

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

February 12, 2004

A meeting of the Audit Committee of the Board of Regents was held on Thursday, February 12, at 8:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, Richard McNamara, Lakeesha Ransom, Maureen Reed, and Patricia Simmons.

Staff present: Executive Vice President and Provost Christine Maziar; Interim Vice President David Hamilton; Executive Director Ann Cieslak; Associate Vice Presidents Steve Cawley, Gail Klatt, Stuart Mason, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Josh Colburn and Jacob Elo.

ANNUAL COMPLIANCE AUDIT OF FEDERAL AWARD PROGRAMS (A-133)

Associate Vice President Pfitzenreuter introduced Associate Vice President Volna, and Clifford Hoffman, Partner, Deloitte & Touche, to present the Audit of Federal Award Programs (A-133). The A-133 audit measures compliance with federal laws and regulations applicable to federal financial assistance that the University receives. The audit is required as a condition of receiving federal financial assistance and is performed by the institution's independent public accountants.

Hoffman reported that from an audit perspective, the University continues to be a low risk institution, and continues to make outstanding progress on how it administers its federal funds. Deloitte & Touche reported no material weaknesses or areas of noncompliance.

Hoffman highlighted the institution's achievements, noting the importance of the strong internal audit function. He added that the institution is challenged to continue to recruit and retain high-quality individuals, keep student financial systems upgraded, and address state funding shortfalls.

In response to a question, Associate Vice President Klatt stated that systems are in place to reduce potential risks within individual units in the deployment of federal funds.

EXTERNAL AUDITOR'S MANAGEMENT LETTER

Associate Vice President Michael Volna, and Clifford Hoffman, Partner, Deloitte & Touche, presented the external auditor's management letter for the year ending June 30, 2003, as included in the docket materials on file in the Board Office. The management letter presents Deloitte & Touche's observations and recommendations and management's

responses on internal control, accounting, operating and administrative manners. It also provides an update of the previous year's comments.

Hoffman reported that there are no matters involving the University's internal control and its operations that Deloitte & Touche consider to be material weaknesses.

The committee briefly discussed a recommendation concerning new standards regarding the self-assessment of audit committees. The committee agreed that while not actually subject to the standard, it will take the recommendation under consideration and further discussions.

ISSUES RELATED TO: INSTITUTIONAL CONFLICT OF INTEREST

Regent Simmons joined the meeting for this item. Interim Vice President Hamilton presented the topic, noting that a policy development committee had been convened to develop a proposed policy and procedures related to institutional conflict of interest. He introduced Assistant Vice President Bianco to summarize the policy development committee's deliberations.

Bianco presented the policy development committee's working definitions of individual and institutional conflict of interest, as detailed in the docket materials. The policy development committee has focused on developing processes to identify and manage different institutional conflicts. Based on the information provided by the reports and studies, potential conflict situations arise primarily from external financial relationships involving investments; royalties and other technology transfer arrangements; purchasing; gifts; and research-related decisions made by senior officials. The policy development committee has concluded that within these categories, research involving human subjects is the highest-risk area and must have additional safeguards.

The following were identified as most susceptible to institutional conflict of interest: the differentiation between personal and institutional conflict of interest, and the concepts of perceived, potential and actual conflicts of interest.

The committee engaged in a lengthy discussion.

Regent Simmons commented that the issue of perception is different when addressing individual conflict of interest as opposed to institutional conflict of interest. The institution has in place more rigid policies for managing perceptions of institutional conflict of interest, which may be easier to manage than individual conflict of interest.

Regent Reed commented that the institution needs to address conflicts that are potentially most damaging. Conflicts of interest may exist, but the assumption is that people and institutions will behave ethically so that some kind of threshold would be appropriate. She added that not all conflicts of interest represent financial gain so any policy should address nonfinancial gain as well.

Regent Simmons advised that care must be taken to avoid policy language that hampers the ability of the University to engage in beneficial relationships. The policy should allow for opportunities to engage in effective strategic alliances involving complex private relationships while also ensuring the quality of the research and managing any institutional conflict of interest. Regent Frobenius observed that privately-funded research is important and the University must maintain a reputation of objectivity.

In response to a question from Regent Reed, Hamilton and Bianco reported that very few universities have developed institutional conflict of interest policies. Where such policies have been developed, the focus has been subject protection and individual conflict of interest.

Hamilton reported that the policy development committee will further develop draft policy and procedures, consult with faculty governance, and update this committee at a future meeting.

INTERNAL AUDIT UPDATE

Associate Vice President Klatt presented the Internal Audit Update, as found in the docket materials on file in the Board Office.

Klatt reported that 45% of the outstanding recommendations rated as "essential" were implemented by University departments during the last quarter, a slightly higher than average percentage, and that seven units completed the implementation of their outstanding "essential" recommendations. She summarized the implementation progress in several units and reported on others that had exceptional audit results.

INFORMATION ITEMS

Associate Vice President Klatt referred the committee to two items as included in the docket materials:

- Institutional Compliance Report; and
- National Science Foundation correspondence.

The meeting adjourned at 9:25 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary