

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**September 7, 2006**

A meeting of the Audit Committee of the Board of Regents was held on Thursday, September 7, 2006 at 8:30 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, Cynthia Leshner, and Patricia Simmons.

Staff present: Chancellor Jacqueline Johnson; Senior Vice President and Provost E. Thomas Sullivan; Vice President Richard Pfitzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Steve Cawley, Gail Klatt, Stuart Mason, and Michael Volna.

Student Representatives present: Joshua Colburn and Will Kellogg.

Regent Frobenius welcomed Scott Lanyon, Vice Chair, Faculty Consultative Committee.

**EXTERNAL AUDIT UPDATE**

Regent Frobenius introduced Don Loberg, Principal, and C. Cline Comer, Partner, LarsonAllen, to update the committee on progress on the June 30, 2006 audit and discuss the Practice Aid for auditing alternative investments and its impact on the University of Minnesota 2006 audit. A copy of the presentation is on file in the Board Office.

Loberg reported that the 2006 audit is progressing on schedule, with LarsonAllen not identifying any major issues at this time.

Comer stated that the Practice Aid, published in July 2006, is the first document produced offering guidance on auditing alternative investments and outlining best practices for management working with such investments on a day-to-day basis. He reported possible impacts the new Practice Aid could have on LarsonAllen's audit opinion and described the various opinions an organization could receive for these types of investments.

In response to a question, Loberg stated that preliminary discussions with rating agencies indicate that a qualified opinion related to the valuation of alternative investments will not have a major impact on the institution's financial statements. He added that the opinions received by the institution's affiliated organizations could impact the overall audit opinion.

**COMPLIANCE OFFICER REPORT**

Associate Vice President Klatt introduced Tom Schumacher, Director of Institutional Compliance to update the committee on major University compliance initiatives, as detailed in the docket materials.

Schumacher highlighted three major areas of activity within the compliance office: a policy review, a summary of UReport, and the University's Executive Compliance Oversight Committee.

Schumacher stated that Board of Regents Policy: *Code of Conduct* is under review to better align the policy with other Board policies, to be more inclusive and relevant to the entire work force and not so focused on strictly research personnel and activities, and to meet current expectations for organizational culture. He noted that the administration has reviewed "best practices" of peer institutions and other industry to determine constructive indicators for an effective code of conduct.

Schumacher briefly discussed UReport, the reporting system which allows individuals concerned about legal or policy violations to report them confidentially or anonymously to a third party vendor retained by the University. He reported that to date, the program has been working effectively, and summarized the type of the reports received since UReport became available in the fall of 2006. He noted that the nature of reports by category shows an emphasis in human resources and employment areas.

#### **COMMITTEE WORKPLAN, 2006-07**

Associate Vice President Klatt presented the committee workplan for 2006-07 in accordance with Board of Regents Policy: *Board Operations and Agenda Guidelines*. The committee expressed support for the workplan.

#### **INTERNAL AUDIT UPDATE**

Associate Vice President Klatt presented the Internal Audit Update, as included in the docket materials.

Klatt reported that, during this past quarter, University departments implemented forty percent of the outstanding recommendations rated as "essential," which is a significantly higher percentage than that of the previous five quarters. The number of newly-issues "essential" recommendations was the lowest it has been in the previous five quarters, and seven units fully implemented all their remaining "essential" recommendations. She added that the audit plan for the year is progressing on schedule.

#### **INFORMATION ITEMS**

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

- Department of Health and Human Services' acknowledgement of receipt of the University's external audit for 2005; and
- Institutional Risk Monitoring Information.

The meeting adjourned at 9:40 a.m.

**ANN D. CIESLAK**  
**Executive Director and**  
**Corporate Secretary**