

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

November 8, 2007

A meeting of the Audit Committee of the Board of Regents was held on Thursday, November 8, 2007 at 10:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Linda Cohen, presiding; Clyde Allen, Dallas Bohnsack, John Frobenius, Venora Hung, and Dean Johnson.

Staff present: Chancellor Charles Casey; Senior Vice President and Provost Thomas Sullivan; Vice Presidents Steve Cawley, Timothy Mulcahy, and Richard Pfutzenreuter; General Counsel Mark Rotenberg; Executive Director Ann Cieslak, and Associate Vice Presidents Gail Klatt and Michael Volna.

Student Representatives present: Meghan Keil and Nathan Swanson.

REPORT OF THE EXTERNAL AUDITOR

Acting Controller Denise Seck introduced Don Loberg and Craig Popenhagen, Principals, LarsonAllen, who presented the external auditor's opinion on the accuracy and reliability of the University's FY2007 financial statements, as included in the materials distributed at the meeting and on file in the Board Office. This report is meant to assure the committee that the University has the appropriate policies, procedures, and control systems to produce accurate and reliable financial information.

Loberg and Popenhagen reported on the FY2007 audit, indicating that the University's financial statements received an unqualified audit opinion and the Office of Asset Management (OAM) agreed-upon procedures audit resulted in no material findings. He reported on the positive audit process as a result of increased communication among LarsonAllen, internal auditors and the component units. This communication contributed to the successful and timely completion of all aspects of the audit. Loberg also announced that a number of other audit projects are ahead of schedule.

Loberg stated that the institution's financial position is very healthy, with a considerable increase in net assets in 2007. He presented a number of financial ratios which demonstrate that the University compares favorably with other Big 10 universities. Popenhagen explained that the positive financial performance over previous years was due to positive net income, market value gains in investments, capital appropriations, and tuition revenue. He added that the University's instructional expense as compared to tuition revenue is stable and instructional expense as compared to tuition revenue is consistent with that of other Big 10 universities. This data reflects the University's effort to control costs. Popenhagen also reported on the impact of two

new auditing standards on the financial statements and briefly discussed required communication to the Audit Committee.

In response to a question from Regent Johnson, Loberg indicated that the implementation of the new Enterprise Financial System has progressed favorably, but the system itself has not been audited and could identify areas of vulnerability.

Regent Frobenius suggested that it would be beneficial to review capital expenditures as a percent of operating budgets to determine whether this institution is keeping pace with the capital side of reinvestment in the campus. Regent Hung commented that it would be helpful to compare this institution to aspirational institution peers in addition to the comparison with peer institutions.

COMPLIANCE OFFICER REPORT: RESULTS OF UNIVERSITY-WIDE RESEARCH COMPLIANCE STUDY

Regent Cohen introduced Susan Rafferty, Interim Director of the Office of Institutional Compliance to discuss areas in sponsored projects administration identified as having high- risk and impact activities. Rafferty stated that an initiative was launched last fall to evaluate compliance performance across the University system. It was designed to provide additional institutional review of and assurance for the compliance risk areas identified as high risk and high impact on the enterprise compliance risk assessment profile, or “heat map.”

Rafferty described the areas within sponsored projects administration that were selected for compliance evaluation, including effort reporting, cost sharing, subrecipient monitoring, direct charging of administrative costs, and cost transfers. The evaluation indicates strong adherence to both federal regulations and to University policies and procedures across several key high-risk areas. Rafferty highlighted a number of findings of the study (detailed in the docket materials), noting areas with good compliance and those that present opportunities for improvement. She identified the following measures which should result in even stronger compliance:

- Focused educational efforts;
- Better communications among grants administrators; and
- Clarifying administrative policies and procedures.

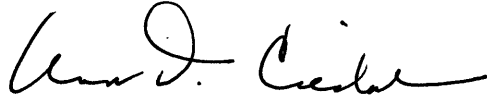
In response to a question from Regent Frobenius, Rafferty indicated that this report is based on a sampling of areas within sponsored projects administration and is not directly connected to the institution’s external audit. Klatt clarified that this evaluation reviewed activity in a wide range of University operations, while the A133 audit evaluates targeted areas and allows auditors to draw conclusions on controls within those specific program areas. Senior Vice President and Provost Sullivan added that this evaluation is complimentary to the external audit and provides the Board with a broader array of data in which to consider the effectiveness of both.

INFORMATION ITEMS

Associate Vice President Klatt referred the committee to the information items contained in the docket materials, including:

- Emergency Approvals; and
- Semi-Annual Controller's Report.

The meeting adjourned at 10:51 a.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary