

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**Thursday, March 8, 2007**

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

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

**Committee Members**

John Frobenius, Chair  
Dallas Bohnsack, Vice Chair  
Clyde Allen  
David Larson  
Cynthia Lesher  
Patricia Simmons

**Student Representatives**

Joshua Colburn  
Will Kellogg

**A G E N D A**

1. Compliance Officer Report - T. Schumacher (pp. 2-21)
2. External Auditor Review - R. Pfutzenreuter/D. Seck (pp. 22-24)
3. Consent Report - Review/Action - G. Klatt (pp. 25-26)
4. Information Items - G. Klatt (pp. 27-30)



## UNIVERSITY OF MINNESOTA BOARD OF REGENTS

**Audit Committee**

**March 8, 2007**

**Agenda Item:** Compliance Officer Report

**review**       **review/action**       **action**       **discussion**

**Presenters:** Tom Schumacher, Director of Institutional Compliance

**Purpose:**

**policy**       **background/context**       **oversight**       **strategic positioning**

The purpose of this presentation is to provide the Audit Committee the semi-annual report from the University's Institutional Compliance Officer.

### Outline of Key Points/Policy Issues:

This report will provide compliance information to assist the Audit Committee in meeting its compliance oversight responsibilities. Areas covered will include:

1. Results and analysis of the University's compliance and ethics culture assessment;
2. Update on the communication efforts regarding the newly revised Board of Regents Policy: Code of Conduct;
3. Semiannual report on the University's confidential reporting service, Ureport; and
4. Update on the activities of the University's Compliance Oversight Committee.

### Background Information:

The Director for the Office of Institutional Compliance reports to the Audit Committee on a semi-annual basis. The Director last reported to the Committee during its September, 2006 meeting.

March 8, 2007  
Board of Regents Audit Committee

Agenda Item:      Institutional Compliance Officer Report

This report includes:

- Results of the University system-wide compliance culture assessment;
- Summary from the University's confidential/anonymous reporting service;
- Regents Code of Conduct communication update; and
- University's Executive Compliance Oversight Committee update

### **Compliance Culture Assessment**

**Why:** Organizational culture is the most significant factor to reducing illegal/unethical behavior and encouraging employee commitment to the University's ethical aspirations.

Industry and academic research regarding compliance and ethics programs have evaluated factors that influence the effectiveness of compliance efforts. The research and experience over the last fifteen years all confirm that the single most important factor to improving ethical actions and reducing compliance violations is an organization's culture.

In the most effective compliance programs employees perceive the program as primarily emphasizing organizational values and motivating them to act on ethical aspirations aligned with those values. These programs extend compliance beyond mere "law compliance" to fostering an organizational culture that encourages an internalized commitment to organizational values, including law compliance *and* ethics-based standards and decision making. Their orientation is for the workforce to perceive the need to obey the law and act ethically as a positive aspect of work life, rather than an unwelcome constraint imposed by external regulators. This orientation improves employee awareness of ethical/compliance issues, willingness to raise "bad news," willingness to report violations, and motivation to refrain from unethical or illegal conduct. Research also confirms that observations of misconduct drop significantly in organizations that have high rankings on ethical culture metrics.

The relative significance of assessing compliance culture has become so clear that the federal compliance program model was recently amended to explicitly mandate that organizations use due diligence to "promote an organizational culture that encourages a commitment to compliance with the law"

and to require periodic assessments to measure the effectiveness of their compliance and ethics programs, including the organization's culture for compliance and ethics.

**What:** In developing an assessment tool, the University identified established and emerging compliance and ethics culture metrics. These included:

- Review of organizational research, with a particular focus on validated, outcome-determinative compliance indicators;
- Review of metrics currently in use by major Minnesota and other businesses;
- Review of metrics currently used by other public sector organizations; and,
- Review of metrics currently used by consultants and benchmarking organizations.

Stated broadly, widely accepted compliance and ethics culture metrics evaluate:

- Prevalence and observations of perceived misconduct
- Willingness to report misconduct and knowledge of resources for reporting misconduct
- Follow through on reported concerns/accountability
- Fear of retaliation/reprisal for raising concerns
- Perception that leadership (executive and supervisory) pays attention to both ethics and values and to models of ethical conduct
- Perception of fair treatment within the organization
- Perception that ethical behavior is rewarded and unethical behavior punished, at *all* levels

Other factors, which transcend a compliance and ethics culture, but which also have a significant impact on the compliance and ethics culture, include:

- Sensitivity to/awareness of ethical/legal issues that arise at work
- Consistency between policy and practice
- Commitment to the organization and its perceived values (individual and organizational value congruence)
- Visibility of ethics and values in workplace discussions and in strategic decision making
- Willingness to seek ethics/compliance advice within the organization
- Knowledge of workplace rules

**How:** The most commonly used compliance culture assessment tools are broad-based employee surveys. Other strategies include focus groups, interviews, and empirical studies of other leading and lagging compliance culture indicators (for example, lawsuits, fines, demonstrated knowledge of applicable laws, etc.).

Organizations deploy at least two very different types of compliance and ethics culture assessment surveys. One strategy is to implement a comprehensive assessment tool covering in detail each of the elements of an effective compliance culture. As an example, KPMG Audit and Risk Advisory Services conducted an assessment for a broad range of industries that includes 155 compliance and ethics-related questions. Other consulting firms offer similar, full scale assessment surveys. A second option is for organizations to leverage an existing employee opinion survey, and to include a much smaller set of core compliance measures as part of that larger culture survey. An example of this approach is a national benchmarking initiative recently launched by the Ethics and Compliance Officer Association, which contains six core questions to be added to an organization's internal employee opinion survey. A third option is to do both, including the core questions in a widely distributed employee opinion survey, and using a more comprehensive compliance assessment tool for a targeted subset or an identified representative sample of the organization.

For its first compliance and ethics assessment, the University included six core compliance questions in the system-wide "Pulse" survey. Reasons for supplementing this existing survey rather than conducting an additional robust compliance-only survey included a concern to limit "survey fatigue" within the University community, particularly given the survey and assessment work then under way due to strategic repositioning; the ability to utilize the detailed demographic data gathered in the Pulse; and the administrative efficiencies associated with "piggy backing" on the Pulse, including statistical evaluation, survey administration, and survey analysis.

These core questions, and the results, are set out in Appendix A to this Report. The six areas covered are:

- Observations or experience of perceived significant misconduct
- Reporting of observed misconduct to responsible officials
- Belief in appropriateness of response to reported misconduct
- Knowledge of where to report misconduct
- Confidence in protection from retaliation
- Perceptions of University leadership regarding integrity and ethics

### **General Observations and Analysis:**

1. **Reliability of Results** The University is continuing to explore the reliability of the Pulse survey results. To date, the results have not undergone a comprehensive statistical reliability analysis.

- The University distributed the Pulse survey to 12,901 staff and had 3,853 respondents. This equates to a **29.87% staff response rate**.
- The University distributed the survey to 2,841 faculty and had 575 respondents. This equates to a **20.24% faculty response rate**.
- The aggregate response rate is **28.1%**.

By way of comparison, the response rates for two national, cross-industry compliance culture assessments, both with 95% confidence levels, were 32% (National Business Ethics Survey) and 60% (KPMG Integrity Survey). Although the University's response rate is roughly similar to the first of these surveys, there are at least two potential areas of concern with regard to the reliability of the compliance culture questions. First, the results may over-represent those employees with an overall favorable impression of the University. The rationale is that those who will spend the time to answer more than 150 Pulse survey questions may on balance over represent those with higher loyalty to the University and general commitment to altruistic service. This group may be less likely to have unfavorable impressions of the University's compliance and ethics culture. Conversely, the survey may also over represent those who are dissatisfied with some aspect of the University, and see the Pulse as an opportunity to express that dissatisfaction. Such individuals may disproportionately have a negative perception of compliance culture variables.

2. **Lack of University Benchmarks** Compliance culture assessments are fast emerging as an important leading indicator for predicting employee misconduct. This is a relatively new area in which the University is among the leading academic institutions developing and implementing such an assessment. This role aligns with the University's pioneering effort in developing University performance metrics and measuring accountability in connection with the strategic repositioning efforts. To date, the University has not identified a meaningful number of peer institutions conducting a compliance and ethics culture assessment. As detailed in Appendix A, two national cross-industry compliance culture assessments have recently been completed.<sup>1</sup> These included government

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<sup>1</sup> The Pulse questions were developed prior to the publication of these two assessments or the six core questions used in the Ethics and Compliance Officer Association's benchmarking initiative. We are pleased to report that these surveys and core questions

and non profit organizations as well as for profit companies. These surveys provide some level of benchmarking, but do not account for some of the unique variables of a major research institution, chief among these may be a decentralized structure. The Office of Institutional Compliance currently is working with other universities to promote greater use of compliance culture assessments. Benchmarking data should follow in the next several years.

Significantly, the Pulse compliance assessment data do provide a baseline for the University to begin to measure progress internally as it improves the reliability of this assessment tool, even in the absence of university-specific benchmarks.

### 3. Areas of Strength and Opportunities for Growth

- Low incidence of perceived misconduct. The most significant overall result of the Pulse compliance assessment is the relatively low rate of observed perceived “significant misconduct.” As set out in Appendix A, 13% of University faculty and staff responding to the survey indicated they had observed significant misconduct. This is far less than the cross-industry averages for similar questions. For example, one of the cross-industry studies found 74% of the employees observed some type of misconduct, and 37% observed “serious” misconduct.
- Approximately average percentage who report observed violations, concerns about retaliation, and perceptions of leadership for ethics. Fifty-two percent of the University faculty and staff who observed misconduct reported it; this compares with 55% as one cross-industry average. The University’s climate is roughly equivalent to the cross-industry averages for confidence in protection from retaliation if a concern were reported (22% of faculty and staff “disagree” that they would be protected from retaliation if they reported a concern; cross-industry average is 17% disagreement). With respect to leadership, 77% of the staff and 71% of the faculty agree or strongly agree that “University leadership demonstrates integrity and ethical behavior.” This is just slightly lower than industry averages to similar, but not identical, questions.
- Limited data to assess perceptions of reporters who raised concerns<sup>2</sup>. Only 338 of the 4,428 employees who answered the Pulse survey reached the question

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cover the same fundamental areas and ask nearly identical questions. This enhances our confidence in the validity of the Pulse compliance culture questions.

<sup>2</sup> Employee perceptions about management’s response to reported concerns is a significant culture metric. According to one of the major cross-industry surveys, the most significant reason employees who actually observed misconduct failed to report it was their belief that their organization’s management would not

that related to their perceptions of the appropriateness of the University's corrective actions. (The respondents who did not observe misconduct, and those who observed, but did not report it, were not asked this question in the on-line Pulse format). This represents only 1.8% of the University's total faculty and staff population. This response rate creates challenges in interpreting the data for this metric and evaluating its reliability.

From those faculty and staff who did answer, 53% who reported a concern did not believe the University took appropriate corrective action, 26% "didn't know," and 21% agreed the University took appropriate corrective action. This compares with a cross-industry average of 38.8% dissatisfied with the appropriateness of the organization's response to a reported concern, 0.3% "don't know" and 59% satisfied with the organization's response.

There is at least one major distinguishing variable to consider when evaluating this metric. The University, as a public Minnesota employer, is governed by Minnesota's privacy laws. This limitation does not apply to industries generally, and is one major distinguishing factor in explaining deviance between general cross-industry norms and the University's results. The constraints imposed under Minnesota's privacy laws present a unique challenge to improving employee satisfaction with corrective action: often the corrective action cannot be disclosed to other employees because it is private data about an employee. Thus corrective action was taken, but the faculty or staff member who raised the concern may not know what happened and mistakenly believe nothing was done.

The Office of Institutional Compliance will work with the Offices for Human Resource, General Counsel, Internal Audit, and others to evaluate this metric and the results more closely. This may include further survey and focus group work as well as additional communication on strategies on how to better navigate applicable Minnesota privacy laws when communicating with those who report concerns of misconduct.

- Need to improve awareness of University confidential reporting service. Thirty-nine percent of faculty and staff were "unsure" or "disagreed" that they knew where to report violations, including the University's confidential reporting service, Ureport. This compares, for example, with a cross-industry finding that 18% of employees who observed misconduct did not report it because they did not know where to go. The reliability of the University's result is strongly

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take appropriate corrective action (this was thirteen percentage points *higher* than not reporting due to fear of retaliation).

corroborated by the ongoing, longitudinal survey work conducted by the Department of Internal Audit. The Internal Audit survey to date shows that 37% “disagree” that they are familiar with how to report violations of law or policy, including the University’s confidential reporting line.

As described later in this report, the Office of Institutional Compliance has partnered with University Relations to significantly step up the communication efforts for Ureport and consulted with the Usability Lab to assess the ability of faculty and staff to locate Ureport when they are looking for it.

4. Next Steps. In addition to the actions stated above, the Office of Institutional Compliance is developing further responses to the initial pulse results, often in partnership with other University offices. These actions include:

- Enabling members of the Board of Regents to meet fiduciary responsibilities for compliance oversight. As previously indicated to the Board, under the current state of law, members of the Board have a duty to oversee the institution’s compliance and ethics programs. Under the federal compliance guidelines, this includes “knowledge about the content and operation of the [compliance and ethics] program(s)” and the exercise of “reasonable oversight with respect to the implementation and effectiveness” of those programs. The University’s “culture” relative to compliance and ethics is a core measurement of effectiveness. These results, combined over time with developing peer benchmarks, better enable the Board to meet this “knowledge” and oversight role. They also better enable the Board to provide policy direction to University administration on improving challenge areas.
- Developing strategic performance metrics for stewardship/compliance and ethics. At the direction of the Board, the University is in the process of developing accountability metrics to measure its success in meeting its strategic repositioning goals. These currently include more than twenty “performance metrics.” Reaching its vision to be a top three public research institution includes doing so while adhering to our time-honored tradition of stewardship and ethical conduct. As part of the accountability culture fostered in strategic repositioning, this “culture of evidence” includes a methodology to set performance standards for the institution as a whole, and to incent particular growth within colleges and units based upon the University-wide standard. Accordingly, the Office of Institutional Compliance is working with the Metrics Committee to refine a University-wide compliance and ethics indexed metric to add to the University’s performance scorecard.
- Targeting points of strength and opportunities for improvement. Another logical step for using the culture assessment results is to take the data for

colleges and units with substantial response rates and “drill down” to identify points of excellence and challenge areas. Since the culture for ethics and compliance is the most significant leading indicator for predicting likely points of breakdowns, this could be a very powerful tool to manage risk. However, this ability to “drill down” using the current Pulse data is limited by the low response rates in many colleges and units. A better response rate in the next assessment could greatly enhance the ability to detect vulnerabilities proactively as well as “best practices” to share within the University community.

- Serving as benchmark for University internal audits. The Department of Internal Audit conducts an anonymous employee survey as part of the routine audit process. Compliance and ethics culture questions are included in that survey. The University-wide culture assessment can, together with the growing longitudinal trending being developed as part of the internal audit, serve as a baseline against which to evaluate a particular unit’s culture for ethics and compliance. With greater participation and reliability, the distribution of results for “strong” and “weak” compliance cultures can be integrated into the proactive audit planning for internal University audits.
- Providing a resource for raising awareness and training. The results of the compliance assessment create a meaningful tool for training and education. This is especially true where coupled with suggested strategies to improve the results. The Office of Institutional Compliance is currently using the survey results in education sessions to raise awareness, including sessions for University executives, managers, and to various colleges and units.

### **Board of Regents Code of Conduct**

The Board of Regents formally adopted the University’s new Code of Conduct at the full Board meeting on December 8, 2006. Since that time, the Office of Institutional Compliance has partnered with other University offices to begin a broad-based awareness initiative.

#### Completed Actions

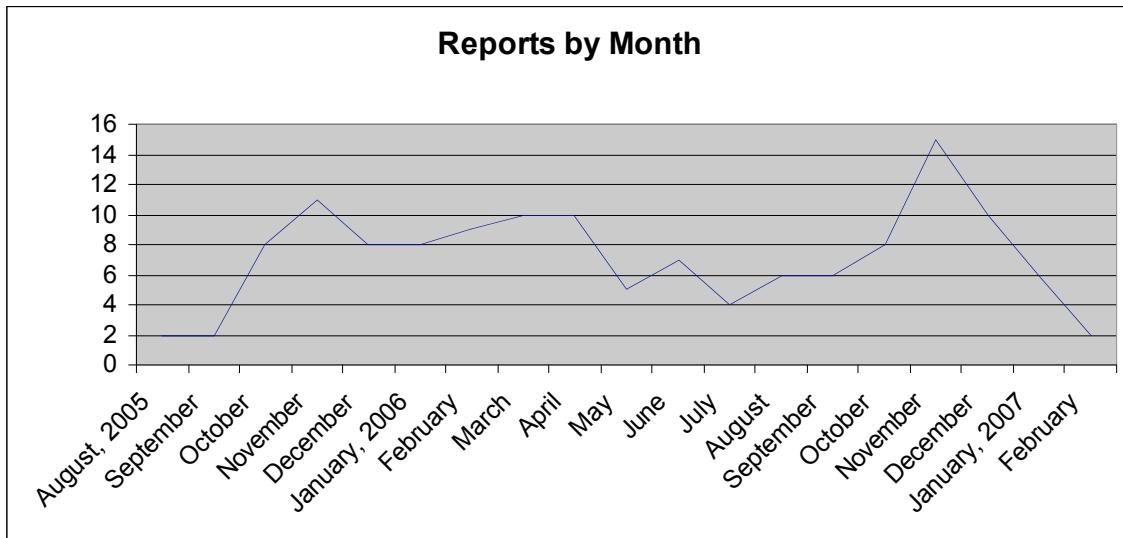
- Presidential e-mail to all employees with links to Code of Conduct and related policies, and links to other related on-line resources
- Story in University newspaper “Brief”
- Presented to various groups and meetings
- Prominently listed on websites
- Included in new employee orientation
- Linked on-line to many policies, forms, and websites

### Pending Actions

- Developing proposal and funding for all employee web-based awareness tied to individual user's University role similar to recent HIPAA on line education program
- Partnering with Training Services to more fully integrate the Code into existing training and education platforms across the University
- Exploring the distribution of the Code by campus mail to all employees

### **Ureport - Confidential Reporting Service**

The University has maintained an integrated confidential reporting line, "Ureport," since August, 2005. The volume of reports, both on-line and through the 1-800 number are set out in the following chart. Data are from mid-August 2005 through mid-February 2007.



Relevant aggregate data over the life of the line, and data for the last six months, are set out in the following table.

<b>Issue</b>	<b>Running Total</b>	<b>8-15-06 through 2-15-07</b>
<b>Total Reports</b>	<b>169</b>	<b>49</b>
<b>Report Sources:</b>		
Internet	109	40
Call Center	27	8
Internal entry <sup>3</sup>	32	1
<b>Anonymous Reports</b>	<b>105</b>	<b>40</b>
% Anonymous (excludes “internal entry”)	76%	82%
Reporter “Check back rate” for anonymous reports	50%	52%
% “Credible allegation” of Law/Policy violation by U representative	82%	80%

Comparative Cross-Industry Data<sup>4</sup>:

<b>Reporting Line Measurement</b>	<b>Industry Averages</b>	<b>Ureport Averages</b>
Report frequency based upon number of employees (percent of workforce making report annually)	1.49%	2006-7 reports; 0.43% faculty and staff
Percent of reports that are anonymous	54%	76%
Percent of employees who do <b>not</b> notify management before submitting a report <i>Compared to question reported by Ureport:</i> Percent responses to question “Is management aware of this problem?”	71%	48%- Yes 13% - No 39% -“don’t know, don’t wish to disclose”

<sup>3</sup> Some units initially used the reporting system to track internally identified potential violations; this has largely been supplanted by the quarterly reporting process.

<sup>4</sup> Industry data compiled from 2006 Corporate Governance and Compliance Hotline Benchmarking Report, a report issued by the Network, Inc, the CSO Executive Council, and the Association of Certified Fraud Examiners. The report evaluated approximately 200,000 hotline reports filed with over 500 organizations across diverse industries, including public sector and non-profit organizations.

## **Reporting Trends**

- **Report category trends continue to show predictable human resource emphasis.** Reporters select the general category of concern they have when making a report (e.g. human resource, financial, safety, etc.) and then a more specific sub-category within that general report category. Human resource concerns topped the list with 53 reports. “Wage and hour abuse” claims continue to be the most commonly reported sub-issue (14).

The graphs in Appendix B depict the distribution among the reports submitted to Ureport via web or by phone.

## **Communication Efforts**

Communication and awareness for Ureport will be an ongoing, collaborative effort. To date, responsive actions to improve awareness have included:

- Postcard sent to all University faculty and staff
- Posters distributed to University “communicators” and “Human Resource Pros” for posting throughout the University system
- Information on Ureport included in newly launched on-line HIPAA security training, which reaches approximately 50% of the workforce
- Communication about Ureport in the University’s news service, the “Brief”
- Assessment of accessibility through the University’s web search features, using the University’s Usability Lab
- Additional collegiate and unit communications through local communicators, newsletters, etc.
- Annual notification to colleges and units through “Designated Key Administrators.”
- Link to Ureport for responders in Internal Audit survey who indicate unfamiliarity with where to raise concerns.

## Executive Compliance Oversight Committee Update

**Background:** The President appointed the Executive Compliance Oversight Committee in August, 2004. This committee provides policy guidance for the University's compliance program and leadership to implement compliance initiatives. The committee currently is comprised of:

- Carol Carrier, Vice President for Human Resources
- Gail Klatt, Associate Vice President and Director of Internal Audits
- R. Timothy Mulcahy, Vice President for Research
- Kathleen O'Brien, Vice President, University Services
- Mark Rotenberg, Vice President and General Counsel
- Tom Schumacher, Director of Institutional Compliance

**Report on Major Initiatives:** In addition to providing regular policy guidance on issues that arise, for example overseeing the implementation of the confidential reporting system and supporting University policies and procedures, the Committee has undertaken several major initiatives:

- Charged the Compliance Partner continuing education program kickoff (February 15) which will be followed by two-hour educational sessions every other month. Compliance Partners will determine what topics will be discussed. Goal is to develop Compliance Partners as a cohort.
- Undertook the refinement of quarterly reporting and trending from Compliance Partners. Each reporter received a detailed response regarding their initial report. The next reporting period ends March 30.
- Focused on "orphan issues" such as international program compliance risks and copyrights. Stakeholders currently are discussing with senior administrators how to best address these emerging risk areas.

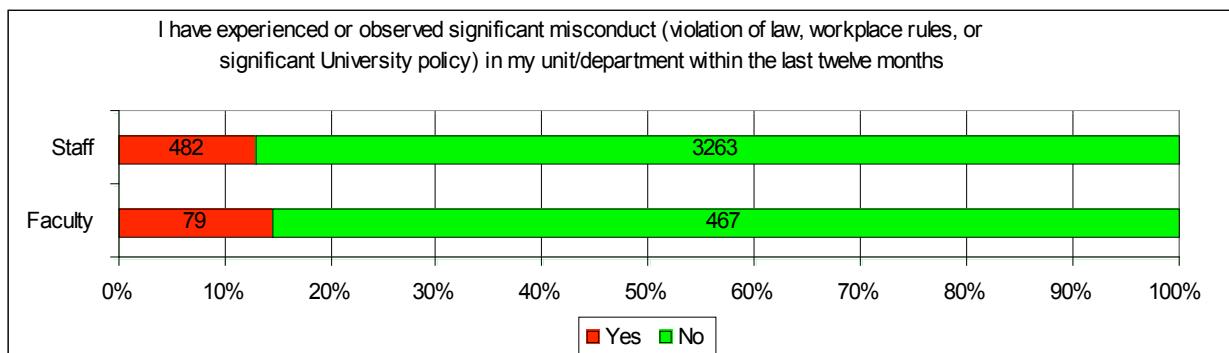
Committee involvement in areas already mentioned in this report:

- Oversight over the Code of Conduct communication and education programs
- Monthly review of Ureport activity
- Engagement on possible compliance metrics for the University
- Supported the use of Pulse survey data for employee education and to analyze employee groups that either displayed excellent or challenge areas.

## **Appendix A: Pulse Compliance Assessment and Cross-Industry Comparison.**

Overview: Two surveys are used as a basis for the cross-industry comparison. The first is the National Business Ethics Survey (“NBES Survey”). This survey involved 9,475 potential respondents with a 32% response rate. The survey had a 95% confidence level. Sixty-seven percent of the respondents worked for a for profit company, 19% for a government employer, and 15% for a non profit. The second is the KPMG Integrity Survey (“KPMG Survey”). This survey involved 6,797 potential respondents with a 60% response rate. The survey also had a 95% confidence level. Fifteen percent of the KPMG respondents worked in the “public sector.”

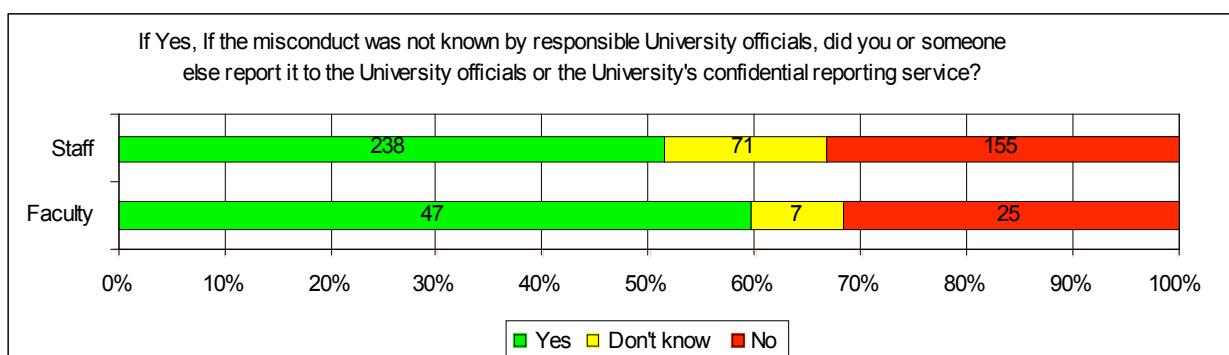
### **1. Observations of Misconduct**



**NBES Survey:** 26% “Observed misconduct”; when later asked to identify misconduct observed from a list provided, the percentage of “observed misconduct” rises to 52%.

**KPMG Survey** 74% “Observed misconduct”; 50% who observed misconduct characterize that misconduct as “serious” (i.e. 37% of the total respondent pool observed “serious” misconduct).

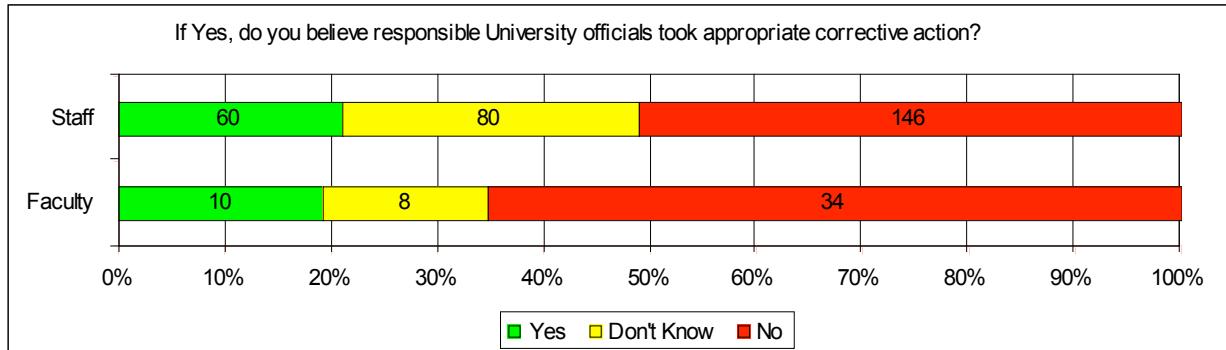
### **2. Reporting Misconduct**



**NBES Survey:** 55% of employees who “observed misconduct” reported it to management.

**KPMG Survey:** 94% would report misconduct *if* they observed it.<sup>5</sup>

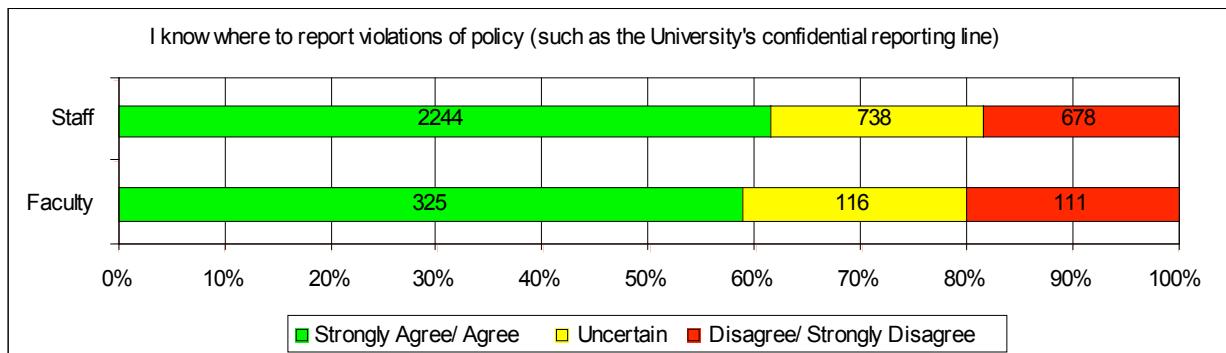
### 3. Satisfaction with Response to Reporting



**NBES Survey:** 59% “satisfied or very satisfied” with organization’s response to a reported concern they did in fact report; 38.8% dissatisfied or very dissatisfied; 0.3% said “don’t know” and 2% were neither satisfied or unsatisfied.

**KPMG Survey:** 67% believe appropriate action would be taken “if” they reported a concern; 22% unsure; 11% disagree.

### 4. Knowledge of where to report concerns

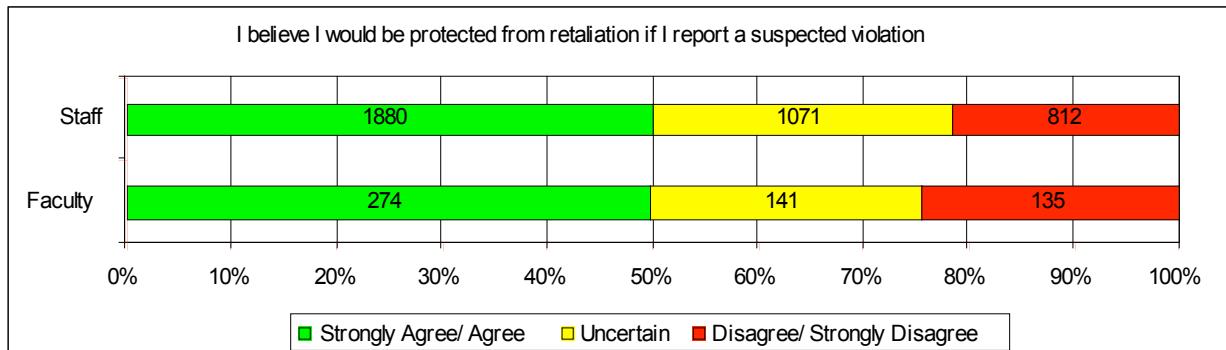


<sup>5</sup> This is a different question from the University and NBES Survey in that it is hypothetical—what would the employee do if he or she observed misconduct—whereas the University and NBES Survey asked those who said they observed misconduct what they in fact did do.

**NBES Survey** 18% of those who observed misconduct and failed to report it listed not knowing where to report the concern as a “primary reason” for not reporting.

**KPMG Survey:** Did not ask this question.<sup>6</sup>

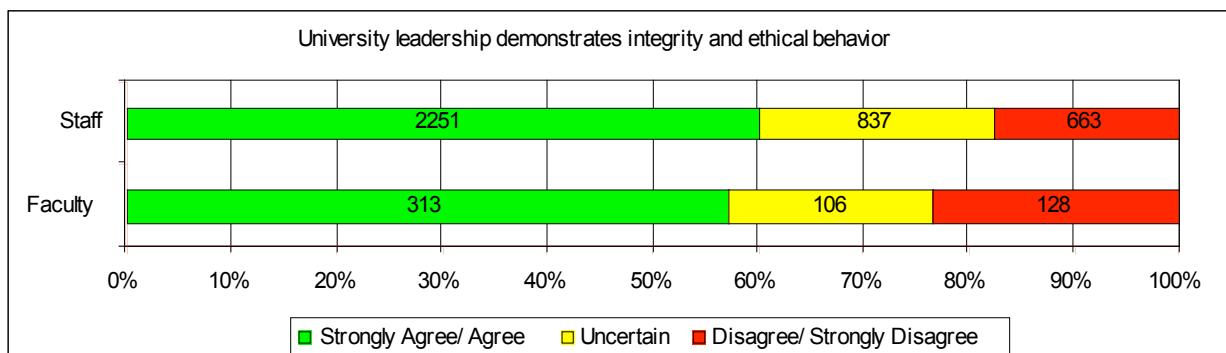
## 5. Fear of Retaliation



**NBES Survey:** 46% of those who observed misconduct and failed to report it list “fear of retaliation” as a primary reason for their failure to report.

**KPMG Survey:** 52% agree they would be protected from retaliation if they reported a violation; 31% are unsure; 17% disagree.

## 6. Perceptions of Leadership




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<sup>6</sup> This question was included in part to evaluate the knowledge of the University’s new confidential reporting service.

**NBES Survey:** 89% agree or strongly agree that “top management communicates ethics” and 87% agree or strongly agree that “top management sets a good example.”<sup>7</sup>

**KPMG Survey:** 57% agree that “the CEO and other Senior Executives” “value ethics and integrity over short-term business goals”; 24% are unsure and 18% disagree. 65% agree that “the CEO and other Senior Executives” “set the right ‘tone at the top’ on the importance of ethics and integrity.

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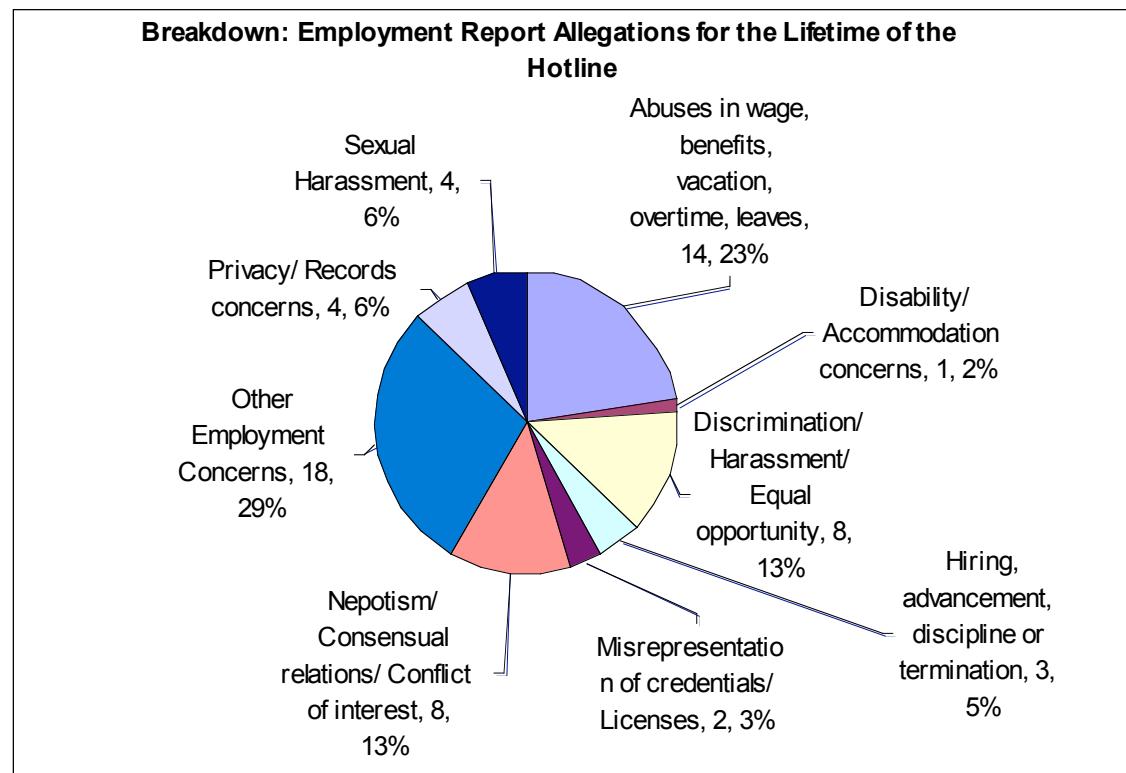
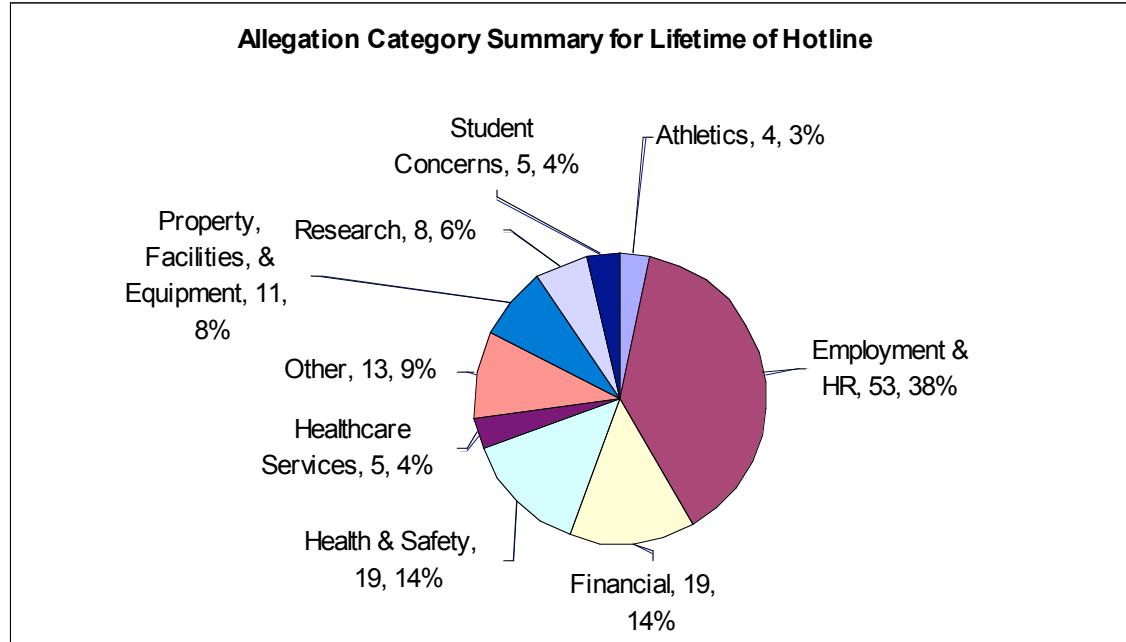
<sup>7</sup> The NBES Survey excluded “neither agree or disagree” from their results. When “unsure” is excluded from the University’s results, 77% of the staff and 71% of the faculty agree or strongly agree that “University leadership demonstrates integrity and ethical behavior.”

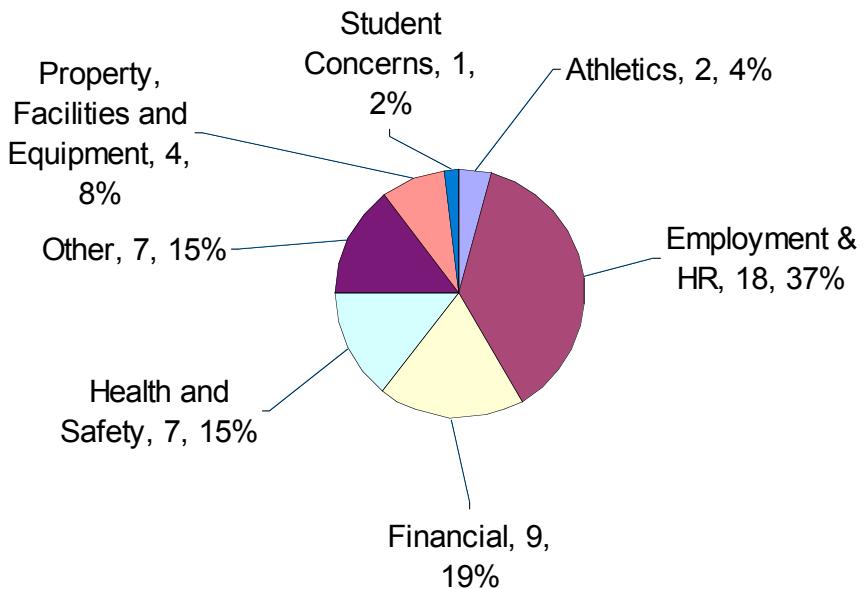
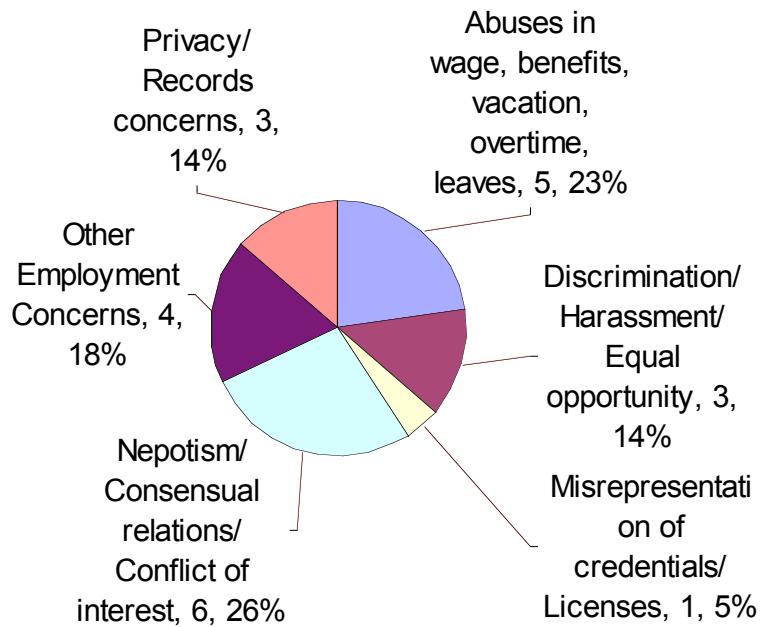
## 06-07 Internal Audit Culture Assessment Results

The Department of Internal Audit administers an on-line, anonymous survey to faculty and staff in audited units. Questions and responses from 2006 and the first cycle of 2007 that relate to compliance and culture metrics are reprinted below.

<b>Question</b>	<b>Conclusions</b>	
<b>Q 1:</b> Management of your unit demonstrates the importance of integrity and ethical behavior to their employees.	Agreement	89%
	Disagreement	11%
<b>Q 3:</b> Management sometimes overrides University policies, procedures or work place rules (i.e. takes shortcuts that are contrary to policy). Note: The desired response for question 3 is disagreement	Agreement	18%
	Disagreement	82%
<b>Q 6:</b> Management effectively monitors and provides oversight and direction for the activities in my unit.	Agreement	76%
	Disagreement	24%
<b>Q 8:</b> I understand workplace policies and rules, and have an effective resource for obtaining clarification of policies when needed.	Agreement	91%
	Disagreement	9%
<b>Q 9:</b> My supervisor/boss has effectively communicated my job duties and responsibilities to me.	Agreement	86%
	Disagreement	14%
<b>Q10:</b> Management would take appropriate corrective action if policy, procedure, or work place rule violations were detected.	Agreement	86%
	Disagreement	14%
<b>Q11:</b> I believe I would be protected from retaliation if I report a suspected violation.	Agreement	77%
	Disagreement	23%
<b>Q12:</b> I am familiar with how to report violations of law or policy, including the University's confidential reporting line.	Agreement	63%
	Disagreement	37%

## Appendix B: Ureport Trends



**Allegation Category Summary August 15, '06- February 15, '07****Breakdown: Employment Report Allegations for August 15, 06 - February 15, 07**



## UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

March 8, 2007

**Agenda Item:** External Auditor Review

review       review/action       action       discussion

**Presenters:** Vice President/CFO Richard Pfutzenreuter  
Acting 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 FY2007 and FY 2006.

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

To provide Management's evaluation of LarsonAllen's performance for FY 2006.

### Outline of Key Points/Policy Issues:

Total contract audit fees were \$485,500 for the fiscal 2006 audits performed by LarsonAllen, with \$450,995 having been billed through January 2007. Total fees paid through January 2007 to LarsonAllen for all services amounted to \$490,349.

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

Management will provide their evaluation of LarsonAllen's performance for FY 2006.

### 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 8, 2007**

**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 2006 and FY 2007 (through January, 2007).

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 2006 and FY 2007. The most notable are:

- Deloitte & Touche LLP was engaged to provide Medicare and Medicaid refund claim services for years prior to the sale of the University Hospital. This contract was an amendment to an original contract for \$420,000 that has been in place since January 1, 2001. The Board of Regents approved the amendment, for an additional \$85,000, in March 2006.
- Licari Larsen & Co Ltd was engaged by KUMD, the Duluth campus radio station, to perform attest services in FY 2006 and FY 2007 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 2006 to comply with granting agency requirements. This contract was previously reported to the Audit Committee.
- Virchow Krause & Company was engaged by Radio K, the University's radio station, to perform attest services in FY 2006 and FY 2007 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 2006 and FY 2007, 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 8, 2007**

**REPORT OF FEES PAID TO AUDIT FIRMS**

<i><b>Audit Firm</b></i>	<i><b>FY 2007 YTD (thru Jan. 2007)</b></i>			<i><b>Total FY 2006</b></i>
	<i><b>Audit Fees</b></i>	<i><b>Non-Audit Fees</b></i>	<i><b>Total Fees</b></i>	<i><b>Total Fees Paid</b></i>
Charles R. Ziegler Co., LTD		\$ 1,400	\$ 1,400	\$ 1,400
Deloitte & Touche, LLP		89,805	89,805	1,500
Kern DeWenter Viere, LTD				7,650
KPMG, LLP				4,200
Larson Allen Weishair & Co., LLP	\$ 444,137	46,212	490,349	488,055
Licari Larsen & Co., LTD	4,500		4,500	4,500
Mayer Hoffman McCann, PC	5,000		5,000	
PriceWaterhouseCoopers, LLP				108,720
Virchow Krause & Co, LLP	8,410		8,410	8,076
<b>Total Fees Paid</b>	<b><u>\$ 462,047</u></b>	<b><u>\$ 137,417</u></b>	<b><u>\$ 599,464</u></b>	<b><u>\$ 624,101</u></b>



## UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

March 8, 2007

**Agenda Item:** Consent Report

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To approve engagements with external auditing firms.

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

- To approve the engagement of Larson Allen Weishair & Co. LLP to perform the University's FY 2007 annual audits and required agreed-upon-procedures.

**Background Information:**

The President recommends approval of the Consent Report.

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS AUDIT COMMITTEE  
CONSENT REPORT  
MARCH 8, 2007**

**Engagement of Larson Allen Weishair and Co. LLP for FY 2007 Annual Audits and  
Agreed-Upon-Procedures**

Larson Allen has previously been selected as the firm to perform the University's annual external audits. The firm will be presenting its FY 2007 annual audit plan to the Audit Committee at the May 10, 2007 Audit Committee meeting. The Board must approve the engagement letters prior to Larson Allen commencing its planning work. FY 2007 engagements will include:

- Annual financial statements
- 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 Asset Management 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

The engagement letters will be reviewed by the Office of the General Counsel, and signed by the chair of the Board of Regents. Copies of the engagement letters will be made available upon request.

The Controller recommends Audit Committee approval of these engagements.



## UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

March 8, 2007

**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 2006 and FY 2007.

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

### Report on Audit and Non-Audit Services and Fees

Total fees of \$599,464 have been paid through January 2007 to six 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 8, 2007**

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

**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 March 2006.

The Office of the Controller presents the information below and on the attached schedule for the Audit Committee's 2007 review of audit, audit related, and non-audit services fees paid to Larson, Allen, Weishair, and Co., LLP (LarsonAllen).

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

The attached schedule presents a summary of fees paid to LarsonAllen, the University's independent external auditors, for the various FY 2006 audits. The top portion represents fees paid for the University's annual audits. The contract amounts are consistent with the amounts agreed to in the Fiscal 2006 engagement letter and the firm's fixed price contract for fiscal 2006. The total paid to LarsonAllen in FY 2006 (billed and unbilled) was \$21,505 less than the contract amounts in total and represents 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 four 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.

In addition, services performed by LarsonAllen during the current fiscal year that were not part of the annual audits of the University are described more fully below:

- LarsonAllen was engaged to perform agreed-upon-procedures related to the Office of Asset Management'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. The work was performed in September 2006, and the total amount paid for the engagement was \$2,500.

- 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. The work was performed in December 2006 and January 2007, and the total amount paid for this engagement was \$5,008.
- 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 eight organizations that received University fees and performed the agreed-upon-procedures as outlined by the University Fees Committee and Office of Student Affairs. The work was performed between October 2006 and January 2007, and the total amount paid for these procedures was \$24,531.
- LarsonAllen performed procedures in connection with their consent to use the FY 2006 Audit Financial Statements in the University's Preliminary Offering Statement and Final Offering Statement for the University's Special Purpose Revenue Bonds issued to finance a portion of the cost of the new football stadium. These procedures were performed in November and December 2006, and the total amount paid was \$7,315.

**UNIVERSITY OF MINNESOTA**  
**BOARD OF REGENTS AUDIT COMMITTEE**  
**MARCH 8, 2007**  
**FEES PAID TO LARSON ALLEN WEISHAIR CO., LLP**  
**FY 2007**

<i><u>Audit fees for FY 2006 audits</u></i>	<i><b>FY 2007</b></i>			<i><b>Total FY 2006</b></i>
	<i><b>Contract Amount</b></i>	<i><b>YTD Billed Amount</b></i>	<i><b>Unbilled Amount</b></i>	<i><b>(prior year)</b></i>
University Financial Statement Audit	\$ 324,800	\$ 309,876		\$ 303,211
RUMINCO Financial Statement Audit	28,900	11,785	\$ 13,000	24,005
Compliance Audit (OMB A-133 and MOHE)	118,900	117,468		111,635
NCAA Audit	12,900	11,866		11,270
 Total Audit Fees	<b>\$ 485,500</b>	<b>\$ 450,995</b>	(1) <b>\$ 13,000</b>	<b>\$ 450,121</b>
30				
<i><u>Other Audit, Audit Related and Non-audit Fees</u></i>				
Office of Asset Management Agreed-Upon-Procedures	\$ 2,500	\$ 2,500		\$ 2,000
Audit of Department of Concerts and Lectures	4,900	(2) 5,008		4,575
Student Organization Agreed-Upon-Procedures	28,500	24,531		31,079
Consent procedures related to Stadium Bonds		(3) 7,315		
Lecture Fee				280
 Total Audit Related and Non-Audit Fees	<b>\$ 35,900</b>	<b>\$ 39,354</b>		<b>\$ 37,934</b>
 <b>Total Fees</b>	<b>\$ 521,400</b>	<b>\$ 490,349</b>		<b>\$ 488,055</b>

(1) The Audit Fees for FY 2006 audits were \$21,505 under budget in actual expenses, in total.

(2) The Audit of Department of Concerts and Lectures fee for FY 2006 was \$4,900 plus expenses.

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