

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

March 9, 2006

A meeting of the Audit Committee of the Board of Regents was held on Thursday, March 9, 2006 at 8:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, David Larson, and Patricia Simmons. David Metzen joined for part of the meeting.

Staff present: Provost Thomas Sullivan; Vice President Richard Pfutzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Gail Klatt and Michael Volna.

Student Representatives present: Joshua Colburn and Tom Zearley.

BOARD OF REGENTS FIDUCIARY RESPONSIBILITIES

Regent Frobenius introduced Professor Melissa Stone, Humphrey Institute of Public Affairs, to begin the first in a series of discussions to look at trends regarding the fiduciary responsibilities of boards from a variety of perspectives.

Stone discussed how the dynamics of governance influence the ability of a board to execute its fiduciary responsibilities. She outlined a number of basic legal responsibilities for boards, noting that there is general agreement on the required functions of a governance system. Two issues are emerging: whether meeting the required obligations is sufficient; and a concern about fulfilling the broader public interest. She highlighted the following:

- The challenge boards face in maintaining both the narrow focus necessary for compliance and accountability and the broader perspective of the institution's public interest goals;
- The paradox boards face in carrying out their legal governance responsibilities when doing so on a part-time, volunteer basis; and how they must leverage the operational knowledge, expertise, and day-to-day involvement of management to fulfill these responsibilities;
- The need for boards to exercise both critical and independent judgment as they perform their duties; and
- The strength of a board when it acts using its collective wisdom, gained by drawing on the multiple perspectives of its individual members.

In response to questions, Stone discussed the challenge of how to allow both the board and management to maintain control without diminishing the initiative or the motivation of either. She noted that a number of factors could cause a shift in the dominance of governing power from one group to another. Committee members indicated a desire for further discussion of this topic.

A copy of the presentation is on file in the Board Office.

SOURCES OF INFORMATION FOR OVERSIGHT OF ACADEMIC RISKS

Regent Frobenius introduced Senior Vice President and Provost Sullivan to discuss sources of information for oversight of risks relating to academic quality, quality of faculty and staff, and strategic positioning outcomes. This discussion is a continuation of the Audit Committee's assessment of institutional risks and how the Board of Regents monitors those risks.

Sullivan stated that internally and externally the institution's auditors do not audit for academic issues identified as high-risk and high-impact as identified by this committee. However, the Board receives considerable information regarding the oversight and management of these areas, specifically through the Board of Regents Educational Planning and Policy Committee, the Faculty, Staff and Student Affairs Committee, and with regard to larger issues such as strategic planning, Board of Regents Work Sessions and reports to the Board of Regents.

A lengthy discussion ensued. In response to a question from Regent Larson regarding the promotion and tenure process, Sullivan reported that this spring he will present the annual promotion and/or tenure recommendations to the Faculty, Staff and Student Affairs Committee, including a discussion on the tenure process and the criteria applied in the post-tenure review. Additional information on the institution's present tenure and promotion and post-tenure review standards is forthcoming in the report of the task force on faculty culture.

Committee members expressed an interest in better understanding the relevant discussions in other committees, but acknowledged the committee's time constraints and the availability of the docket and other reference materials.

EXTERNAL AUDITOR REVIEW

Associate Vice President Volna presented the annual review of external auditor relationships, services provided, and fees paid for FY2005 and FY2006, as described in the docket materials.

Volna introduced Chas McElroy, LarsonAllen, to discuss the firm's assessment of their independence relative to the institution, as included in materials distributed at the meeting and on file in the Board Office. McElroy described the standards followed by LarsonAllen to ensure independence and objectivity and provided information on a number of procedures that were followed. McElroy confirmed that, after an in-depth review of other relationships the firm and its principals have with the University, the firm is confident of its independence with respect to the University as defined by public accounting standards.

Regent Frobenius commented on a number of issues relating to LarsonAllen's performance, indicating that the audit has been a good experience for the University for a first year audit performed under time constraints. He noted that LarsonAllen performed well in all technical areas and there was significant growth in their understanding of the complexities of a major research university. He added that LarsonAllen complimented the quality and depth of the University's financial expertise.

Frobenius and Volna reported that no material issues prevent continuing the current engagement with LarsonAllen.

CONSENT REPORT

Associate Vice President Klatt presented the Consent Report as detailed in the docket materials and including:

- An engagement with Larson, Allen, Weishair & Co. LLP to perform agreed-upon procedures as required by the Office of Student Affairs and the Student Fees Committee. Total audit fees for this engagement will not exceed \$36,000.
- An engagement with Larson, Allen, Weishair & Co. LLP to perform the University's FY2006 annual audits.

A motion was made and seconded to recommend approval of the consent report.

The committee recommended approval of the Consent Report.

INFORMATION ITEMS

Associate Vice President Klatt referred committee members to the Information Items contained in the docket, including:

- External Auditor Relationships & Services Provided.

Volna noted an exception to the review process relating to the engagement with PriceWaterhouseCoopers LLP. It was the consensus of the committee that the expenditure was appropriate.

The meeting adjourned at 9:23 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary