</u>
Total net position	<u>\$ 3,191,974</u>	<u>\$ 3,787,066</u>	<u>\$ 3,617,782</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 5,957,527</u>	<u>\$ 5,722,410</u>	<u>\$ 5,546,338</u>

## Consolidated Statements of Revenues, Expenses and Changes in Net Position (excluding component units)

(In thousands)

For the Year Ended:	June 30, 2015	June 30, 2014	June 30, 2013
Operating revenues	\$ 2,155,654	\$ 2,093,360	\$ 2,080,367
Operating expenses	<u>3,254,736</u>	<u>3,260,294</u>	<u>3,064,216</u>
Operating loss	(1,099,082)	(1,166,934)	(983,849)
State and federal appropriations	660,261	633,863	597,530
Investment income, net	82,078	234,407	122,797
Capital appropriations	59,714	83,081	98,396
<b>INCREASE IN NET POSITION</b>	<b>\$ 87,453</b>	<b>\$ 169,284</b>	<b>\$ 189,839</b>
Cumulative effect of change in accounting principle	(682,545)		
Net change in net position	<u>\$ (595,092)</u>	<u>\$ 169,284</u>	<u>\$ 189,839</u>

## Consolidated Statements of Cash Flows (excluding component units)

(In thousands)

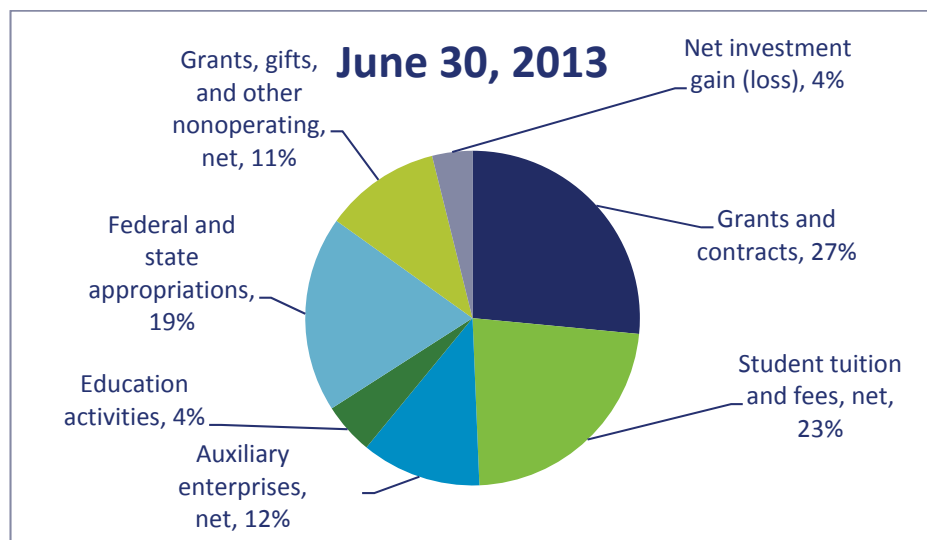
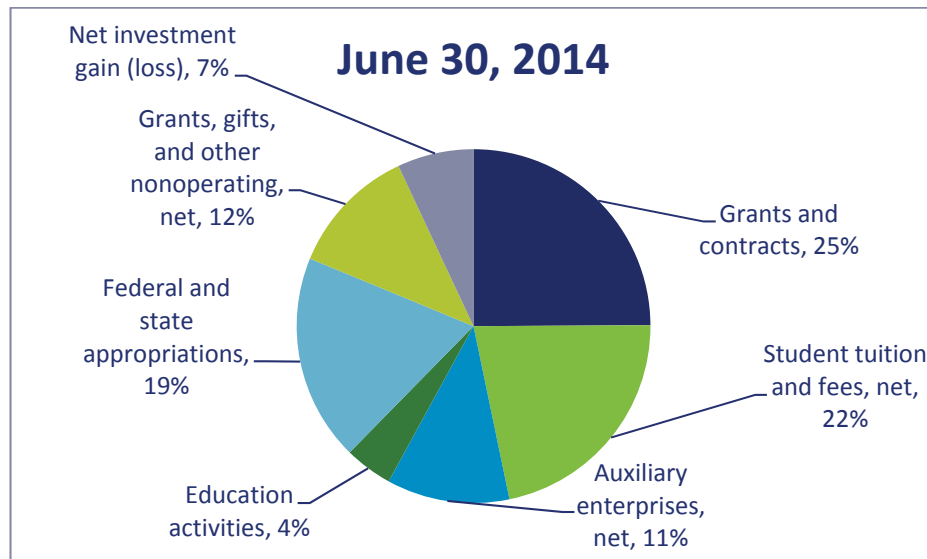
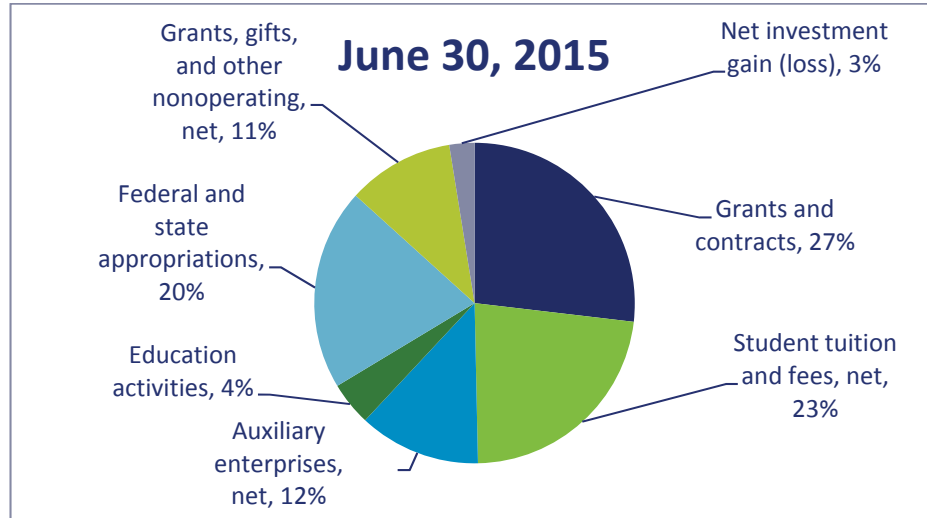
For the Year Ended:	June 30, 2015	June 30, 2014	June 30, 2013
Net cash used by operating activities	\$ (891,340)	\$ (924,284)	\$ (781,600)
Net cash provided by non-capital financing activities	1,079,210	1,038,968	925,488
Net cash used by capital and related financing activities	(93,844)	(204,533)	(223,374)
Net cash (used) provided by investing activities	<u>(72,236)</u>	<u>118,775</u>	<u>4,977</u>
Net increase (decrease) in cash	21,790	28,926	(74,509)
CASH — beginning of the year	<u>309,937</u>	<u>281,011</u>	<u>355,520</u>
CASH — end of the year	<u>\$ 331,727</u>	<u>\$ 309,937</u>	<u>\$ 281,011</u>

## Enrollment Statistics

As of:	June 30, 2015	June 30, 2014	June 30, 2013
Approximate student enrollment	68,000	68,000	68,400



**Total revenues**



# Strengths, challenges and accomplishments of the University

## Strengths of the University

- Ability and commitment to respond to changes, including new accounting pronouncements, such as GASB No. 68, *Accounting and Financial Reporting for Pensions*
- Strong accounting and finance functions
- Strong internal audit function with experienced professionals
- Research spending of \$504 million benefits the entire state of Minnesota
- Diverse revenue base from tuition, state appropriations, federal grants, private gifts, grants, and contracts
- Strong net asset position
- Continued strong bond ratings (ability to generate additional funding)
  - Aa1 rating (Moody's-August 2015)
  - Strong market position for student and research and market conditions and ample financial resources and liquidity. Although state operating support has been modest in recent years, the University receives good capital support in the form of debt service (Moody's - August 2015)
- Short and long term planning
- Long range capital planning
- Quality – ability to raise tuition and still have enrollment growth
- Strong endowment gains
- Focus on technology

## Challenges faced by the University

- Rising student expectations: academic quality, facilities, and employment opportunities
- Attracting and retaining the best academic talent
- Succession planning for key leadership positions
- Need for continued recruitment and retention of high-quality individuals within the finance and accounting departments
- Erosion of public funding, particularly state appropriations, modest increase for FY 2014-2015 biennium, while costs continue to rise
- Decentralization in an environment of shared services business models

## Accomplishments of the University

- Ability to respond to state funding shortfall while increasing graduation rates, increasing retention rates and increased first year student ACT scores
- Limited litigation exposure
- Minimal unrecorded audit adjustments
- Accounting Services met all significant audit deadlines and appears to have a strong desire to do what is right
- Successful bonding activity, solid bond ratings in the very strong category
- Risk Tolerance working group with formal presentations of risk heat maps to the Audit & Compliance Committee

# Required communications with the Audit & Compliance Committee

## Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

Our engagement letter dated June 1, 2015, described our responsibility under generally accepted auditing standards (GAAS) and *Government Auditing Standards* (GAS) including:

- To report whether, in our opinion, the consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America (GAAP) in all material respects
- To consider internal controls and assess control risk to the extent necessary to plan and perform audit procedures rather than to provide assurance on internal controls
- Our procedures are not designed specifically to detect fraud

We have completed our audit of the consolidated financial statements of the University of Minnesota (the "University") as of and for the year ended June 30, 2015. We have issued an unmodified opinion on the consolidated financial statements of the University.

We believe our audit fulfilled the objectives set forth in our engagement letter.

## Internal controls

As described in our engagement letter, GAAS requires, among other things, that we obtain a sufficient understanding of the University's internal controls to enable us to properly plan our audit and to determine the nature, timing, and extent of our audit procedures to be performed. No observations or recommendations represent significant deficiencies or material weaknesses in internal controls for fiscal year 2015.

## Significant accounting policies

The University's significant accounting policies are set forth in Note 1 to the 2015 consolidated financial statements.

The University adopted Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Reporting for Pensions*, and GASB No. 71, *Pension Transfer for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, as of and for the year ended June 30, 2015, which required state and local government employers to recognize a net pension liability for defined benefit plans where the entity is a participant. The adoption of GASB Nos. 68 and 71 resulted in the University recording deferred outflows of resources of \$25.1 million, a net pension liability of \$266.5 million, and deferred inflows of resources of \$368.2 million. The adoption also resulted in a decrease of net assets of \$609.6 million.

During the year ended June 30, 2015, there were no other significant changes in previously adopted accounting policies or their application.

## Accounting estimates and key audit risks

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management’s judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and assumptions about future events.

Our conclusions as to the reasonableness of estimates, as expressed in our independent auditors’ report, are based upon the testing of management’s estimates and/or the development of an independent expectation of the estimates to corroborate management’s estimates.

During the year ended June 30, 2015, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

Significant accounting estimates and key audit risks reflected in the 2015 consolidated financial statements include the following areas:

### Summary of Accounting Estimates and Key Risks

- Valuation of investments and cash and cash equivalents
- Long-term debt and Interest rate swaps
- Recognition of revenue in the appropriate period
- GASB 68 Implementation
- Information management and communication
- Federal grant compliance

Financial Statement Account and 2015 \$'s	Audit Procedures	Management’s Assertions
Valuation of investments and cash and cash equivalents (Investments of \$2.058 billion (\$1.052 billion considered alternative investments) and cash and cash equivalents of \$183 million) (further breakout of investments included below)	<ul style="list-style-type: none"> <li>• Read the valuations provided by external investment managers and management’s year-end analysis to evaluate how positions are marked to market for a selected sample. Assessed the underlying assumptions used to determine fair value for alternative investment vehicles.</li> <li>• Updated our understanding of the University’s investment portfolio and considered investment strategies or products that pose control or financial reporting risks.</li> <li>• Understood and documented the oversight and monitoring procedures performed by management when investing in new funds, quarterly and annually.</li> <li>• Obtained an understanding of the internal controls over the monitoring of and reporting on on-going invested funds.</li> <li>• Reviewed transactions at or near the balance sheet date which support the valuation of the investment for a selected sample.</li> <li>• Independently tested pricing of readily marketable investments for a selected sample.</li> <li>• Confirmed directly with external investment managers and requested related audited financial statements as required by American Institute of Certified Public Accountants guidance to verify underlying value of alternative investments for a selected sample. Performed rollforward procedures from audited financial statement date to June 30, 2015 for a selected sample.</li> <li>• Compared investment fund returns to standard industry benchmark for a selected sample.</li> </ul>	Management has represented that the assumptions used are reflective of management’s intent and ability to carry out specific courses of action and are consistent with the University’s plan and past experiences. Also, these assumptions and methods used result in a fair value measure appropriate for financial statement disclosure purposes in accordance with GAAP.

Financial Statement Account and 2015 \$'s	Audit Procedures	Management's Assertions
<p>Interest rate swaps and long-term debt (Interest rate swaps notional amounts of \$70 million and fair value of (\$6.8) million) (Long-term debt of \$1.421 billion)</p>	<ul style="list-style-type: none"> <li>• Confirmed long-term debt.</li> <li>• Assessed the University's compliance with debt covenants.</li> <li>• Obtained an understanding of all interest rate swap agreements.</li> <li>• Reviewed management's analysis and conclusion on accounting for interest rate swap agreements.</li> <li>• Assessed the financial condition of the interest rate swap counterparties.</li> </ul>	<p>Management has represented they have properly accounted for interest rate swap agreements, and that there are no negative financial conditions with any of the interest rate swap counterparties. Further, management has represented that the University is in compliance with all debt covenants as of June 30, 2015.</p>
<p>Recognition of revenue in the appropriate period (Student tuition and fees revenue of \$740.5 million, net of allowance of \$253.9 million) (Grant and contract revenue of \$874.3 million) (Other operating revenue of \$540.9 million, net of allowance of \$9.8 million)</p>	<ul style="list-style-type: none"> <li>• Reviewed student tuition and fees and other revenue recognition accounting policies and procedures through our testing of internal controls</li> <li>• Audited student tuition and fees and other revenues recorded through substantive analytical and detailed testing procedures as well as testing completed within the federal grant compliance audit</li> <li>• Reconciled federal grant and contracts revenue with the federal grant compliance audit.</li> </ul>	<p>Management has represented that revenues have been recorded at the appropriate amounts and within the appropriate periods. Management has also represented that amounts recorded as federal grant and contracts revenue reconciles to revenues recorded within the federal grant compliance audit.</p>
<p>GASB 68 Implementation</p>	<ul style="list-style-type: none"> <li>• Assessed the University's implementation of GASB 68 for its state pension plans</li> <li>• Obtained an understanding of the assumptions utilized in the actuarial analysis for the state pension plans</li> <li>• Tested the underlying data utilized in the actuarial analysis</li> </ul>	<p>Management has represented that amounts recorded for the impact of the implementation appropriately represent the University's obligation at June 30, 2015.</p>
<p>Information management and communication</p>	<ul style="list-style-type: none"> <li>• Utilized internal IT specialists to test and evaluate the computer-related controls within the business cycles, including revenue, expenditures, and payroll and personnel.</li> <li>• Performed internal control procedures around the University's ability to accumulate accurate and reliable information.</li> <li>• Performed procedures over the Enterprise Upgrade Project related to PeopleSoft, which went live in April 2015</li> </ul>	<p>Management has represented that they have appropriate IT controls in place to produce accurate and reliable information to generate the consolidated financial statements.</p>
<p>Federal grant compliance (Federal and state grants of \$1.036 billion)</p>	<ul style="list-style-type: none"> <li>• Understood compliance regulations applicable to the University's major federal programs as described in the U.S. Office of Management and Budget Circular A-133.</li> <li>• Held discussions with management, research leaders, and principal investigators and updated our understanding of procedures in place to comply with federal regulations.</li> <li>• Evaluated effort reporting costs charged to government grants in accordance with federal regulations.</li> <li>• Coordinated our tests for financial reporting purposes with our tests of compliance with government regulations.</li> <li>• Reviewed methodology and calculation used to determine indirect cost rate used by the University during the current fiscal year.</li> </ul>	<p>Management has represented that they have identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program as identified in Part 3 of the Compliance Supplement dated June 2015. Also, management has represented that they have made available all information related to federal financial reports and claims for advances and reimbursements, which are supported by the books and records from which the consolidated financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards.</p>

## Investments detail

(In thousands)

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds	RUMINCO	Total
Fixed income	\$675,209	\$223,162	\$51,237		\$15,133	\$964,741
Public equity		421,541			24,278	445,819
Private capital		355,345				355,345
Inflation hedges		150,458				150,458
Other	_____	<u>124,471</u>	_____	<u>\$17,245</u>	_____	<u>141,716</u>
Total investments	\$ 675,209	\$1,274,977	\$51,237	\$17,245	\$39,411	\$2,058,079

## Audit adjustments

Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or fraud. In addition, we are obligated by GAAS to inform you of any adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the University's financial reporting process. We identified an understatement of beginning net position and an overstatement of current period research operating expense of \$5.7 million related to a true-up in writing off sponsored grant fabrication assets that the University no longer held title to. There were no material corrected misstatements, or disclosure items passed that were identified during our audit.

## Disagreements with management

We have not had any disagreements with management related to matters that are material to the University's 2015 consolidated financial statements.

## Our views about significant matters that were the subject of consultation with other accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2015.

## Significant findings or issues discussed, or subject of correspondence, with management prior to our retention

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

## Significant difficulties encountered in performing the audit

In our judgment, we received the full cooperation of the University's management and staff and had unrestricted access to the University's senior management in the performance of our audit.

### **Management representations**

We have made specific inquiries of the University's management about the representations embodied in the consolidated financial statements. Management provided to us the written representations the University is required to provide to its independent auditors under generally accepted auditing standards.

### **Emphasis of matter paragraph**

Our opinion on the consolidated financial statements includes an emphasis of matter paragraph related to the adoption of GASB Statement No. 68 given the magnitude of the impact of the adoption. Our opinion was not modified with respect to this matter.

### **Other matters paragraph**

Our opinion on the consolidated financial statements includes an other matter paragraph specific to the required supplementary information, management's discussion and analysis and the Schedule of Funding Progress for Supplemental Benefits Plan and Other Postemployment Benefits, which are included in the consolidated financial statements. Our opinion was not modified with respect to this matter.

### **Other findings or issues**

There are no other findings or issues arising from the 2015 audit that are, in our professional judgment, significant and relevant to those charged with governance, regarding their oversight of the financial reporting process.



# Communication of peer review results

## Peer Review

Deloitte participates in the American Institute of Certified Public Accountants (AICPA) Peer Review Program. The AICPA Peer Review Program requires independent evaluation every three years of those portions of a firm's accounting and auditing practice that are not subject to PCAOB permanent inspection so firms can meet their state licensing, federal regulatory, and AICPA membership requirements.

In 2014, Grant Thornton LLP (GT) completed the most-recent triennial peer review of D&T's system of quality control for our accounting and auditing practice applicable to engagements not subject to PCAOB permanent inspection for the year ended March 31, 2014. GT issued a report with a peer review rating of pass. A peer review report with a rating of pass means that D&T's system of quality control for the accounting and auditing practice applicable to engagements not subject to PCAOB permanent inspection has been suitably designed and complied with to provide D&T with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

The peer review report is included in Appendix A and can be found online at <https://peerreview.aicpa.org/publicfile/Popup.aspx?f=10016352&r=359572&t=REV&s=1&e=.pdf>.

# Information technology control procedures

- We deployed information technology controls specialists as part of our financial statement audit procedures to test general information technology controls related to the following relevant financial reporting systems:
  - PeopleSoft Campus Solutions
  - PeopleSoft Human Resource Management System
  - PeopleSoft Enterprise Financial Systems
- We performed procedures to gain a detailed understanding of Information Technology (IT) controls related to core areas considered part of the financial audit framework of controls over financial reporting. The areas reviewed were Information Security, Data Center Operations, and System Change Control.
- We performed procedures around the University's Enterprise Upgrade Project that went live in April 2015. Those procedures included testing of the transfer of data and understanding controls over the upgrade.
- We held discussions with the University regarding the University's considerations related to cyber security noting that:
  - Cyber security is a focus of the University given the nature of the business and the operational and brand effects that could result from a breach
  - The cyber security program is evaluated for efficacy and additional protection elements are added as needed

# Summary of other 2015 audit services

## A-133 Single Audit

- Testing is focused on Research and Development and Student Financial Assistance, two of the major federal programs at the University.
- One additional program, Special Education Technical Assistance on State Data Collection, was tested as a major program for the year ended June 30, 2015.
- Report issued November 2015.
  - No findings noted.
- Federal expenditures for the year ended June 30, 2015 (in thousands):

Research and Development programs	\$ 504,000
Student Financial Assistance programs	448,000
Other programs	84,000
<b>Total Federal Expenditures</b>	<b>\$ 1,036,000</b>

## Minnesota Office of Higher Education Financial Aid Programs examination

In connection with our procedures around the student financial assistance programs within the federal compliance audit, we performed procedures around the examination of the University's compliance with the Minnesota Office of Higher Education Financial Aid Programs requirements.

Due to changes in the audit guide issued by the Office of Higher Education, we are required to separately report on state aid for each of the University's campuses in the current year, resulting in a significant increase in the the number of required selections.

We anticipate issuing our examination report in December 2015.

## Student fees agreed-upon procedures

Agreed-upon procedures for 35 student organizations, as outlined by the Fees Committee and Office of Student Affairs, to assist in review of financial affairs and accounting records of student organizations. We anticipate issuance of agreed-upon procedures reports for each student organization in January 2016.

## NCAA agreed-upon procedures

Agreed-upon procedures of the accounting records of the University of Minnesota Athletic Department in accordance with the NCAA Constitution. Procedures were performed in September 2015, with anticipated issuance of the agreed-upon procedures report in December 2015.

# Other material written communications

- Written communications that we believe constitute other material written communications between management and us related to the audit for the year ended June 30, 2015, include:
  - Audit engagement letter — previously provided
  - Management representation letter (available upon request)

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**December 10, 2015**

**AGENDA ITEM:** Update on Human Participant Research Protection Program Implementation Plan

Review

Review + Action

Action

Discussion

*This is a report required by Board policy.*

**PRESENTERS:** Brian Herman, Vice President for Research  
Lynn Zentner, Director, Office of Institutional Compliance  
Steven Miles, Professor of Medicine and Bioethics

## **PURPOSE & KEY POINTS**

The purpose of this item is to discuss progress made since the September report to the committee on the Board Resolution passed June 2015 related to the Human Research Protection Program work plan implementation.

Teams for each implementation area submitted progress reports on schedule, have added additional stakeholders, and consulted their work broadly.

Significant progress has been made since the September 2015 meeting, including:

- Three draft final reports (IRB Membership, Research Compliance Office and For Cause Investigations) were submitted to David Strauss, external advisor to the teams, for review and advising on final deliverables.
- Development of four medical IRB rosters and the submission by the Medical School of nominees.
- Drafting of a more stringent Conflict of Interest policy and broad consultation of the changes.
- A national conference hosted by the University's Consortium on Law and Values entitled "Research with Human Participants" on December 2, 2015.
- An enhanced and new Research Compliance Office structure and operations, effective on October 2, 2015.
- A routine review of 100 randomly selected active IRB approved clinical trial protocols by Compass Point Research.
- Appointment of a new Community Oversight Board and chair.
- Development of new coursework by the Center for Bioethics that includes standards for research with human participants and the hiring of a new education and outreach specialist for researchers and IRB member training and communications.

The presentation will include content on the Conflict of Interest policy and a lecture series on education standards for research with human participants.

## **BACKGROUND INFORMATION**

On February 23, 2015, an external review panel issued a report containing 63 recommendations for improving the human subjects protection program at the University. The language of that report was strong in its statement that while the current program is in many respects adequate, the University must make changes if it wishes to have a leading program in human subjects protection. The external panel's report is [available here](#).

On March 12, 2015, President Kaler charged Brian Herman, Vice President for Research, and Brooks Jackson, Vice President for Health Sciences, with oversight of the implementation of the recommendations of an external review panel by establishing an Implementation Team (Team) of internal and external individuals with the qualifications and expertise to review the recommendations and develop a plan to implement them. At its March 27, 2015 meeting, the Board approved immediate and longer-term action plans to implement the recommendations.

The Team was chaired by Dr. William Tremaine, Professor of Medicine, Mayo Clinic and Director, Mayo Clinic IRB. During the time of the Team's work, two additional reports were made available: 1) a May 5, 2015 draft report from the Office of the Legislative Auditor, which presented findings from all industry-sponsored studies at the University from 2004-2014; and 2) *Final IRB Investigation Report Into Fairview Concerns Regarding Psychiatry Research Studies at the University of Minnesota*, referred to as the "Oakes report." Team members considered the information from these reports in their recommendations. Report #2 above is publically available on the Advancing Human Subjects Research website.

The Team submitted a draft report to President Kaler on May 15, 2015. This report was made available for public comment on May 18, 2015; the comment period closed on June 1, 2015.

The report recommended significant and disruptive changes to the University's human participant research protection program. These changes are intended to cultivate a culture of ethics, ensuring the primacy of the UMN and each investigator's duty to keep the wellbeing of patients who become research participants at the center of policies and procedures, while ensuring the institution's commitment to clinical research and the faculty.

The key components of the report were:

- Cultivating a culture of ethics
- Strengthening Institutional Review Board (IRB) membership and review process
- Scientific review
- Post-Approval Monitoring
- For-cause investigation
- Research with subjects who have impaired or fluctuating capacity to consent
- Department of Psychiatry
- Engaging research subjects
- Education and training of investigators
- Accounting metrics

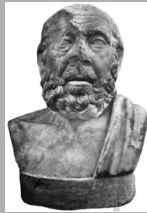
- Managing Conflicts of Interest
- Community Oversight Board
- External advisor
- Required resources

The Team received over 60 comments to the draft report. The comments reflected concerns about undue burden and the proposed policy change regarding Conflict of Interest; suggestions for community engagement; concerns about changes to scientific review; and questions about the applicability to the Social and Behavioral IRB. The final report reflects those submissions.

On June 11, 2015, the Board reviewed and discussed the final work plan's key recommendations and passed a resolution endorsing the final work plan. The Board also stated it would take an active role in providing ongoing oversight and monitoring of these activities by receiving regular progress reports through its Audit Committee at each of the committee's meetings until the work plan has been fully implemented. Those progress reports are online at the [Advancing HRP website](#).

In September 2015 the Audit & Compliance Committee received its first update.





Thus, if anyone were able to light upon the truth by experiment...he would always be able to make the best pronouncements of all.  
Hippocrates, Medicine, 420 BCE



## Standards for Research with Human Participants

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Center for Bioethics of the University of Minnesota.  
SHM has no financial interests to declare.  
No commercial products are mentioned  
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At the end of completing each unit (or any subset or all of the units), attendees will:

- Know how to locate relevant standards for research with human participants on the covered topic areas.
- Know when and how to apply relevant standards for research with human participants on the covered topic areas.

## Overall Objectives

- NIH, OHRP and the Common Rule.
- IRBs: Nature, Duties, Powers
- Data Integrity/Confidentiality **RCR**
- Informed Consent
- Consent Impaired Persons
- Vulnerable Persons
- Conflict of Interest
- Publication **RCR**



## Foundations

- Data Safety Monitoring
- International Research
- Research Misconduct **RCR**
- Trial Registries
- Human Biospecimens
- Sentinel Events
- Community Consent



## Elaborations



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**December 10, 2015**

**AGENDA ITEM:** Primer on HIPAA Compliance at the University

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Lori Ketola, Chief Health Information Compliance Officer and Director

## **PURPOSE & KEY POINTS**

The purpose of this item is to educate the committee on the requirements of the Health Insurance Portability and Accountability Act (HIPAA).

Key points will include:

- HIPAA Overview
- Recent HIPAA Compliance Activities
- HIPAA Breach Reporting and Investigation Process
- Ongoing Challenges

HIPAA Review  
Board of Regents  
Audit Committee  
12.10.15



UNIVERSITY OF MINNESOTA

**Driven to Discover<sup>SM</sup>**

# AGENDA

- HIPAA Overview
- HIPAA Breach Reporting & Investigation Process
- Recent HIPAA Compliance Activities
- On-Going Challenges



# HIPAA Overview

## Covered Entities & Hybrid Entities

- HIPAA applies to “Covered Entities”
  - Health Plans
  - Health Care Providers
    - Bill for services, and
    - Submit information electronically to health plans to get reimbursement
- Many, but not all, provisions of HIPAA also apply to “Business Associates”



# HIPAA Overview

## Covered Entities & Hybrid Entities

- The University is a Covered Entity because:
  - It has health plans for employees and students
  - It provides health care, and submits electronic transactions to health plans for reimbursement for that care



# HIPAA Overview

## Covered Entities & Hybrid Entities

- The University is a special form of Covered Entity called a “Hybrid Entity”
  - The University is a single legal entity
  - Some parts of the University are involved in health plan or health care provider activities
  - Other parts of the University are not involved in any health plan or health care provider activities





# HIPAA Overview

## Covered Entities & Hybrid Entities

- A Hybrid Entity must document the components that make up the Hybrid Entity
- These components are sometimes referred to as “health care components”
- HIPAA requires that the health care components of a Hybrid Entity include:
  - Those areas that are actually involved in providing services as a health plan or health care provider, and
  - Those areas that support these areas, and need to access or use health information in order to provide that support



# HIPAA Overview

## Covered Entities & Hybrid Entities

The components of the University's hybrid entity include:

UPlan for Employees (OHR/Benefits)

Student Health Plans

Community University Health Care Center (CUHCC)

School of Dentistry Student Clinics, Faculty Clinics and Specialty Clinics

Boynton Health Service

UMD Health Services

Julia M. Davis Speech-Language-Hearing Center

Athletic Training - TC

Medical Schools (TC and Duluth)

School of Nursing

College of Pharmacy

School of Dentistry

AHC Administrative Shared Services

AHC Centers

AHC-IS

OIT Security

Office of General Counsel

Internal Audit

Office of Measurement Services



# HIPAA Overview

## Business Associates

- Provide services to a Covered Entity and create, access or otherwise handle health information for the Covered Entity
- Must sign a “Business Associate Agreement”
- The University
  - Retains Business Associates to perform services on behalf of the Hybrid Entity, and
  - Acts as a Business Associate for other Covered Entities



# HIPAA Overview

## Protected Health Information

- HIPAA protects information that:
  - Is created, maintained, transmitted or received by
    - A Covered Entity, or
    - A Business Associate on behalf of a Covered Entity
  - And identifies an individual
  - And relates to
    - The individual's mental or physical health; or
    - The individual's payment for health care; or
    - The provision of health care to the individual
- Information meeting these conditions is referred to as “Protected Health Information” or PHI (whether oral, written or electronic)



# HIPAA Overview

## Protected Health Information

- PHI may be subject to other laws
  - HIPAA does not replace state laws applicable to individual health information
  - Where Minnesota law is more stringent than HIPAA, Minnesota law applies



# HIPAA Overview

## Enforcement & Penalties

- Enforcement
  - Office of Civil Rights, Health and Human Services
  - State Attorneys General
- Penalties for Non-Compliance
  - Up to \$1.5 Million per year
  - Criminal sentences of up to 10 years



# HIPAA Overview

## HIPAA Requirements

- Administrative Requirements
  - Designation of a Privacy Officer/Security Officer
  - Training of Workforce
  - Policies and Procedures
- Safeguards for Handling/Securing PHI
  - Risk Assessments
  - Physical, technical and administrative safeguards
- Limitations on Uses/Disclosures of PHI
  - Individuals must authorize most uses/disclosures
  - Exceptions for uses/disclosures for treatment, payment and healthcare operations



# HIPAA Overview

## HIPAA Requirements

- Rights of Patients/Beneficiaries
  - Notice of Privacy Practices
  - Request alternate forms of communication
  - Access to Records
  - Request restrictions on use/disclosure of PHI
  - Request amendments to records
  - Request an “accounting of disclosures”
- Breach Notification
  - Required as of 2009 (part of “HITECH” Act)
  - Requires reporting to individuals, HHS and in certain cases, the media





# Breach Reporting and Investigations

- Reporting options for suspected breaches:
  - UReport
  - Email
  - Telephone
- Information gathered and reviewed by Health Information Privacy & Compliance
- Consult with OGC, OIT and others



# Breach Reporting and Investigations

- Analysis of whether breach must be reported to individuals, HHS and media
  - If electronic data was involved, was it encrypted?
  - Have any exceptions been met?
  - Can we demonstrate that there is a low probability of compromise to the PHI?
  - Was a Business Associate involved?
  - Are any other laws applicable?



# Breach Reporting and Investigations

- Recommendations to HIPAA Steering Committee and Security Advisory Committee
- Notifications and reporting made as required to
  - Impacted Individuals
  - HHS
  - Media



# Recent HIPAA Compliance Activities

- Third Party HIPAA Security Risk Assessment
  - Deloitte conducted comprehensive assessment
    - Information Security Governance, Risk Management & Compliance
    - Training and awareness
    - Access and authorization
    - Account management
    - System audit logging and monitoring
    - Workstation security
    - Device and media controls
    - Transmission and network security
    - Contingency planning and disaster recovery
    - Physical security
    - Business associates/third party risk management
  - University task force addressing identified issues



# Recent HIPAA Compliance Activities

- PHI Policy Streamlining
  - 3 Administrative Policies and 20+ Procedures condensed into one Administrative Policy
  - Previous policy structure
    - Cumbersome
    - Frequently restated the law
    - Did not direct readers to other appropriate resources
  - Simplified approach may lead to increased understanding and improved compliance



# Recent HIPAA Compliance Activities

- HIPAA Training
  - Updated content Spring 2016
  - New training to be administered to all in the “hybrid entity,” with regular re-training thereafter
- Enhancing Communications with Unit “Privacy Contacts”
  - Quarterly meetings
  - Online communications



# On-Going Challenges

- Complex, dynamic environment
  - Understanding where PHI is located
  - Reaching appropriate staff
- Coordination with UMP/Fairview
- On-going implementation of compliance “building blocks”





# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**December 10, 2015**

**Agenda Item:** Institutional Compliance Officer Semi-Annual Report

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**Presenters:** Lynn Zentner, Director, Office of Institutional Compliance

## **Purpose & Key Points**

The Director of Institutional Compliance typically reports on compliance-related matters twice each year. This report focuses on:

- Continuing the Focus on the University's Values and Commitment to Ethical Conduct
- Compliance Function Review
- Furthering the University's Education and Training initiatives
- Compliance-Related Incidents
- Emerging Issues
- Compliance Monitoring
- UReport Statistics for January through November 2015



**REPORT OF THE DIRECTOR, OFFICE OF INSTITUTIONAL COMPLIANCE,  
FOR THE AUDIT COMMITTEE OF THE BOARD OF REGENTS  
ON THE UNIVERSITY COMPLIANCE PROGRAM  
DECEMBER 10, 2015**

***INTRODUCTION***

This report addresses the following: (1) Continuing the Focus on the University's Commitment to Ethical Conduct; (2) Compliance Function Review; (3) Furthering the University's Education and Training Initiatives; (4) Particular Compliance-related Incidents; (5) Emerging Compliance Issues; (6) Compliance Monitoring; and (7) Ureport Statistics for Calendar Year 2015.

Additional information regarding the University's Office of Institutional Compliance is available on the Office's website. Links to relevant resources are also provided.

<http://www.compliance.umn.edu/complianceHome.htm>.

***CONTINUING THE FOCUS ON THE UNIVERSITY'S VALUES AND COMMITMENT TO ETHICAL CONDUCT***

The Director's May 2015 report began with a focus on the University's Code of Conduct. This document defines the core values of the University through ten standards intended to advance the mission of the University and its culture:

- Act Ethically and with Integrity
- Be Fair and Respectful to Others
- Manage Responsibly
- Protect and Preserve University Resources
- Promote a Culture of Compliance
- Preserve Academic Freedom and Meet Academic Responsibilities
- Ethically Conduct Teaching and Research
- Avoid Conflicts of Interest and Commitment
- Carefully Manage Public, Private, and Confidential information
- Promote Health and Safety in the Workplace

Beginning in December, the University home page will address one of these ten standards monthly with examples of the conduct expected of all members of the University community. Links to the Compliance website will be provided where more information will be available. This initiative has been titled: Know the Code. In addition, another initiative is titled Speak Up - It Matters. Its focus will be on encouraging members of the University community to raise both ethical concerns as well as matters that reflect a violation of law or policy. Posters will be disseminated to colleges and administrative units in high traffic areas (e.g., break rooms, elevator lobbies, parking ramps). The posters will provide faculty and staff with three avenues to address their concerns, namely (1) via leadership in their colleges or administrative units, (2) through a Ureport call-in number, and (3) through the website managed by the Office of Institutional Compliance that provides a link to access Ureport online. These three options should provide viable access to any member of the University community interested in addressing a concern.

It is important to note that this compliance initiative will bring “shared values” to the conversation for the purpose of strengthening the institution’s culture of compliance. The Director’s May 2015 Report suggested that the UReport system be expanded to address ethical issues. Questions remain, however, about how such issues might be evaluated and by whom and therefore this approach continues to be the subject of further conversation.

Staff of the Compliance Office continue to be alert to issues involving concerns about retaliation. An important part of the campaign will reaffirm the University’s commitment to ensuring that faculty and staff who submit reports through Ureport are protected from retaliation.

### ***COMPLIANCE FUNCTION REVIEW***

On August 18, 2015, President Kaler charged the University’s Auditor, General Counsel, and Chief of Staff to lead an assessment of the University’s current compliance infrastructure and make recommendations for realigning or restructuring it to achieve greater effectiveness on both compliance and ethics-related activities. To this end, President Kaler asked these individuals to:

- Review compliance models at peer institutions to identify other approaches that the University may want to adopt;
- Gather input from key campus leaders and stakeholders, including the Board of Regents and faculty governance leaders, about both our current compliance structure and proposed recommendations for change;
- Identify the most effective reporting line for the compliance function;
- Review the staffing and resource needs, including considering whether our decentralized approach is a best practice and the most practical for the University;
- Review effective executive oversight and responsibility for compliance activities;
- Advise whether our Conflict of Interest program should be separated from the Compliance Office and, if so, recommend an alternative management structure for that function;
- Provide recommendations for creating greater accountability for promoting an ethical culture, strengthening that culture across the University system, addressing unethical behavior when it occurs, and defining the role of senior leaders in advancing an ethical culture; and
- Develop recommendations for indices the University could adopt to assess the extent to which we have successfully promoted an ethical culture.

In carrying out this charge, the President encouraged these University leaders to also call upon the experience of the Director.

One of the first steps in this review process involved a meeting the Auditor, General Counsel, Chief of Staff and the Director had with Regents Richard Beeson, Laura Brod and Patricia Simmons. That conversation took place on September 22, 2015. One of the significant questions raised during that meeting was how the University evaluates the effectiveness of its Compliance Program.

Since then, the Director, a member of her staff and the University Auditor have been engaged in benchmarking the University’s compliance infrastructure against the programs of other institutions of higher education. To date, conversations have taken place with compliance leaders at the following institutions: the Big 10 institutions to include the University of Illinois at Urbana-Champaign, Indiana University, Penn State, and Ohio State University. In addition, conversations

have taken place with Compliance leaders at the University of Texas at Austin, and Duke University and another is scheduled with the Senior Vice President and Chief Compliance and Audit Officer at the University of California. The following institutions are also on the list: the University of Pennsylvania, the University of Florida, Johns Hopkins University, and Stanford University. The following four Minnesota companies are also on this benchmarking list: General Mills, Medtronic, the Mayo Clinic and Cargill.

Among the questions asked of the interviewees are the following:

- Organization:
  - Do you have an institutional compliance officer? If so, what is the individual's title and where do they report?
  - Does the compliance officer have other responsibilities, how many FTEs are in the compliance office, how many FTEs are there in the institution that have primarily compliance responsibilities, and what is the budget of your office?
- Describe your program:
  - Is it centralized or decentralized?
  - Do decentralized personnel have a reporting line to the Compliance Officer?
- Activities:
  - What are the primary responsibilities of the Compliance Officer and the primary activities of the Compliance Program? To whom does the Compliance Officer report?
  - What responsibilities does your Compliance Officer have for conducting investigations, compliance monitoring, and compliance training?
- Program Quality:
  - Do you use metrics to evaluate the effectiveness of your program and, if so, please describe.
  - How do you assess the quality of your program?
  - How do you monitor/assess the health of your program?
- Relationships:
  - Describe the Compliance Officer's relationship with the governing Board, the President, the executive leadership team, and the executive committee that focuses on compliance.
  - How would you rate the engagement of your President and your Board on Compliance?
- Do you have an Ethics Program? If so, where does the Ethics Officer report?
  - Describe the program. What is it responsible for?
  - Is the Compliance Officer and the Ethics Officer the same individual?
  - How many FTEs are devoted to ethical issues?
  - What, if any, ethics training does your institution require? Who makes up the audience?

In addition, the General Counsel and the President's Chief of Staff are meeting individually with key senior leaders with compliance responsibilities (the Vice President for Research, the Dean of the Medical School, the Vice President for Human Resources, the Vice President for Equity and

Diversity, the Vice President for University Services, the Senior Vice President and Provost, the Vice President for Finance, and the Acting Interim Vice President and Chief Information Officer) to seek their input on the current infrastructure of the Compliance Program and related issues. The information gathering process will be completed by the end of the calendar year. With that information, the review group will be in a position to recommend changes to the current Compliance Program infrastructure for the purpose of strengthening the current compliance initiatives.

### ***FURTHERING THE UNIVERSITY'S EDUCATION AND TRAINING INITIATIVES***

The Director also recommended in her May report that effort should be given to the development of an education/training initiative. This initiative will include, in addition to subject matter training needed by faculty and staff in order to effectively perform the duties of their respective roles, training that would also address the institution's shared values. A committee has been formed with Kathy Brown, Vice President for Human Resources, and Bernard Gulachek, Acting Interim Vice President and Chief Information Officer, as executive sponsors. The training initiative might include the following:

- identifying all training currently offered by academic and administrative units;
- identifying the training that all University employees must complete in order to successfully perform the responsibilities assigned to them;
- identifying all values-related training that would reflect the conduct that is expected of all University employees;
- surveying all training currently conducted by academic and administrative units for the purpose of determining what needs to be retained and what training needs to either be strengthened or retired;
- determining where the University should put effort into improving current training offerings and when, for some subject matter areas, training should be purchased;
- implementing a well-functioning learning management system that would:
  - communicate to each employee the training they must take and at what intervals;
  - maintain an inventory of all training completed by each employee that can be readily accessed by the employee and the individual's supervisor; and
  - maintain an inventory of all training offered by the University and the employee categories that must take each training
- providing resources to assist academic and administrative units in the development of effective training modules, the retirement of outdated training, and/or the procurement of effective "off the shelf" training modules, and
- identifying one to two individuals to lead this initiative for a year or two until it is entirely operational across the University.

Ultimately, the development and inventorying of training, both required and optional, could be created and published in a manner that is similar to the University's Policy Program and related website.

## **COMPLIANCE-RELATED INCIDENTS**

### **A. COMMUNITY-UNIVERSITY HEALTH CARE CENTER (CUHCC) – A “FRAUD, WASTE AND ABUSE” INVESTIGATION**

In June 2015, CUHCC’S Compliance office was notified of possible actions that could fall within the scope of “fraud, waste and abuse”. It was alleged that a Case Manager was fraudulently reporting patient care appointments (both in the context of face-to-face appointments and providing “over the phone” health care advice). CUHCC’s Compliance Officer worked with the Office of the General Counsel to evaluate surveillance film, patient appointments and related paperwork. The information acquired during the investigation substantiated the allegations. After being confronted with the wrongdoing, the individual engaged in the fraudulent activity resigned. The matter has been submitted to the Minnesota Department of Human Services for further investigation. Of the 62 “false appointments” reviewed during the investigation, none had been submitted to the State for payment before the misconduct was discovered. The employee had completed all required “fraud, waste and abuse” training at the time the fraudulent activity took place. The actions of CUHCC’s staff reflect exactly the steps that should be taken when fraudulent conduct is discovered in circumstances such as those present here.

### **B. DEPARTMENT OF PSYCHOLOGY – FRAUDULENT ACTIVITY BY FORMER EMPLOYEE**

In April, the Office of Internal Audit (OIA) performed an audit in order to determine whether an employee had engaged in fraudulent activity involving the misuse of sponsored research funds. As a result of the review, OIA concluded that the employee had engaged in theft in the amount of \$11,327. The audit results reflected that, from July 2, 2013 through September 16, 2014, the employee committed fraud through a scheme that involved creating fictitious human subject consent forms, falsifying human subject payment forms, pocketing cash withdrawn from the research funds bank account and paying himself by creating false human subjects through Amazon.com, using a University Purchasing Card. When confronted, the employee admitted guilt to members of the University of Minnesota Police Department and resigned from his University position within days of his admission.

### **C. HEALTH INFORMATION PRIVACY & COMPLIANCE (HIPAA): RELEASE OF PROTECTED HEALTH INFORMATION**

Protected Health Information (PHI) of a deceased patient was posted on a University website designed to provide information about the institution’s human subjects research program. No authorization was obtained for the disclosure, and the disclosure did not meet any exceptions permitted under the Health Insurance Portability and Accountability Act (HIPAA). While the materials were already available in the public domain, they should not have been posted without specific permission under HIPAA. The materials have been removed from the site and the responsible person has been notified by letter that the disclosure was not consistent with HIPAA requirements.

The University’s Director of the Health Information Privacy and Compliance Office (“the Director”) followed up with individuals involved in the creation of the website to educate them about the HIPAA rules for the purpose of avoiding these circumstances in the future. The Director will report

the breach to the Department of Health and Human Services at the federal level as required by HIPAA. HIPAA requires notification of a breach within 60 days of the end of the 2015 calendar year.

#### ***D. ANIMAL RESEARCH - FACULTY MEMBER INAPPROPRIATELY ENDED THE LIFE OF A SICK LAMB***

A research investigator shot a sick lamb in the head as a form of euthanasia. The Institutional Animal Care and Use Committee (IACUC) Staff investigated the circumstances and concluded that the circumstances represented clear protocol non-compliance.

The IACUC imposed several requirements on the PI after its site visit, to include the following:

- Provide a specific and detailed training plan both for yourself and the personnel working on your protocols;
- Create and post signs in the buildings that indicate who to contact if staff have concerns about animal welfare/health;
- Continue to weekly send observation sheets for animals being tracked for health concerns to the IACUC. Other records should be sent to the IACUC every two weeks until further notice; and
- Coordinate with the off-site vet to have him conduct a monthly animal health check visit until further notice.
- Refrain from any contact with animals until the committee is satisfied with the steps you have taken.

The IACUC also advised the PI that it may conduct unannounced inspections at his facility at any time. As a result of this and other matters, the Investigator lost his leadership role in his Department.

#### ***E. INVESTIGATOR FALSIFIED NIDA CERTIFICATE OF CONFIDENTIALITY RELATED TO ONE OF HIS STUDIES***

The investigator had a National Institute of Drug Abuse (NIDA) grant. He falsified a NIDA Certificate of Confidentiality that was submitted to the IRB. Two employees in the investigator's Department discovered the falsification and immediately brought the issue to the attention of a senior leader and submitted a Ureport. Following the report by the two employees, the investigator admitted his actions to the IRB. The IRB reviewed the matter and determined that the conduct constituted a serious breach and met the threshold of serious non-compliance as defined in IRB Policy which is: "Non-compliance that jeopardizes the rights and welfare of human subjects research participants is considered serious non-compliance." With this finding, the IRB suspended enrollment. The Dean of the Medical School initiated an investigation of this matter and, during the conduct of that investigation, the individual resigned.

#### ***EMERGING COMPLIANCE ISSUES***

The Director has previously reported the concern that both hardware and software purchased by the University are often not accessible for staff and students with certain disabilities. An example is an individual with mobility disabilities. These individuals may have difficulty using a mouse. The better option for these individuals is typically a voice command system. There are also continuing challenges for those who need screen readers. This is a national issue. This problem currently

impacts approximately 400 students and staff at the University. In the past, the Office of Civil Rights, Department of Education (“the Department”), looked to institutions of higher education to resolve the problem rather than the vendors whose systems Universities purchase. Unfortunately, the market currently and in the past has offered few options. Recently, the Department has begun to look to the vendor as well as institutions of higher education to address and resolve the issue and it appears that a dialogue between institutions of higher education and vendors may be evolving. Despite the ongoing challenges, support from the University’s Office of Information Technology has been excellent. In order to resolve the issue, however, it will be important for University leaders across the country to embrace this issue and find a solution.

### ***COMPLIANCE MONITORING***

The Executive Oversight Compliance Committee, at its June 25, 2015 meeting, concluded that the University must monitor all high and medium compliance risk areas. The Director has discussed this decision with the Compliance Partners and provided them with examples of monitoring approaches they might use to evaluate the effectiveness of their compliance initiatives. A “monitoring section” has already been added to the legal compliance reporting template for several months as an “optional” section to complete. Completing this section is now mandatory for all medium and high risk compliance areas. Compliance Partners together with their Vice Presidents will determine what monitoring approaches to implement.

### ***UREPORT STATISTICS FOR CALENDAR YEAR 2015***

UReport is the University’s confidential web-based reporting service. This reporting service is provided by Navex Global, an independent company that provides similar services for hundreds of companies and universities. UReport is intended to be used to report violations of local, state and federal law as well as violations of University policy. This reporting system is not intended to be used for employment concerns that do not involve legal or policy violations or involve purely student concerns, or issues for which the University is not responsible. Reporters may submit reports either via a hotline or the web. Reports may also be submitted anonymously. Those who submit reports are expected to report good faith concerns and to be truthful and cooperative with the University’s investigations of allegations.

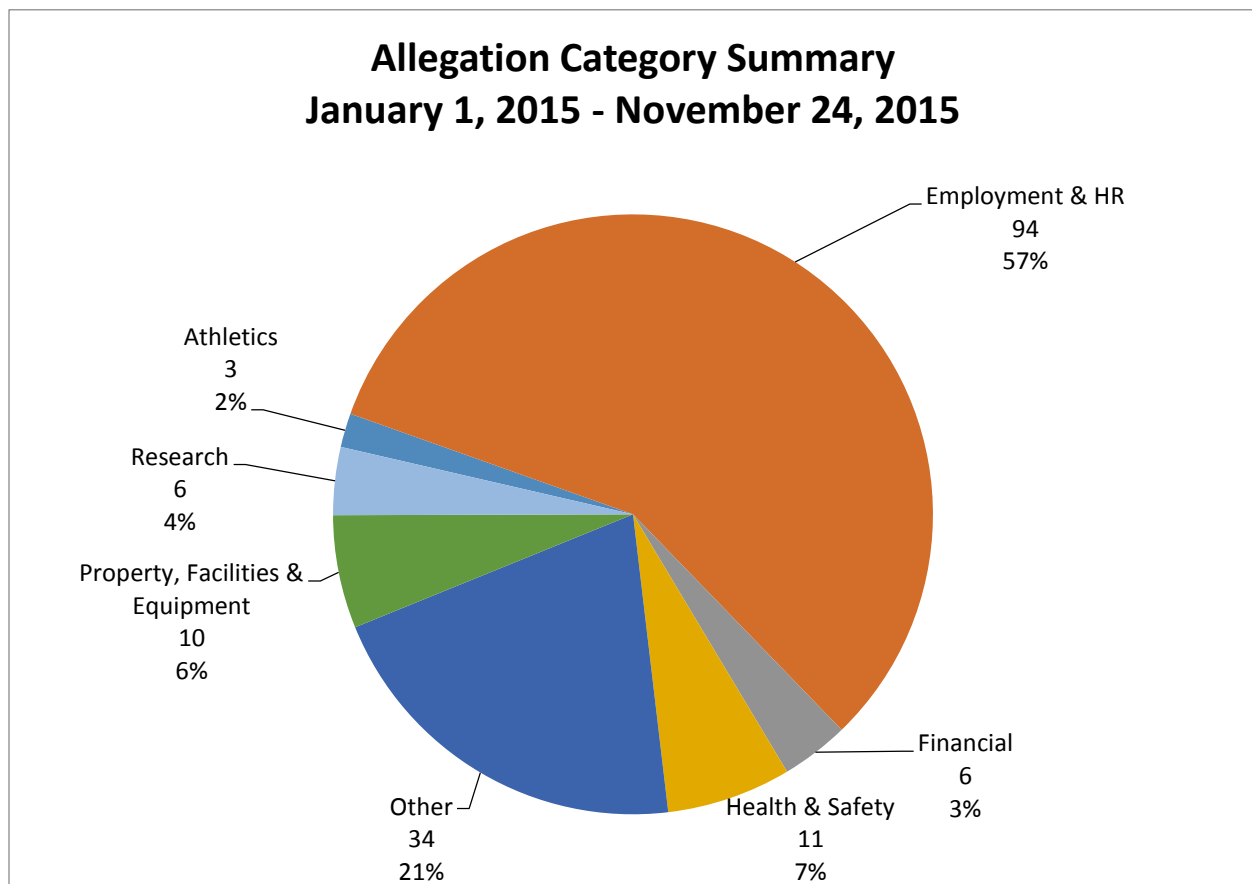
UReport has been in existence at the University since 2005. Since its inception, a total of 1375 reports have been submitted, averaging approximately 130 per year. During calendar year 2015 to date (1/1/2015 – 11/24/2015), 164 reports have been submitted; 126 reports were anonymous; and 112 reports involved allegations on the Twin Cities campus. Over 60% of the reports involve claims regarding:

- Hiring, advancement, discipline or termination
- Discrimination, harassment and/or equal opportunity
- Abuses in wage, benefits, vacation, overtime, and leaves
- Other employment concerns

Ninety-two percent of the reports are received via the internet. Twenty-three percent of anonymous reporters check back to determine the status of the follow up conducted regarding the concerns they have described. The graphs below illustrate these figures.

Issue	Running Total from Launch (August 2005)	January 1, 2015 to November 24, 2015
Total Reports	1375	164
Report Sources:		
Internet	87%	92%
Call Center	13%	8%
Other	<1%	n/a
% Anonymous	74%	77%
Reporters who “followed up”	23%	23%
Reporters who “visited”	50%	51%
Percentage “substantiated” (reflects that an individual was coached, counselled, or disciplined)		36%

The following chart provides categorical breakdowns with respect to all allegations made in reports submitted in the previous 12 months.





**ADDENDUM TO THE  
REPORT OF THE DIRECTOR, OFFICE OF INSTITUTIONAL COMPLIANCE,  
FOR THE AUDIT COMMITTEE OF THE BOARD OF REGENTS  
ON THE UNIVERSITY COMPLIANCE PROGRAM  
DECEMBER 10, 2015**

**High and Medium Risk Areas:**

- Privacy (HIPAA, FERPA, MDPA)
- Finance (purchasing/disbursements/internal & external sales)
- University Policy & Internal Controls
- Research
- IT Security
- International regulations
- Conflicts of Interest
- NCAA Compliance (Division I Athletics) (TC & Duluth)
- Disability Accommodations (accessibility)
- Housing and Residential Life (TC & Duluth)
- Occupational Health and Safety
- Environmental Health and Safety
- Billing Compliance (Community University Health Care Center (CUHCC), Boynton and School of Dentistry)
- Discrimination, Sexual Harassment, Nepotism, Clery
- Building and Fire Codes
- Records Retention
- Hazardous Waste
- Facilities Management
- Public Safety
- Tax Management

**Low Risk Areas:**

- Libraries - Copyrights
- Housing (Crookston, Morris and Rochester)
- Student Finance
- Student Records
- Printing Services - Copyrights
- Public Safety (Duluth)
- Division II & III Athletics



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**December 10, 2015**

**AGENDA ITEM:** Information Items

Review

Review + Action

Action

Discussion

*This is a report required by Board policy.*

**PRESENTERS:** Gail Klatt, Associate Vice President

## **PURPOSE & KEY POINTS**

To report engagements with external auditors, as required by Board policy, and to deliver the semi-annual Controller's Report.

### **Engagements less than \$100,000 requiring after-the-fact reporting**

- The Tweed Museum of Art entered into an engagement with Bradley P. Mickelson, CPA to prepare a statement of financial activity as of June 30, 2015 to be used to support grant applications. The fees for this engagement are not to exceed \$2,000. This engagement did not impair the independence of Bradley P. Mickelson, CPA as related to the University and was approved by the Controller's Office.
- The University of Minnesota – Duluth entered into an agreement with Licari Larsen & Co., LTD to provide an audit of the financial statements of KUMD radio station as of June 30, 2015. This audit is being performed as a requirement for receiving grant funding from the Corporation for Public Broadcasting. The fees for this engagement are not to exceed \$5,200. This engagement does not impair the independence of Licari Larsen & Co., LTD as related to the University and was approved by the Controller's Office.

### **Emergency approvals of engagements \$100,000 or greater**

- Via emergency approval, the Board of Regents approved the engagement of Deloitte & Touche, LLP to provide consulting services and due diligence for the proposed integration of Fairview Health Services, the University, and the University of Minnesota Physicians into a fully integrated academic health system. Deloitte will evaluate multiple areas of importance, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications. The fees and expenses for this engagement are estimated to be \$1,500,000. The Controller's Office reviewed the scope, deliverables, and Deloitte's proposed role for this engagement, and determined that

contracting Deloitte for this engagement will not impair the firm's independence with respect to its role as independent external auditor of the University of Minnesota.

- Via emergency approval, the Board of Regents approved the engagement of CliftonLarsonAllen, LLP (CLA) to assist with facilitation of the internal processes necessary to effectively reach the Definitive Agreements for the restructuring of the relationship between the University of Minnesota, University of Minnesota Physicians and Fairview Health Services. The fees and expenses for this engagement are estimated to be \$425,000. The Controller's Office reviewed the scope, deliverables, and CLA's proposed role for this engagement, and determined that engaging CLA for this engagement would not impair the firm's independence with respect to future audit work that could be performed for the University.

### **Semi-Annual Controller's Report**

The semi-annual Controller's Report provides information to the Board regarding recent activities in University financial operations that have strengthened financial reporting, enhanced internal controls, improved the management of financial risks, provided better services to the University community, and maximized the institution's financial resources. Highlights include:

- A discussion of new accounting standards that will be adopted by the University for FY 2016 and FY 2017, and the likely impact on the University's annual audited financial reports (if known);
- A brief discussion of the impact of implementing GASB 68 - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*
- A report on the completion of a transitional work pilot program for employees who are injured on the job and are covered by workers compensation; and
- Transfer of some Human Resources Management System payroll accounting support functions from the Office of Human Resources to the Controller's Office, after completion of the enterprise systems upgrade program.

### **BACKGROUND INFORMATION**


Engagements with external audit firms require Audit & Compliance Committee in conformance with Board of Regents Policy: *Audit and Compliance Committee Charter*. The Controller's Report is prepared semi-annually and presented to the Audit & Compliance Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

*Regents of the University of Minnesota  
Office of the Board of Regents*

*600 McNamara Alumni Center  
200 Oak Street S.E.  
Minneapolis, MN 55455  
612-625-6300*

November 12, 2015

To: President Eric Kaler

From: Brian Steeves, Executive Director & Corporate Secretary 

Re: *Emergency Approval*

Chair Johnson, Vice Chair McMillan, Finance Committee Chair Beeson, and Audit & Compliance Chair Brod approved your request for emergency approval of the following action (as described in the attached letter) on November 11, 2015, November 12, 2015, November 6, 2015, and November 11, 2015, respectively:

- Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016. Deloitte will evaluate multiple areas of importance, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications.

I understand that this information will be reported to the Board of Regents at the December 2015 meetings, as required by Board policy.

c: Richard Pfutzenreuter, Vice President  
Gail Klatt, Associate Vice President  
Michael Volna, Associate Vice President

November 3, 2015

The Honorable Dean E. Johnson  
The Honorable David J. McMillan  
The Honorable Richard Beeson  
The Honorable Laura Brod

Dear Members of the Board:

As you know, the policy on Board Operations and Agenda Guidelines stipulates that Board approval is required before the University makes any purchase of goods or services in the amount of \$1,000,000 or more. This approval is also required by the Regents policy on Purchasing.

Since the Board will not be meeting in November 2015, no approvals for large purchases are possible until December 10, 2015, under normal procedures. However, the Board Operations and Agenda Guidelines allow for an emergency procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approval will be brought to the next meeting of the Board, consistent with Board policy.

Upon the request of the Director of Purchasing, the Controller, and the Vice President and Chief Financial Officer, I am recommending Board approval for the following large purchase using this emergency process:

- To Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016. Deloitte will evaluate multiple areas of importance, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications. The fees and expenses for this engagement are estimated at \$1,500,000.

The Controller's Office has reviewed the scope, deliverables and Deloitte's proposed role for these engagements. Engaging Deloitte for this work would not

Emergency Approval Request

November 5, 2015

Page 2

impair the firm's independence with respect to their role as independent external auditor of the University of Minnesota.

I am recommending that this be approved on an emergency basis to assure the purchase is made as economically as possible, and to avoid interruption of its related projects.

Attached is additional information and supporting documentation for the purchase itself and justification for handling it under the emergency approval process.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Kaler", with a long horizontal flourish extending to the right.

Eric W. Kaler  
President

EWK:jes

Enclosures (4)

Purchase of Goods and Services \$1,000,000 and over

To Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016.

*On October 9, the Board of Regents of the University of Minnesota approved a non-binding letter of intent to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system called University of Minnesota Health. The University will engage Deloitte to provide consulting services and due diligence for this integration. Deloitte will evaluate multiple areas of interest, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications.*


*Completion of this work will identify priority deal issues, complete the due diligence required to fully explore these issues and inform strategies based on these processes in order to protect University interests in this integration.*

*This vendor was chosen based on two criteria. The first is that they are large enough and with a sufficient pool of expertise and experience to be able to examine all relevant processes and minimize fragmentation of efforts. The second is that they are familiar with the financial processes, systems and standards of the University of Minnesota. Deloitte has the combination of expertise and familiarity to meet the accelerated deadlines required. The Controller's Office has reviewed the proposed scope and confirmed that the work performed under this agreement will not compromise Deloitte's independence impair their ability to continue as auditors for the University.*

*This contract will be funded as part of the M Health initiative. Contract will be executed by the General Counsel to preserve Attorney/Client privilege for the work product.*

Submitted by: Michael D. Volna, Associate Vice President, Finance and Controller  
Controller's Office, [volna001@umn.edu](mailto:volna001@umn.edu)

Approval for this item requested by:

  
\_\_\_\_\_  
Richard H. Pfitzenreuter III, Vice President, Treasurer,  
& Chief Financial Officer

11/15/15  
\_\_\_\_\_  
Date

### Rationale for Exception to Competitive Bidding

The Board of Regents of the University of Minnesota approved a non-binding letter of intent on October 9, 2015 to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system (IAHS) called University of Minnesota Health. This calls for Definitive Agreements for the IAHS to be reached by March 2016. Given the timeline imposed by the Regents, it is imperative that the due diligence for the proposed integration begin without further delay. Deloitte & Touche will identify priority deal issues, complete the due diligence required to fully explore these issues and formulate strategies based on these processes in order to protect University interests in this integration. Delay in the contracting stage will reduce the time available to perform the necessary tasks, increasing the risk in a setting where the stakes are already extremely high.

The University determined reasonableness of the price through comparison of their rates to other projects conducted at the University. Rates for M&A (Merger and Acquisition) consultants are generally three times the normal rates based on the following:

- Short time frames – work is often scheduled on short notice with quick turnaround time
- Shorter engagement periods
- Specialized expertise – often experts have to be called in for specialized work
- Higher risks to the contractors because of the high economic stakes inherent in M&A type work



# UNIVERSITY OF MINNESOTA

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*Office of the Associate Vice  
President-Finance & Controller*

*205 West Bank Office Building  
1300 S. 2nd Street  
Minneapolis, MN 55454*

*Office: 612-625-9529  
Fax: 612-625-7384*

November 5, 2015

Tim Bray  
Director of Purchasing  
Purchasing Services  
1300 South 2<sup>nd</sup> Street  
Minneapolis, MN 55454

Dear Tim,

The Office of the Controller would like to request Board of Regents approval on an emergency basis for a contract exceeding \$1,000,000. This request is to Deloitte & Touche, LLP for an estimated \$1,500,000 to provide due diligence consulting services for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system.

The Board of Regents of the University of Minnesota approved a non-binding letter of intent on October 9, 2015 to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system (IAHS) called University of Minnesota Health. This calls for Definitive Agreements for the IAHS to be reached by March 2016. Given the timeline imposed by the Regents, it is imperative that the due diligence for the proposed integration begin without further delay. Deloitte & Touche will identify priority deal issues, complete the due diligence required to fully explore these issues and formulate strategies based on these processes in order to protect University interests in this integration. Delay in the contracting stage will reduce the time available to perform the necessary tasks, increasing the risk in a setting where the stakes are already extremely high.

Because the Board of Regents will not be meeting in November 2015, approvals would not be possible until December 2015 under normal procedures. Based on the urgency and short timeline inherent in the academic health integration, we request that this proposed contract be submitted to the Board for approval through the emergency process.

Thank you for your consideration. Please let me know if I can provide any additional information.

Sincerely,




Michael Volna  
Associate Vice President, Finance and Controller

*Regents of the University of Minnesota  
Office of the Board of Regents*

*600 McNamara Alumni Center  
200 Oak Street S.E.  
Minneapolis, MN 55455  
612-625-6300*

November 12, 2015

To: President Eric Kaler   
From: Brian Steeves, Executive Director & Corporate Secretary  
Re: *Emergency Approval*

Chair Johnson, Vice Chair McMillan, and Audit & Compliance Committee Chair Brod, approved your request for emergency approval of the following action (as described in the attached letter) on November 12, 2015, November 12, 2015, and November 6, 2015, respectively:

- The University proposes to engage CliftonLarsonAllen LLP (CLA) to assist with facilitation of the internal processes necessary to effectively reach the Definitive Agreements for the restructuring of the relationship between the University of Minnesota, University of Minnesota Physicians and Fairview Health Services. The fees and expenses for this engagement are estimated at \$425,000.

I understand that this information will be reported to the Board of Regents at the December 2015 meetings, as required by Board policy.

c: Richard Pfutzenreuter, Vice President  
Gail Klatt, Associate Vice President  
Michael Volna, Associate Vice President

November 6, 2015

The Honorable Dean E. Johnson  
The Honorable David J. McMillan  
The Honorable Laura Brod

Dear Members of the Board:

As you know, Regents policies Board Operations and Agenda Guidelines and Audit Committee Charter stipulate that Board approval is required in advance for all audit and non-audit services provided by audit firms with a value greater than \$100,000 or that may impair the audit firm's independence regarding the University.

Since the Board will not be meeting in November 2015, no approvals of services provided by audit firms are possible until December 10, 2015, under normal procedures. However, the Board Operations and Agenda Guidelines provide an emergency approval procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approval will be brought to the next meeting of the Board, consistent with Board policy.

Upon the request of the Director of Purchasing, the Controller, and the Vice President and Chief Financial Officer, I am recommending Board approval for the following large purchase using this emergency process:

- The University proposes to engage CliftonLarsonAllen LLP (CLA) to assist with facilitation of the internal processes necessary to effectively reach the Definitive Agreements for the restructuring of the relationship between the University of Minnesota, University of Minnesota Physicians and Fairview Health Services. The fees and expenses for this engagement are estimated at \$425,000.

The Controller's Office has reviewed the scope, deliverables and CLA's proposed role for this engagement. CLA is not currently acting in an audit capacity for the University of Minnesota and engaging CLA for this work would not impair the firm's independence with respect to future audit work that could be performed for the University.

Emergency Approval Request

November 6, 2015

Page 2

I am recommending that this be approved on an emergency basis to assure the purchase is made as economically as possible, and to avoid interruption of its related projects.

Attached is additional information and supporting documentation for the purchase itself and justification for handling it under the emergency approval process.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Kaler", with a long horizontal flourish extending to the right.

Eric W. Kaler

President

EWK:jes

Enclosures (4)

Proposal for Non-Audit Services Exceeding \$100,000

The University proposes to engage CliftonLarsonAllen for an estimated \$425,000 to provide consulting services for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016.

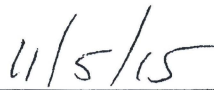
*On October 9, the Board of Regents of the University of Minnesota approved a non-binding letter of intent to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system called University of Minnesota Health. The University will engage CliftonLarsonAllen to assist with facilitation of the internal processes necessary to effectively reach the Definitive Agreements for the restructuring of the M Health relationship between the University of Minnesota, University of Minnesota Physicians and Fairview Health Services. Completion of this work will assist the University in developing strategies to address key integration risks.*

*The Controller's Office has reviewed the proposed scope of this engagement. CLA is not currently acting in an audit capacity for the University of Minnesota, and engaging CLA for this work would not impair the firm's independence with respect to future audit work that could be performed for the University.*

Approval for this item requested by:



Michael D. Volna, Associate Vice President, Finance  
& Controller



Date

# UNIVERSITY OF MINNESOTA

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November 5, 2015

*Office of the Associate Vice  
President-Finance & Controller*

*205 West Bank Office Building  
1300 S. 2nd Street  
Minneapolis, MN 55454*

*Office: 612-625-9529  
Fax: 612-625-7384*

Gail Klatt, Associate Vice President & Chief Audit Executive  
University of Minnesota  
1300 South Second Street  
Minneapolis, MN 55454

Dear Gail,

The Office of the Controller would like to request Board of Regents approval on an emergency basis for an engagement with an auditing firm for non-audit services exceeding \$100,000. This engagement is with CliftonLarsonAllen for an estimated \$425,000 to provide consulting services for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system.

As background, the Board of Regents of the University of Minnesota approved a non-binding letter of intent on October 9, 2015 to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system (IAHS) called University of Minnesota Health, or M Health. This calls for Definitive Agreements for the IAHS to be reached by March 2016. Given the timeline imposed by the Regents, it is imperative that the services begin without further delay. CliftonLarsonAllen is being engaged to assist with facilitation of the internal processes necessary to effectively reach the Definitive Agreements for the restructuring of the M Health relationship between the University of Minnesota, University of Minnesota Physicians and Fairview Health Services. I have reviewed the scope, deliverables and CLA's proposed role for this engagement. CLA is not currently acting in an audit capacity for the University of Minnesota, and engaging CLA for this work would not impair the firm's independence with respect to future audit work that could be performed for the University.

Delay in the contracting stage will reduce the time available to perform the necessary tasks, increasing the risk in a setting where the deadlines are already extremely tight.

Because the Board of Regents will not be meeting in November 2015, approvals would not be possible until December 2015 under normal procedures. Based on the urgency and short timeline inherent in the academic health integration, we request that this proposed contract be submitted to the Board for approval through the emergency process.

Thank you for your consideration. Please let me know if I can provide any additional information.

Sincerely,



Michael Volna  
Associate Vice President, Finance and Controller

**Driven to Discover**<sup>SM</sup>

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS AUDIT COMMITTEE  
SEMI-ANNUAL CONTROLLER'S REPORT  
December, 2015**

This report presents a summary of activities completed by the Controller's Office in the last six months to assess and implement new accounting and reporting standards, enhance internal controls, better manage financial risks, improve services to the University community, and maximize the institution's financial resources and financial operations.

## **I. Accounting and Financial Reporting Matters**

The Governmental Accounting Standards Board (GASB) has issued three new accounting and reporting standards that will be effective for fiscal year 2016. The following provides a brief summary of each new standard, and where known, the likely impact.

### New standards effective for FY 2016

- In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. It will require measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques, as well as provide guidance towards the enhancement of related disclosures to all fair value measurements. The University has just begun analyzing the impact of this statement, and has not yet determined its impact to our financial statements.
- In June 2015, the GASB issued Statement No. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 (GASB 68), and Amendments to Certain Provisions of GASB Statements 67 (GASB 67) and 68*, establishes requirements for defined benefit pensions that were not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pensions plans and pensions that are within their respective scopes. The provisions of GASB 73 are effective for fiscal year ending June 30, 2016, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68, which are effective for fiscal year ending June 30, 2017. The University has just begun analyzing the impact of this standard, and has not yet determined its impact to our financial statements.
- In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which supersedes an existing standard (GASB 55) and amends another existing standard (GASB 62). GASB 76 will result in a reduction of the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP, and will address the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There is no direct impact to the University's financial statements

from GASB 76, as it is intended to provide guidance in how other accounting literature is interpreted and applied.

#### New standards effective for FY 2017

- In June 2015, the GASB issued Statement No. 74 (GASB 74), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, which replaces the requirements of existing standards (GASB 25, 43, 50, and 57). The requirements of GASB 74 will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through trusts or equivalent arrangements. The University has not yet begun analyzing the impact of this standard to our financial statements.

#### New standards effective for FY 2018

- In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of two existing standards (GASB 45 and 57). It establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The University has not yet begun analyzing the impact of this standard to our financial statements.

## **II. Adoption of GASB 68 and 71 for Fiscal Year 2015**

GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued with the objective of improving the accounting and financial reporting for pensions, along with improving information regarding financial support for pensions provided by other entities. The provisions of this Statement were adopted by the University for fiscal year 2015.

GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, addresses an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement were adopted for fiscal year 2015, in tandem with GASB 68.

These two standards together collectively set new accounting and financial reporting requirements for employer pension plans administered through trusts or equivalent arrangements. The University is impacted by these two standards due to its participation in the State Employees Retirement Fund (SERF), and the Public Employee Police and Fire Fund (PEPFF) which are managed by the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA), respectively—both of which are cost-sharing multiple-employer pension plans. As such, the University has included its proportionate share of the total long-term liability for benefits in its



statement of net position and statement of revenues, expenses, and changes in net position for the fiscal year ending June 30, 2015.

According to the SERF portion and PEPFF portion of the MSRS and PERA 2014 Comprehensive Annual Financial Reports as of June 30, 2014, respectively, an actuarial calculation of the combined Net Pension Liability (NPL) of \$2.7 billion was recorded. The University's proportionate share of the combined NPL is approximately \$266.5 million. In addition, GASB 68 requires the reporting of changes in actuarial assumptions and other actuarial factors to be categorized as deferred inflows of resources or deferred outflows of resources, both of which are to be amortized over a five-year period. Also, due to the actuarial valuation measurement date being July 1, 2014, GASB 71 requires any subsequent contributions related to fiscal year 2015 be recorded as a deferred outflow of resources, which are not amortized. Currently, the estimated deferred outflows of resources to be recorded in the University's financial statements are approximately \$23.0 million and the estimated deferred inflows of resources are approximately \$368.2 million. The University recorded a cumulative effect of the change in accounting principle of \$682.5 million against net position in 2015.

MSRS' employer and employee contribution rates (based on "covered payroll") for SERF are currently 5.5% for both employer and employee, and PERA's contribution rates for PEPFF are 16.2% for employer and 10.8% for employee, respectively. Contribution rates are set by the Minnesota State Legislature, not by GASB. Therefore, the University's adoption of GASB 68 & 71 will have no direct impact on changes to plan documents, the legal obligation to fund the plans through employer and employee contributions, or the payment of participant benefits. Any additional cash flow impacts would be a direct result of the Legislature making future changes to the contribution rates associated with the plans.

### **III. Activities to enhance internal controls, better manage financial risks, and improve services to the University community**

#### Light Duty Transitional Work Program

When employees are injured at work severely enough to lose time, best practice is to bring injured employees back to the workplace as soon as possible, accommodating whatever residual physical restrictions they may have, until fully healed. University employees are injured on-the-job most frequently by units that perform heavy or highly repetitive physical work. Due to the nature of their work, these same units often are unable to provide light duty work for healing workers who have been released to it.

Since University units and departments operate very independently, there historically has been no central mechanism or budget to place workers injured in one department into another department that may have light duty work available. The Office of Risk Management worked with the Office of Human Resources and the Office of Disability Services to implement a "light duty transitional work" pilot program in hopes of benefitting both the affected employees, and the University.

#### *Description of the pilot*

The pilot was 1 year in duration. The pilot intended full capture of all possible subjects during the period; actual participants numbered ten (10). As a frame of reference, the University has had about

500-600 workers compensation claims per year over the past five years, and of those, approximately 10% result in any Lost Time, and a small fraction of those result in extended lost time (pilot sample population).

#### *Outcomes*

Injured employees transitioned from losing time to reengaging with their work day faster than had previously been possible. Acceptance on the part of the hosting light duty departments and the departments of origin was excellent.

#### *Estimated savings*

Over the first year, the pilot recaptured \$21,688 of productivity that would have otherwise been lost paying workers to remain at home. Work Comp paid out \$15,552 less in indemnity benefits than it would have had the Employees not returned to work. Our Third Party Claims Administrator estimates the program accelerated our employees' return to normal duties by an aggregate of 216 weeks, for total savings of \$117,000 dollars. Additionally, the availability of light duty work positioned the University well in settlement discussions.

The total of recaptured productivity, workers' compensation savings, and accelerated return to full duty was \$154,240. Gains associated with settlements related to workers compensation are more difficult to quantify, but an additional amount in the low six figures is a reasonable estimate.

#### *Next steps*

Given the early success, plans are to continue the program. The team is considering additional incentives for departments of origin to create light duty work for their injured employees, while concurrently establishing ongoing light duty opportunities in receptive departments.

#### Transfer of Human Resources Support Functions

Following the completion of the Enterprise Systems Upgrade program, the Office of Human Resources and the Controller's Office began discussions about the most appropriate support model for a number of financial activities and functions that are performed within the PeopleSoft human resource system (HRMS), referred to as "payroll accounting". This includes the business support, enterprise systems support, responsibilities for policy and procedures, and providing call center support for all payroll accounting functions and activities that are processed via HRMS. It does not, however, include the policies, procedures, or actual processing of biweekly payroll.

In October, the two offices agreed to transfer the support functions for payroll accounting to the Controller's Office. The change will align those functions, which are inherently financial and accounting related, with the financial expertise, skills and support model already in place in the Controller's Office. As a result, improved service and support for the University's financial community is anticipated.

The migration of staff and knowledge transfer of the HRMS system to the Controller's Office team began in November, and the Office of Human Resources are defining roles, responsibilities, shared accountabilities, and communication necessary for a seamless transition. The expectation is that the new team, and all associated arrangements, will be fully functioning within 6-12 months.