

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**Thursday, March 12, 2009**

**8:30 - 9:30 a.m.**

**600 McNamara Alumni Center, East Committee Room**

**Committee Members**

Linda Cohen, Chair  
Clyde Allen, Vice Chair  
Dallas Bohnsack  
John Frobenius  
Venora Hung  
Dean Johnson

**Student Representatives**

Jordan Bronston  
Dustin Norman

**A G E N D A**

1. External Auditor Review - M. Volna/D. Seck (pp. 2-6)
2. Issues Related to: External Audit Contract - M. Volna/D. Seck (p. 7)
3. Compliance Officer Report - L. Zentner (pp. 8-12)
4. Information Items - G. Klatt (pp. 13-15)



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**March 12, 2009**

**Agenda Item:** External Auditor Review

review       review/action       action       discussion

**Presenters:** Associate Vice President Michael Volna  
Associate Controller Denise Seck

**Purpose:**

policy       background/context       oversight       strategic positioning

To review audit and non-audit services provided by Larson, Allen, Weishair, and Co., LLP (LarsonAllen) and related fees paid during FY2008 and FY 2007.

To review LarsonAllen's internal assessment of their independence relative to the University of Minnesota.

**Outline of Key Points/Policy Issues:**

Total LarsonAllen contracted audit and non-audit fees were \$602,500 for fiscal 2008 engagements, with actual fees paid of \$585,412. All FY 2008 engagements have been completed and final billed.

Management will provide its evaluation of LarsonAllen's performance for FY 2008 and a recommendation to engage LarsonAllen for the FY 2009 audit and non-audit contracts. A summary of proposed fees for FY 2009 is included for review.

LarsonAllen will provide the firm's internal assessment of their independence relative to the University of Minnesota.

**Background Information:**

This report is prepared and presented to the Board of Regents Audit Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

**President's Recommendation for Action:**

The President recommends that LarsonAllen be engaged for the FY 2009 audit and non-audit contracts.

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS AUDIT COMMITTEE  
MARCH 12, 2009**

**EXTERNAL AUDITOR REVIEW**

**Background**

The Audit Committee of the Board of Regents is responsible for hiring and engaging the University's independent external auditors, for reviewing the work of the auditor, and periodically reviewing the fees paid to the audit firm. Best practices (consistent with the Sarbanes-Oxley legislation signed into law in 2002) are that the Audit Committee should conduct such a review at least annually. The Audit Committee conducted its last review of audit services and fees in April 2008.

The Controller's Office presents the information below and on the attached schedule for the Audit Committee's 2009 review of audit, audit related, and non-audit services fees paid to Larson, Allen, Weishair, and Co., LLP (LarsonAllen). Also included is management's assessment of LarsonAllen's performance of the FY 2008 engagements with a recommendation to re-engage LarsonAllen for FY 2009 engagements.

LarsonAllen will provide its firm's internal assessment of its independence relative to the University of Minnesota. This letter will be presented at the March 12, 2009 meeting.

**Review of Fees Paid to Larson, Allen, Weishair, and Co., LLP**

The schedule below presents a summary of fees paid to LarsonAllen, the University's independent external auditors, for the various FY 2008 audits and other services. The top portion of the fee schedule represents fees paid for the University's annual audits and NCAA agreed-upon-procedures. The contract amounts are consistent with the amounts agreed to in the Fiscal 2008 engagement letters and the firm's fixed price contract for fiscal 2008. The total audit fees paid to LarsonAllen in FY 2008 were \$15,955 less than the contract amounts in total, and represent less than expected actual expenses. These amounts are final.

The lower portion of the schedule contains a breakdown of fees paid to LarsonAllen for other services. In addition to audit services outlined in the top half of the schedule, LarsonAllen also performed six other engagements. In order to reduce audit costs and maintain greater oversight of audit and audit-related engagements across the University, the Controller's Office is working closely with LarsonAllen and University departments to use LarsonAllen whenever possible for additional external audit services.

Services performed by LarsonAllen during the current fiscal year that were not part of the annual audits and NCAA agreed-upon-procedures of the University are described more fully below:

- LarsonAllen was engaged to perform agreed-upon-procedures related to the Office of Investment and Banking's performance based compensation plan. The performance based compensation plan was developed and put in place by the University. At the time of the plan's inception, the University's senior administration stipulated that the University's external auditors perform limited procedures to verify management's calculations of the amounts and allocations of compensation from the incentive performance pool. The Controller's Office reviewed the engagement letter prior to its finalization and determined that this work does not impair LarsonAllen's independence related to the audit of the University.
- LarsonAllen was engaged to audit the statement of activities for the Department of Concerts and Lectures. This engagement was the result of the donor stipulations that require the Department of Concerts and Lectures to prepare and submit financial statements of their activity. The related engagement letter was reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. As this engagement was solely to provide an audit opinion, it did not present an independence issue with regard to LarsonAllen.
- LarsonAllen was engaged to perform agreed-upon-procedures to assist the University's Fees Committee and the Office of Student Affairs in determining the proper record keeping and use of the student organizations that receive University fees. LarsonAllen reviewed five organizations that received University fees and performed the agreed-upon-procedures as outlined by the University Fees Committee and Office of Student Affairs. The related engagement letter was reviewed by the Controller's Office and signed by the Board of Regents. This engagement did not present an independence issue with regard to LarsonAllen.
- LarsonAllen performed procedures in connection with their consent to use the FY 2008 Audit Financial Statements in the University's Bond Offering Documents.
- LarsonAllen was engaged to perform an audit of the Weisman Art Museum. This engagement was the result of donor stipulations that require the Weisman Art Museum to prepare and submit financials statements of their activity. The related engagement letter was reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. As this engagement was solely to provide an audit opinion, it did not present an independence issue with regard to LarsonAllen.
- Larson Allen was engaged to perform an audit of the Minnesota Job Skills Partnership (MJSP) Project No. 10-05-5654, University of Minnesota – Crookston as of October 31, 2008. This engagement was the result of a grant requirement that required the submittal of audited statements at the end of the grant. The related engagement letter was reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. As this engagement was solely to provide an audit opinion, it did not present an independence issue with regard to LarsonAllen.

UNIVERSITY OF MINNESOTA  
 BOARD OF REGENTS AUDIT COMMITTEE  
 MARCH 12, 2009  
 FEES PAID TO LARSON ALLEN WEISHAIR CO., LLP  
 FY 2008 ENGAGEMENTS

	<i>FY 2008 Engagements</i>			<i>Total FY 2007 (prior year)</i>
	<i>Contract Amount</i>	<i>Billed Amount</i>	<i>Over/(Under) Budget</i>	
<b><u>Audit and Agreed-Upon-Procedure fees for FY 2008</u></b>				
University Financial Statement Audit	\$ 360,400	\$ 359,305	\$ (1,095)	\$ 322,950
RUMINCO Financial Statement Audit	32,500	24,123	(8,377)	27,475
Compliance Audit (OMB A-133 and MOHE)	131,800	126,557	(5,243)	120,793
NCAA Agreed-Upon-Procedures	14,300	13,060	(1,240)	12,454
Total Audit and Agreed-Upon-Procedure Fees	<b><u>\$ 539,000</u></b>	<b><u>\$ 523,045</u></b>	<b><u>\$ (15,955)</u></b>	<b><u>\$ 483,672</u></b>

**Other Audit, Audit Related and Non-audit Fees**

Office of Investments & Banking procedures	\$ 3,000	(1)	\$ 3,000	\$ 3,006
Audit of Department of Concerts and Lectures	6,500	(1)	6,548	5,632
Student Organization Agreed-Upon-Procedures	35,000	(1)	17,606	31,389
Consent procedures related to Commercial Paper	-	(2)	14,050	4,795
Audit of Weisman Art Museum	12,000	(3)	15,190	-
Audit of Minnesota Job Skills Partnership	7,000	(1)	5,973	-
Total Audit, Audit Related, and Non-Audit Fees	<b><u>\$63,500</u></b>		<b><u>\$ 62,367</u></b>	<b><u>\$ 44,822</u></b>
<b>Total Fees</b>	<b><u>\$ 602,500</u></b>		<b><u>\$ 585,412</u></b>	<b><u>\$ 528,494</u></b>

(1) These engagement contract amounts do not include out-of-pocket expenses.

(2) Consent procedures do not require a separate contract and are billed separately based upon actual hours.

(3) The fees did not include additional fees to convert prior year financial statements to Governmental Accounting Standards

**Annual Review of External Auditor Relationship Performance:**

By Audit Committee Charter, the Audit Committee is responsible for evaluating the performance of the independent auditor. Management reports that the audit and non-audit engagements that were performed by LarsonAllen were all completed in a timely manner, with no significant issues or budget over-runs. Staffing has been consistent, which has led to an overall reduction in the amount of University staff time necessary to complete the procedures. The Controller’s Office recommends the engagement of LarsonAllen for the FY 2009 audit and agreed-upon-procedures outlined below:

- Annual Financial Statement Audit
- RUMINCO annual financial statements
- A-133 Audit on compliance applicable to federal funds
- MOHE (Minnesota Office of Higher Education) audit
- NCAA agreed-upon-procedures
- Office of Investments and Banking (OIB) Compensation Plan agreed-upon-procedures
- Annual audit of the Department of Concerts and Lectures
- Agreed-upon-procedures related to student fees for the Office of Student Affairs

**Proposed fees for FY 2009 LarsonAllen engagements:**

	Cost of Professional Services	Travel and Incidental Expenses	Total not to Exceed
<b>Fiscal Year 2009</b>			
University Financial Statement Audit	\$ 350,500	\$ 29,200	\$ 379,700
Updating Documentation of Controls	75,000	-	75,000
RUMINCO Financial Statement Audit	26,000	9,400	35,400
Federal Audit (OMB A-133)	104,800	6,600	111,400
MOHE Audit	24,500	2,900	27,400
NCAA Agreed-Upon-Procedures	13,700	1,400	15,100
(OIB) Agreed-Upon Procedures	3,100	*	3,100
Department of Concerts and Lectures Audit	6,500	*	6,500
Student Organization Agreed-Upon-Procedures (1)	35,000	*	35,000
	<u>\$ 639,100</u>	<u>\$ 49,500</u>	<u>\$ 688,600</u>

\*These engagements do not specify travel and incidental expense amounts; however, actual expenses are included as part of the contract fees.

(1) Student Organizations fees are \$3,500 per student organization reviewed. The number of organizations reviewed each year can vary.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**March 12, 2009**

**Agenda Item:** Issues Related to: External Audit Contract

review       review/action       action       discussion

**Presenters:** Associate Vice President Michael Volna  
Associate Controller Denise Seck

**Purpose:**

policy       background/context       oversight       strategic positioning

The External Audit contract with LarsonAllen runs through FY2009. Management will bring forth the discussion related to rebidding the external audit contract for the University.

**Outline of Key Points/Policy Issues:**

Discussion of rebidding the external audit contract with suggested approach and timeline will be presented at the meeting.

**Background Information:**

The Board of Regents reserves to itself authority to approve selection of external public accountants by Board of Regents Policy: *Audit Committee Charter*.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**March 12, 2009**

**Agenda Item:** Compliance Officer Report

review       review/action       action       discussion

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

**Purpose:**

policy       background/context       oversight       strategic positioning

This presentation provides the Audit Committee with information on the activities of the Office of Institutional Compliance to help the committee carry out its oversight responsibilities for the University's compliance program.

**Outline of Key Points/Policy Issues:**

1. The Institutional Compliance Officer will update the committee on the status of three issues addressed in her September 2008 report, namely the Occupational Health and Safety Program, the University's response to the recommendations of the Association for the Assessment and Accreditation of Laboratory Animal Care (AAALAC), and the status of the University's Conflict of Interest Program following its transition to the Office of Institutional Compliance.
2. The Institutional Compliance Officer will also report on the work of the International Risk and Liability Committee, Compliance Partner initiatives, and provide statistical information regarding UReport.

**Background Information:**

The Institutional Compliance Officer regularly reports on the institutional compliance program two times each year. In addition, in February of this year, the Director provided a report on the status of the University's Conflict of Interest Program.



Report of the Director, Office of Institutional Compliance  
To the Board of Regents Audit Committee  
March 12, 2009

**Overview**

The University of Minnesota has created a culture of compliance, collaboration, and commitment to the highest standards of integrity. As a result, the compliance challenges that arise are addressed thoughtfully, systematically, and collaboratively and partnerships are developed that strengthen our efforts going forward. In large part, our compliance environment results from the creation of a well developed network of compliance partners, a commitment to doing “what is right”, and the faithful support of senior leadership. It is with this perspective in mind that I summarize the effort and focus of the Office of Institutional Compliance (OIC) over the past six months.

**The Status of The Three Areas of Focus Identified in the September 2008 Report**

1. *Occupational Health and Safety*

At the time of the September report, a Steering Committee had been convened to address the many and varied programs that comprise the Occupational Health and Safety Program. The Steering Committee is chaired by Senior Vice President Frank Cerra and continues to meet regularly. A major focus of the work of the committee is defining the infrastructure under which this complex program might most effectively function. To this end, multiple external reviews of various aspects of the program have been conducted to include the University’s Research Lab Safety Program, an OSHA Compliance Gap Analysis, an analysis of environmental health and safety and occupational health and safety training, and an occupational health and safety risk assessment. The Steering Committee is in the process of reviewing the feedback received from each of these reviews and will use this information to make recommendations regarding the appropriate infrastructure and programmatic requirements going forward.

In addition, a well-coordinated effort is underway to evaluate the extent to which the University’s Research Outreach Centers (ROCs) are in compliance with all applicable occupational health and safety and environmental health and safety requirements and standards. A work team has been convened, an assessment tool has been developed, and efforts are underway to begin the inspection of the ten ROCs, located throughout the state, within the next several weeks. The standards governing this work include: the American National Standards Institute Standard for Occupational Health and Safety Management Systems, Minnesota Occupational Safety and Health Regulations, the accreditation requirements of the Association for the Assessment and Accreditation of Laboratory Animal Care (AAALAC) where applicable, and the National Agricultural Safety Database. The information gathered will inform the University about whether and to what extent it needs to strengthen its ROC-related policies, procedures and training programs and address particular resource, equipment, and facilities issues.

2. *Accreditation Process by the Association for the Assessment and Accreditation of Laboratory Animal Care (AAALAC)*

AAALAC has conducted recent site visits at the University, one in early 2007 and another in February 2008. As a result of these site visits, AAALAC recommended that the University: (a) strengthen the leadership and oversight role of the Institutional Animal Care and Use Committee (IACUC); (b) ensure consistency in the use of Personal Protective Equipment (PPE); and (c) improve biohazard containment practices in order to minimize risk to personnel. To this end, Vice President Tim Mulcahy has modified the membership of the IACUC and its leadership, reorganized and realigned the animal research program, and established a multi-disciplinary group to develop base line requirements for the use of personal protective equipment. In addition, coordination among staff associated with Veterinary Medicine, Occupational Health and Safety, and Environmental Health and Safety has resulted in an effort ongoing currently to develop standard operating procedures to govern the use of PPE. Similar efforts are being coordinated by staff of the Occupational Health & Safety and Environmental Health & Safety Programs to improve consistency in our biohazard containment practices.

3. *Conflict of Interest Program*

The Director made a report to this Committee in February 2009 regarding the status of the Conflict of Interest Program following both internal and external evaluations of the Program's current infrastructure, policies and procedures. Since that time, a Conflict of Interest Senior Leadership Advisory Committee has been convened to review and address the questions raised and recommendations made as a result of this review process. The membership of this Committee includes: Senior Vice President Cerra, Vice President Mulcahy, General Counsel Mark Rotenberg, Associate Vice President Gail Klatt, Provost Tom Sullivan or his designee, Vice President Kathy O'Brien, Vice President Carol Carrier, Vice President Rusty Barcelo, Dean Steven Crouch, Associate Dean Charlie Moldow, and Vice Chancellor Claudia Newhauser. Two meetings have been scheduled in March with the goal of developing recommendations for most, if not all, of the issues under consideration by the end of March. The Director plans to communicate with faculty and professional and administrative staff via the respective governance processes in April.

In addition to the infrastructure issues and focus on policy and procedure review and modification, another conflict of interest issue pertains to the development of standards to govern the relationships that University faculty and professional and administrative staff have with industry and other external entities. The University's Medical School convened a Task Force to address these issues in 2007 and in August of 2008 the Task Force created a summary of recommendations that was reviewed and considered by Medical School leadership and faculty. In February of 2009, Dean Deborah Powell issued a report entitled "University of Minnesota Medical School Recommendations on the Oversight of External Relationships".

In addition to these efforts, Senior Vice President Cerra convened a committee to address these issues and to review those efforts that have been undertaken at other institutions of higher education. The work of this group continues. It is anticipated that a final set of recommendations will be made in late

spring. The Director is also a member of an Industry Relations Roundtable which involves representatives from University of Minnesota Physicians and several health care systems, including Allina, Park Nicollet, Health Partners, Fairview, and Children's Hospital. The focus of this group is also on the development of standards to govern relationships between health care providers and industry and to provide recommendations to a physician leadership committee.

### **Other Activities of the Office of Institutional Compliance**

#### *1. International Risk and Liability Committee*

The Director participated on this Committee for several months, beginning in June 2008. The Committee addressed, among other issues, the extent to which the University has systems in place to effectively track faculty, students and staff who travel abroad to engage in University-sponsored activities and the extent to which the University provides sufficient resources to educate those going abroad about local customs and laws that may impact their University-related activities. It is anticipated that a working group will be charged with expanding the resources currently available to further prepare faculty, staff and students for the local context they will find in their host countries and regions of the world.

#### *2. Compliance Partners Initiatives*

The Compliance Partner network continues to be an effective approach to the coordination of University-wide compliance activities and identification and resolution of compliance-related risk. The Compliance Partners meet as a group several times each year. Core Compliance Coordinator Sophia Anema provides the leadership for these meetings. The collaborative relationships that have been created have facilitated the coordination of efforts to strategically address issues that cross multiple areas of subject matter expertise. This has occurred most recently in the area of employee relationships.

In addition, we surveyed the status of our training programs across all compliance subject matter areas to determine the extent to which we have gaps and/or redundancies in the training of employees within each organizational unit and the extent to which particular units provide training outside of those units. The feedback obtained reflects, in large part, effectively implemented, comprehensive training programs University-wide. Where gaps were noted, efforts are underway to address them.

The Office of Institutional Compliance also surveyed this group with respect to the breadth and nature of internal investigations conducted and the extent to which external governmental agencies, accreditation bodies, and the like conduct inspections and investigations here. We learned that there is wide variation across units regarding the nature and volume of internal investigations conducted and, similarly, variation with respect to the record keeping process used to document the nature and result of these investigations. OIC will address training needs and identify training resources to address this issue and will also develop guidance regarding the conduct of internal investigations. Associate Vice President Klatt and Deputy General Counsel Bill Donohue provided helpful guidance regarding coordination with their respective offices. We will revise our current Legal Compliance Reporting template to include a request for summary information regarding internal investigations twice annually.

### 3. Ethics Point UReport

The Audit Committee is familiar with UReport which is a confidential reporting service that provides faculty and staff with an opportunity to raise concerns about possible violations of local, state or federal law and University policy. UReport became available in 2005 and, since that time, a total of 440 reports have been filed. The majority or 376 reports have been made on-line while 60 reports have been made via the hotline. The remaining few were made through correspondence, a personal visit to the Office of Institutional Compliance, and an e-mail forwarded directly to Ethics Point rather than using the web-based on-line reporting system. Approximately 75% of the reports are made anonymously. Nearly three quarters of the complaints fall within one of three categories:

- Discrimination/harassment/equal opportunity
- Abuses in wage, benefits, vacation, overtime, leaves
- Other employment concerns



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**March 12, 2009**

**Agenda Item:** Information Items

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To report audit and non-audit services provided by all public accounting firms during FY 2008 and FY 2009.

**Outline of Key Points/Policy Issues:**

Report on Audit and Non-Audit Services and Fees

Total fees of \$685,834 have been paid through February 2009 to seven different public accounting firms for a variety of audit and non-audit services, which are described in the accompanying narrative and schedule.

**Background Information:**

This report is prepared and presented to the Board of Regents Audit Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS AUDIT COMMITTEE  
MARCH 12, 2009**

**Annual Review of External Auditor Relationships  
and Services Provided**

The attached schedule represents a summary of fees paid to all auditing firms that provided any professional services to the University during FY 2008 and FY 2009 (through February, 2009).

In addition to the audits performed by Larson, Allen, Weishair, and Co., LLP (the University's independent external auditors), other accounting and auditing firms performed a variety of audit and non-audit services at the University during FY 2008 and FY 2009. These services were:

- Charles R. Ziegler Co., Ltd., was engaged by the Tweed Museum of Art to perform a yearly report on the Tweed budgets for FY 2008 to include in an application for Minnesota State Arts Board Grant funds. This contract was previously reported to the Audit Committee
- Licari Larsen & Co Ltd was engaged by KUMD, the Duluth campus radio station, to perform attest services in FY 2008 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting. This contract was previously reported to the Audit Committee.
- Mayer Hoffman McCann, PC was engaged to perform an audit of the Weisman Art Museum for FY 2008 to comply with granting agency requirements. This contract was previously reported to the Audit Committee.
- McGladrey & Pullen, LLP was engaged by the University's Office for Technology Commercialization to perform agreed-upon-procedures to verify the accuracy and evaluate the integrity of the financial information presented in royalty reports. This contract was previously reported to the Audit Committee.
- PriceWaterhouseCoopers, LLP was engaged by the University's Office for Technology Commercialization to perform audit services on royalty calculations for sales occurring in calendar years 2005 and 2006. This contract was for a value not to exceed \$99,000. This contract was approved by the Board of Regents.
- Virchow Krause & Company was engaged by Radio K, the University's radio station, to perform attest services in FY 2008 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting. This contract was previously reported to the Audit Committee.

The Office of the Controller reviewed all of the contracts, as detailed on the attached schedule, for FY 2008 and FY 2009, consistent with Board's policy. None of these engagements result in an impairment of independence, in fact or in appearance, for any of the firms.

UNIVERSITY OF MINNESOTA  
 BOARD OF REGENTS AUDIT COMMITTEE  
 MARCH 12, 2009

REPORT OF FEES PAID TO AUDIT FIRMS

<u>Audit Firm</u>	<u>FY 2009 YTD (thru Feb. 2009)</u>		<u>Total FY 2008 Total Fees Paid</u>
	<u>Audit Fees</u>	<u>Non-Audit Fees</u>	
Charles R. Ziegler Co., LTD		\$ 1,500	\$ 1,500
Larson Allen Weishair & Co., LLP	\$ 537,696	47,716	585,412
Licari Larsen & Co., LTD	4,900		4,900
Mayer Hoffman McCann, PC	3,600		3,600
McGladrey & Pullen, LLP		10,847	10,847
PriceWaterhouseCoopers, LLP		70,000	70,000
Virchow Krause & Co, LLP	9,575		9,575
<b>Total Fees Paid</b>	<b>\$ 555,771</b>	<b>\$ 130,063</b>	<b>\$ 685,834</b>