

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

November 7, 2001

A meeting of the Audit Committee of the Board of Regents was held on Wednesday, November 7, 2001 at 3:30 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Robert Bergland, presiding; Dallas Bohnsack, Frank Berman, and Richard McNamara.

Staff present: Senior Vice President Frank Cerra; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Gail Klatt, Robert Kvavik, and Richard Pfitzenreuter.

Student Representatives present: Kyle Althoff and Venora Hung.

INFORMATION ITEMS

Associate Vice President Klatt presented information relating to eight outstanding audit recommendations, as found in the docket materials. The partially-implemented recommendations are from the following audits:

- Department of Urologic Surgery;
- Institution-Wide Issues Resulting from the Audit of All University Foundations;
- Selected Department Practice Plans;
- Office of Vice President for Research and Dean of the Graduate School;
- Office of Scholarships and Financial Aid; and
- Duluth School of Medicine.

Klatt updated the committee on the current status of these outstanding audit recommendations as requested by the committee at its previous meeting. She is satisfied that progress is being made in each area, and that most outstanding issues should be resolved in the next quarter. Klatt noted that Vice President Maziar would be coming forward with a proposal in the near future regarding the Public-Private Partnership Committee specified in the Board of Regents Policy: *Conflict of Interest*.

Klatt updated the committee on new "Standards for the Professional Practice of Internal Auditing" set by the Institute of Internal Auditors, as found in the docket materials. Since the University complies with these industry standards when conducting its audits, the new standards are causing the revision of the Department of Audits Charter. Klatt assured the

committee that the University would be in full compliance with the new standards by the July 2002 implementation date.

DEPARTMENT OF AUDITS CHARTER

Associate Vice President Klatt presented proposed changes to the Charter for the Department of Audits, as found in the docket materials. The changes are necessary to ensure consistency with the revised "Standards for the Professional Practice of Internal Auditing", effective July 2002.

Klatt reported that the University's external auditors, Deloitte & Touche, the Office of the General Counsel, and President Yudof have reviewed the proposed changes. The changes will require Board approval and will be presented to the committee for action in February 2002.

AUDITED FINANCIAL STATEMENTS

Associate Vice President Pfitzenreuter introduced Clifford Hoffman, Audit Partner of Deloitte & Touche, to present the findings from the annual financial audit performed by Deloitte & Touche for the fiscal year ending June 30, 2001, as found in the docket materials.

Hoffman reported that the University had another year of good progress, and highlighted the following accomplishments:

- improved management and timely collection of sponsored projects receivables;
- completed implementation of paperless web-based student financial aid system;
- increased research funding beyond the rate of inflation;
- completed new procedures mandated by Governmental Accounting Standards Board (GASB) No. 33 by the implementation date, with good progress toward completion of GASB No. 35 requirements.

Hoffman emphasized that one of the University's strengths is its diverse revenue base. Hoffman also noted that the University continues to have a strong and experienced internal audit department with a low rate of turnover.

Hoffman identified challenges for the University, including:

- decreased value in the Endowment Fund due to market volatility;
- completion of GASB No. 35 financial reporting requirements by the implementation date of June 30, 2002;
- implementation of upgrades to the PeopleSoft system;
- retention and recruitment of high-quality employees;
- continued improvement to billing and collection of sponsored receivables.

The committee had a number of questions and concerns about the percentage and use of alternative investments in the Consolidated Endowment portfolio and agreed to a later presentation on possible risk and control issues associated with these investments.

SEMI-ANNUAL CONTROLLER'S REPORT

Interim Controller Michael Volna presented the Semi-Annual Controller's Report, as found in the docket materials.

Volna updated the committee on the University's implementation of new standards for reporting and accounting practices mandated by the Governmental Accounting Standards Board (GASB). Volna commented that the underlying business transactions of the University will not change, but the financial reports will have a completely different format next year as a result of these new standards.

Volna discussed the continued progress on the rollout of Financial FormsNirvana and the development of electronic forms and tools in other areas, including the final phase of the new Sponsored Financial Reporting (SFR) system. He also presented a status update summarizing University response to the recommendations contained in the Deloitte & Touche Management Letter for FY00.

The meeting adjourned at 4:45 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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