

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Thursday, April 10, 2008

4:00 - 5:00 p.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

Meghan Keil
Nathan Swanson

A G E N D A

1. External Auditor Review - D. Seck/D. Loberg (pp. 2-9)
2. Compliance Officer Report - S. Rafferty (pp. 10-20)
3. Information Items - G. Klatt (pp. 21-23)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

April 10, 2008

Agenda Item: External Auditor Review

review review/action action discussion

Presenters: Associate Controller, Denise Seck
Don Loberg, Principal, LarsonAllen

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 FY 2008 and FY 2007.

To provide Management's evaluation of LarsonAllen's performance for 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 \$554,750 for fiscal 2007 engagements, with actual fees paid of \$528,494. All FY 2007 engagements have been completed and final billed.

Management will provide its evaluation of LarsonAllen's performance for FY 2007 and a recommendation to engage LarsonAllen for the FY 2008 audit and non-audit contracts. A summary of proposed fees for FY 2008 is included for review.

LarsonAllen will provide the firm's internal assessment of its 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 the Board of Regents Policy: *Board Operations and Agenda Guidelines*.

President's Recommendation for Action:

The President recommends that LarsonAllen be engaged for the FY 2008 audit and non-audit contracts.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
APRIL 10, 2008**

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 March 2007.

The Controller's Office presents the information below and on the attached schedule for the Audit Committee's 2008 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 2007 engagements with a recommendation to re-engage LarsonAllen for FY 2008 engagements.

LarsonAllen has provided its firm's internal assessment of its independence relative to the University of Minnesota. This letter is included for your review.

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 2007 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 2007 engagement letters and the firm's fixed price contract for fiscal 2007. The total audit fees paid to LarsonAllen in FY 2007 were \$27,828 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 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.

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 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 2007, and the total amount paid for the engagement was \$3,006.
- 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 2007 and January 2008, and the total amount paid for this engagement was \$5,632.
- 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 eleven 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 2007 and January 2008, and the total amount paid for these procedures was \$31,389.
- LarsonAllen performed procedures in connection with their consent to use the FY 2007 Audit Financial Statements in the University's Commercial Paper Offering Documents, and the total amount paid was \$4,795.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
APRIL 10, 2008
FEES PAID TO LARSON ALLEN WEISHAIR CO., LLP
FY 2007 ENGAGEMENTS**

<u><i>Audit and Agreed-Upon-Procedure fees for FY 2007</i></u>	<u><i>FY 2007 Engagements</i></u>			<u><i>Total FY 2006</i></u>
	<u><i>Contract Amount</i></u>	<u><i>Billed Amount</i></u>	<u><i>Over/(Under) Budget</i></u>	<u><i>(prior year)</i></u>
University Financial Statement Audit	\$ 342,100	\$ 322,950	\$ (19,150)	\$ 309,876
RUMINCO Financial Statement Audit	30,600	27,475	(3,125)	24,785
Compliance Audit (OMB A-133 and MOHE)	125,200	120,793	(4,407)	117,468
NCAA Agreed-Upon-Procedures	13,600	12,454	(1,146)	11,866
 Total Audit and Agreed-Upon-Procedure Fees	 <u>\$ 511,500</u>	 <u>\$ 483,672</u>	 <u>\$ (27,828)</u>	 <u>\$ 463,995</u>
 <u><i>Other Audit, Audit Related and Non-audit Fees</i></u>				
Office of Investments & Banking procedures	\$ 2,750 (1)	\$ 3,006		\$ 2,500
Audit of Department of Concerts and Lectures	5,500 (1)	5,632		5,008
Student Organization Agreed-Upon-Procedures	35,000 (1)	31,389		24,531
Consent procedures related to Commercial Paper		(2) 4,795		7,315
 Total Audit, Audit Related, and Non-Audit Fees	 <u>\$ 43,250</u>	 <u>\$ 44,822</u>		 <u>\$ 39,354</u>
 Total Fees	 <u>\$ 554,750</u>	 <u>\$ 528,494</u>		 <u>\$ 503,349</u>

(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.

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 2008 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 2008 LarsonAllen engagements:

	Cost of Professional Services	Travel and Incidental Expenses	Total not to Exceed
Fiscal Year 2008			
University Financial Statement Audit	\$ 333,800	\$ 26,600	\$ 360,400
RUMINCO Financial Statement Audit	23,900	8,600	32,500
Federal Audit (OMB A-133)	99,800	6,000	105,800
MOHE Audit	23,400	2,600	26,000
NCAA Agreed-Upon-Procedures	13,000	1,300	14,300
(OIB) Agreed-Upon Procedures	3,000	*	3,000
Department of Concerts and Lectures Audit	6,500	*	6,500
Student Organization Agreed-Upon-Procedures	35,000	*	35,000
	<u>\$ 538,400</u>	<u>\$ 45,100</u>	<u>\$ 583,500</u>

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

March 27, 2008

Board of Regents
University of Minnesota
Minneapolis, Minnesota

Re: GAO Independence Rules and Nonaudit Services for the University of Minnesota

LarsonAllen is providing external auditing services to the University of Minnesota (University) under a contract dated June 10, 2005. We provide correspondence prior to each annual audit regarding our independence with respect to the University of Minnesota.

GAO GOVERNMENT AUDITING STANDARDS – INDEPENDENCE RULES

This audit is subject to the GAO Government Auditing Standards (GAS) and as such we have considered the specific independence rules included in Chapter 3 of those standards. In this section of the memo we have identified the sections of the rules applicable to services currently being provided to the U of M.

Par 3.03 states the following:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.

Par 3.04 also states: Auditors should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditors are not able to maintain independence and, thus, are not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

Par 3.10 states that audit organizations that provide other professional services (nonaudit services) should consider whether providing these services creates a personal impairment either in fact or appearance that adversely affect their independence in conducting audits. Prior to our appointment as independent auditors for the University's fiscal year 2005 audit, we identified two nonaudit service engagements that deserved attention in relation to the GAS independence requirements. These engagements and our conclusions are noted below.

Par. 3.13 states that before an audit organization agrees to perform nonaudit services, it should carefully consider the requirements in par 3.04 that auditors should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that auditors are not able to maintain independence in conducting audits. In conducting the assessment, the audit organization should apply two overarching principles:

- ◆ Audit organizations should not provide nonaudit services that involve performing management functions or making management decisions and;
- ◆ Audit organizations should not audit their own work or provide nonaudit services in situations where the nonaudit services are significant / material to the subject matter of the audit.

If the audit organization makes the determination that the nonaudit service does not violate these principles, it should comply with all of the safeguards stated in par 3.17.

Safeguards—Auditors may perform nonaudit services that comply with those principles as long as several specified safeguards are also followed, such as precluding personnel who perform non-audit services from performing any related audit work, and satisfying extensive documentation and communication requirements.

Par 3.15 states auditors may participate on committees or task forces in a purely advisory capacity to advise entity management on issues related to the knowledge and skills of the auditors without impairing their independence. However, auditors should not make management decisions or perform management functions.

NONAUDIT SERVICES

In February 2008, Don Loberg, U of M Engagement Principal, and Chas McElroy, Executive Principal of Firm Quality, completed an internal inquiry of all LarsonAllen principals regarding any projects being performed by LarsonAllen for the University. The summary is as follows:

Community University Health Center:

LarsonAllen has been engaged to prepare medicare cost reports for the year ended June 30, 2007, on behalf of Community University Health Center. These types of services are considered routine advice and are permissible according to GAS independence requirements.

Annual Componentization Building Depreciation Study

In February 2008, LarsonAllen received Request for Proposal #290-2008-0222 to perform a depreciation componentization study for the U of M. The componentization results would eventually be incorporated into the University Facilities and Administration Rate proposals which are reviewed and negotiated with the Federal government. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, specifically prohibits the auditor (LarsonAllen) from preparing cost allocations used in Federal cost recovery programs where the indirect cost recovered during the year exceeds \$1 million.

For this reason, we declined to propose on these services.


Future Projects and Safeguards:

We will obtain approval pursuant to the University of Minnesota Board of Regent's policy for any future consulting projects with the University of Minnesota (including all component units). We will also review all consulting projects and come to conclusions as to whether our independence would be impaired with respect to our audit of the University of Minnesota.

If you have any further concerns please feel free to call our offices.

Sincerely,

LarsonAllen LLP

A handwritten signature in cursive script that reads "Larson Allen LLP".

Donald J. Loberg, CPA
Audit Principal
612/397-3064
dloberg@larsonallen.com



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

April 10, 2008

Agenda Item: Institutional Compliance Officer Report

review review/action action discussion

Presenters: Susan Rafferty, Interim Director of the Office of Institutional Compliance

Purpose:

policy background/context oversight strategic positioning

The purpose of this presentation is to provide the Audit Committee with (1) a semi-annual report on UReport, the University's confidential reporting service and (2) a status report on institution-wide compliance work.

Outline of Key Points/Policy Issues:

This report will provide compliance information to assist the Audit Committee in meeting its compliance oversight responsibilities. Specifically, this report describes compliance work during the last approximately seven months under interim leadership and positioning of the Office of Institutional Compliance with the appointment of a new director.

Background Information:

The last semi-annual report on the UReport service and an evaluation of the institutional compliance program were provided to the Board of Regents Audit Committee in September 2007.

April 10, 2008
Board of Regents Audit Committee
Institutional Compliance Officer Report

This report from the Interim Director of the Office of Institutional Compliance includes:

- Semi-annual report on UReport, the University's confidential reporting service, and
- Status report on institution-wide compliance work.

I. UReport - Confidential Reporting Service

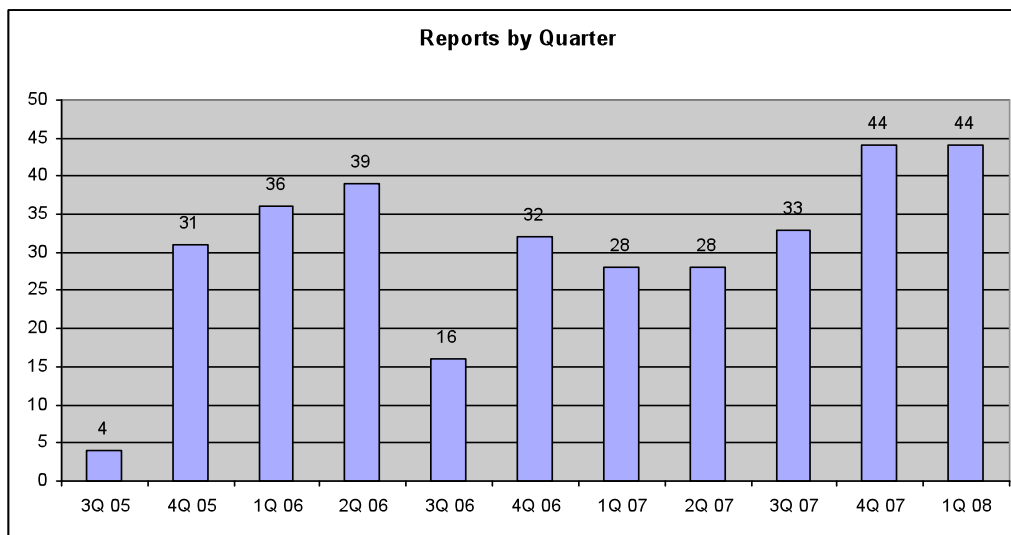
The Office of Institutional Compliance works with others across the University to promote a culture of compliance and ethics where faculty and staff feel comfortable asking questions if they are unsure what to do and raising concerns if they perceive unethical conduct. Some concerns are raised through UReport, the University's reporting service enabling members of the University community to report suspected violations of applicable laws, regulations, government contracts, or University policies in a confidential, and, if desired, anonymous, manner.

In existence since August 2005, the UReport system is intended to complement existing ordinary channels for University community members to raise compliance concerns. Faculty and staff members are encouraged to raise such concerns first within their own colleges or units either to an immediate supervisor or to a unit-based specialist, such as a certified approver who handles financial transactions on sponsored research projects in the unit. In Office of Institutional Compliance communications, specialized central offices, such as the Department of Internal Audits and the Office of Equal Opportunity and Affirmative Action, also are highlighted as key resources to University community members with compliance concerns.

As detailed further below, observations about the UReport system based on the system history, particularly the reporting in the past seven months, are:

- (1) University awareness and use of the UReport system appear to be steady;
- (2) employment and human resource concerns continue as the leading category for types of reports; and
- (3) faculty and staff use of the system to report concerns that technically are not allegations of law or policy violations, while somewhat beyond the intended purpose of the system, provides opportunity to encourage reporters to avail themselves of local resources and to inform management about areas of concern.

The volume of reports through March 11, 2008, is set out in the following chart.



The volume of reports through the UReport system has increased slightly in the fourth quarter of 2007 and in the first quarter of 2008. This slight increase may indicate higher community awareness of the UReport system. The Office of Institutional Compliance continues promoting awareness of the UReport service to ensure its effectiveness as a tool to obtain and manage the handling of compliance concerns. A new postcard about the system was sent to all faculty and staff, including student employees, in the fall; this is the third year for this type of communication about the system. This mailing compliments efforts to promote awareness of the system through various University websites as well as training sessions and presentations.

Anecdotal data also suggests that administrators in roles such as human resources increasingly are recommending use of the UReport system to individuals who want to raise concerns of misconduct but preserve anonymity. However, anomalies such as reporting of the same alleged misconduct but by different reporters accounts for slightly higher reporting in these quarters. In addition, ten of the third quarter reports and two of the fourth quarter reports were related to a specific variable factor, the labor strike of healthcare, clerical, and technical represented bargaining unit employees. These strike-related reports generally did not include allegations of specific laws or University policies but, instead, were expressions of concern ranging from parking and traffic interference to workplace interactions.

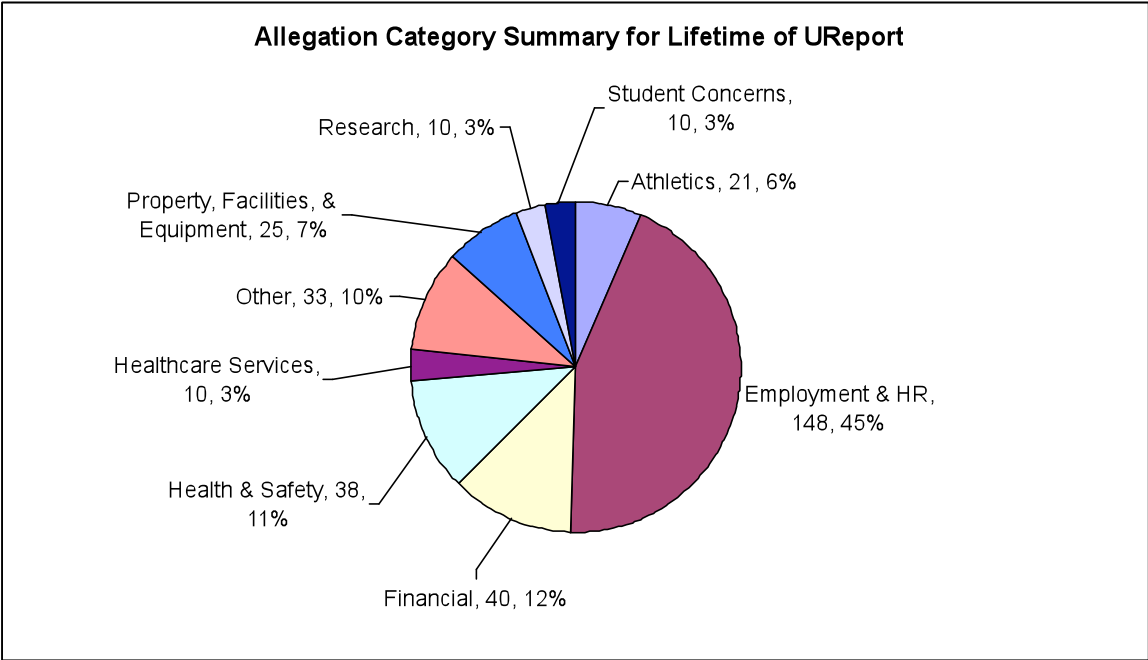
While the labor strike was a variance in University operations, the use of the UReport system for complaints about workplace behaviors or disagreement with management decisions continues to be a challenge in administering the system. These non-violation instances nonetheless provide opportunities to empower reporters to speak with their supervisors about their concerns and to inform administrators about areas needing improvements in communications and management.

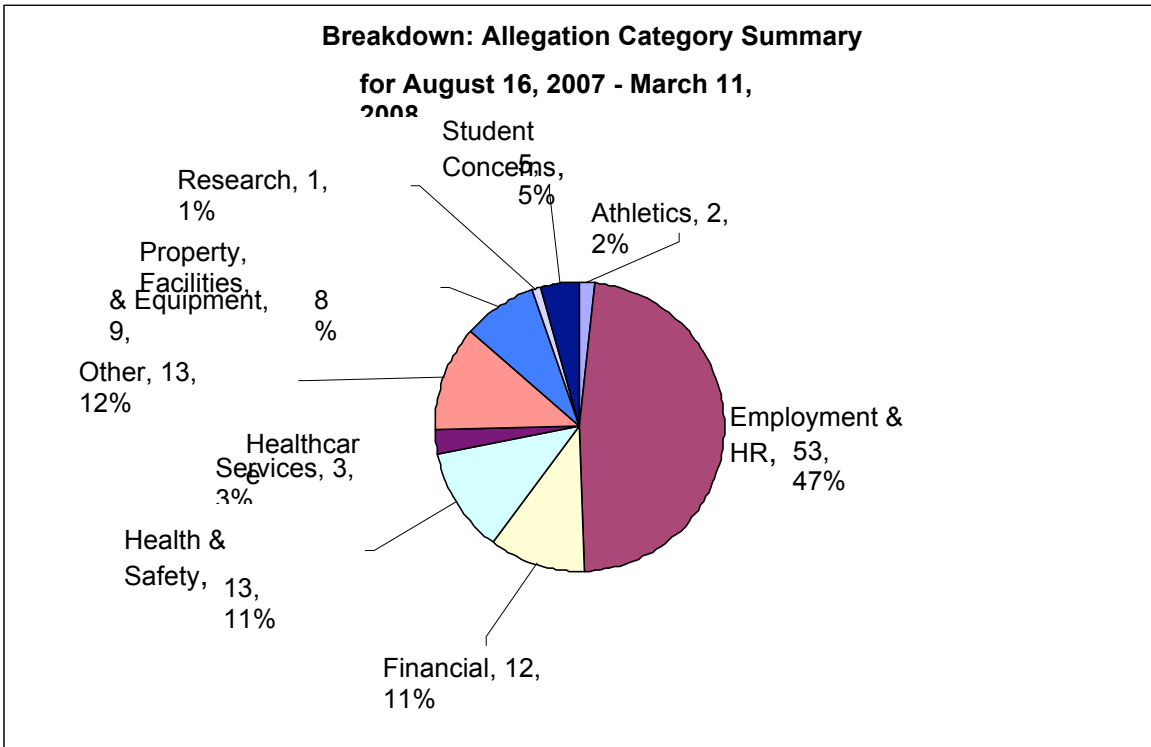
Relevant aggregate data over the life of the system and data for the last seven months are included in the following chart.

	Running Total	8-16-07 through 3-11-08
Total Reports	329	104
Report Sources:		
Internet	283	91
Call center	50	12
Mail	0	1
% Anonymous (excludes “internal entry”)	76%	77%
Reporter “check back rate” for anonymous reports	48%	39%
% “Credible allegation” of law/policy violation by U representative	81%	83%

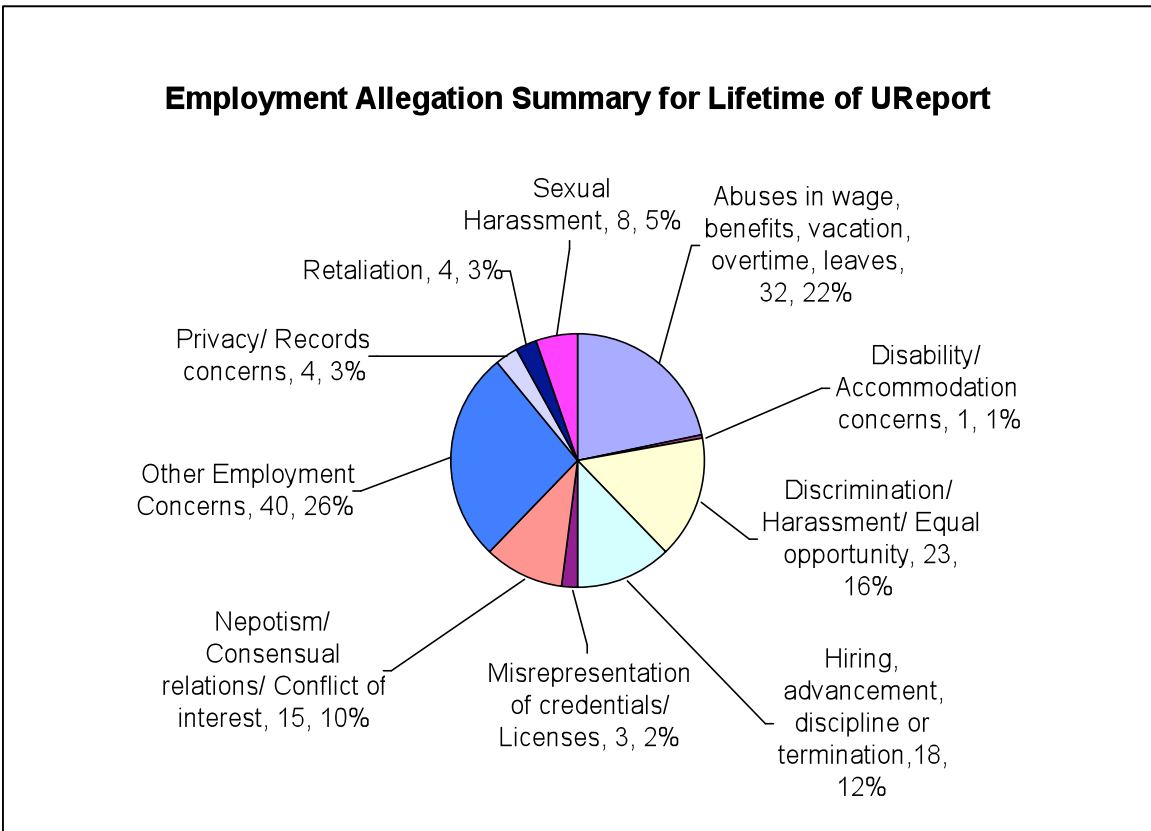
Distribution of sources for the reports remains constant with the vast majority of reporters accessing the internet to create reports. An important feature of the system is the ability of reporters to communicate compliance concerns yet remain anonymous, and this percentage remains relatively constant as well. More thorough handling of anonymous reports, however, would occur if those reporters better utilized the system capabilities for checking back in the system and providing additional information when requested. Administrators seeking to fully understand and investigate reports are frustrated when anonymous reporters do not revisit the system to respond to requests for more specific information. Unfortunately, there are no clear other approaches to encourage and facilitate increased checking back by anonymous reporters.

Reporters select the general category of concern when making a report and then a more specific sub-category within that general category. The distribution among the reports submitted to Ureport remains fairly constant as shown in two pie charts illustrating, first, categories used for the lifetime of the system and, secondly, categories used in the last seven months of reporting.

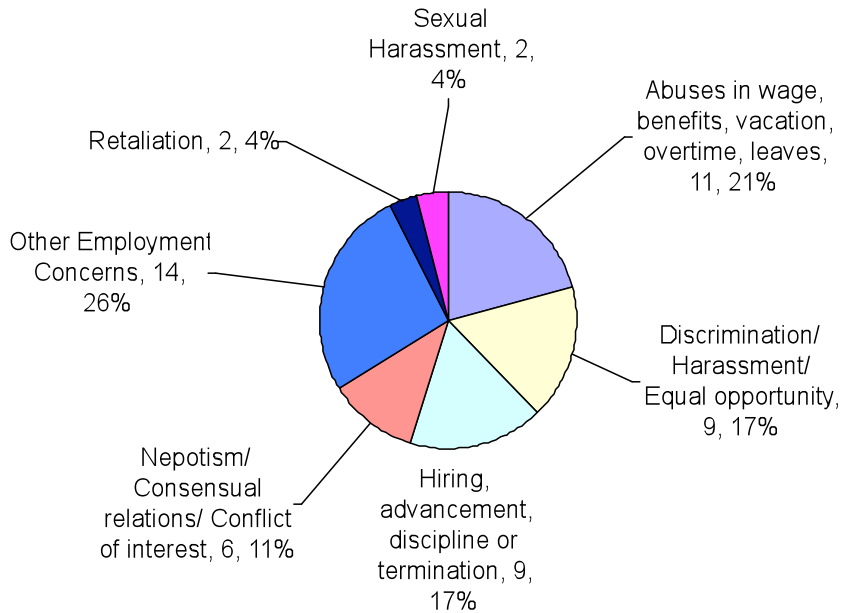




In both the lifetime of the system and in the most recent quarters, employment and human resource concerns are the leading category for types of allegations. The more specific types of employment and human resource concerns raised in UReport matters for the lifetime of the system and for the last seven-month period are illustrated in the following pie charts.



**Breakdown: Employment Allegation Summary
for August 16, 2007 - March 11, 2008**



Distribution of the type of employment allegations for the lifetime of the system and for the last seven months also is fairly steady. Compared to the last Board of Regents Audit Committee report in September 2007, there is a five percent increase in the number of reports expressing concerns with hiring in the past seven months. Additionally, there is a four percent increase in the number of reports expressing concerns with discrimination in the past seven months. No specific sources for concern or pattern of issues can be identified to explain these increases. In fact, the discrimination concerns were fairly well dispersed across the Twin Cities campus and three of the coordinate campuses. Factors such as change in leadership, reorganization, and major shift in organizational direction might account for some of the increase in concerns. Again, several allegations brought through the UReport system do not allege suspected violations of applicable laws or policies but, instead, express general concerns about workplace behaviors or disagreement with management decisions. These reports are excellent opportunities to inform administrators about areas needing improvements in communications and management.

II. Status Report on Institution-wide Compliance Work

A. Work in the Office of Institutional Compliance

In September 2007, Institutional Compliance Director Tom Schumacher reported to the Audit Committee evaluating the institutional compliance program on its five-year anniversary. In the past approximately six months, under interim leadership, work has continued to keep the University well-positioned to meet rising higher education compliance obligations. This work notably includes (1) maintenance and enhancement of effective institutional compliance program infrastructure, (2) assessment of and planning for strengthened communication of the University's Faculty and Staff Code of Conduct, and (3) preparation for the upcoming PULSE survey affording an ongoing assessment of institutional compliance and ethics culture.

1. Effective Institutional Compliance Program Infrastructure

Key components of an effective institutional compliance program infrastructure are in place as a new Institutional Compliance Director joins the University later in April. Two key components are (a) the Executive Oversight Compliance Committee providing program oversight and (b) the continuing compliance education program providing training to administrators who oversee operational compliance functions throughout the university system. A third component, described fully above, is the UReport system which continues to serve as an effective channel of reporting.

a. Executive Oversight Compliance Committee

The Executive Oversight Compliance Committee established by President Bruininks in August, 2004 continues to provide critical policy guidance for the University's compliance program and leadership to implement compliance initiatives. Recent focus has been on enhanced identification and definition of compliance risk areas.

In October 2007, Nancy "Rusty" Barceló, Vice President and Vice Provost for Equity and Diversity, joined the executive committee 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
- Susan Rafferty, Interim Director, Institutional Compliance
- Mark Rotenberg, Vice President and General Counsel

Vice President Barceló helps infuse the core values of equity and diversity into the University's compliance work. Moreover, she brings significant insights as the Office for Equity and Diversity portfolio includes management of two important compliance risk areas – Disability Services and Equal Opportunity and Affirmative Action.

b. Continuing Compliance Education Program

While many compliance awareness and educational efforts are promoted across the University community, the Office of Institutional Compliance has created and, for the last year, conducted a continuing compliance education program targeted at those University administrators who oversee operational compliance functions. These bi-monthly sessions provide a forum for sharing compliance best practices and building a sense of community among compliance practitioners. Recent topics have included monitoring and auditing risks, conducting investigations, and effective communication strategies.

2. Strengthened Communication of Faculty and Staff Code of Conduct

There is great opportunity to build a more proactive culture of ethics and compliance at the University. Culture oftentimes is cited as the single most significant factor for reducing compliance breakdowns. More importantly, a culture that truly values ethics and compliance has greater employee engagement, higher employee satisfaction, improved productivity, and higher credibility with external stakeholders. Central to furthering and sustaining such a culture at the University is our Faculty and Staff Code of Conduct.

Considerable work has been done in recent months to assess and plan for more effective communication of the code and its meaningful incorporation into the work lives of our faculty and staff. The cornerstone of this work is a draft brochure stating the principles and standards set forth in the code, translating what those standards mean to guide our work behaviors, and directing faculty and staff to more specific related policies. The brochure focuses on “doing the right thing” and provides information on policies and resources to support responsible, ethical behavior. Partnering closely with University Relations, the brochure has been designed to create a particular look and feel to brand the code awareness campaign. Moreover, broad consultation has resulted in a user-friendly guide.

Recommendations for a system-wide communications strategy, including roll out of the brochure, are being finalized for the incoming Institutional Compliance Director’s decision. The communications strategy for the brochure recognizes that faculty and staff members will be more attentive to messages about the code from supervisors rather than other institutional officials. In-person distribution of the brochure and discussion of the code should be more effective than prior mass email communications and also should provide a forum for focusing on shared values in the work group. A variety of types of communications tools are being developed to assist supervisors in facilitating these conversations successfully.

Broader communications strategies focusing on incorporating the messages of the code of conduct into system-wide publications and education and training sessions also will be important recommendations regarding strengthening our culture.

3. Ongoing Assessment of Compliance and Ethics Culture

The federal compliance program model, set forth in the United States Sentencing Guidelines, sets forth expectations that organizations use due diligence to “promote an organizational culture that encourages a commitment to compliance with the law” and periodically assess the effectiveness of their compliance and ethics programs, including the organization’s culture for

compliance and ethics. The University's main approach to assessing culture currently is to include a set of core compliance measures as part of PULSE, an existing employee opinion survey. This Office has been involved in preparations for the PULSE survey which will be conducted in early April. The survey will include questions covering six core areas:

- 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, and
- Perceptions of University leadership regarding integrity and ethics.

The Office is positioned to analyze the information provided by the PULSE survey, including comparison to prior survey results from 2003 and 2005, to continue assessment of the compliance and ethics culture of the organization and its units.

B. Institutional Compliance Work

The foundation for the University's compliance program is the offices and individuals managing the operational compliance in roughly thirty-one compliance risk areas across the system. In the past approximately six months, several of these offices have noteworthy accomplishments to (1) promote a compliance and ethics culture in meaningful ways, (2) enhance definitions of roles and responsibilities to strengthen oversight of compliance operations, and (3) meet the obligations of new federal regulations requiring demonstration of accountability and stewardship for federal funds.

1. Promotion of Compliance and Ethics Culture

Promoting an organizational culture that encourages commitment to compliance with the law and supports faculty and staff in acting in accordance with our high institutional ethical standards is the responsibility of all community members. Significant leadership in furthering our compliance and ethics culture has been demonstrated by several offices in the past few months.

Notably, the Enterprise Financial Systems team has incorporated the Faculty and Staff Code of Conduct into a foundational training session so that administrators not only learn how to complete financial transactions properly within the new system but also fully understand what it means to be good stewards of University financial resources. As discussed above, meaningful incorporation of the code into training and educational sessions should be a future focus, and the EFS training session with anticipated participation of approximately 2,000 faculty and staff members will provide good information on how to do this effectively.

Within the Office of the Vice President for Research, the Office of Sponsored Projects Administration and the Office of Analysis and Reporting launched a Sponsored Projects Symposium. The inaugural symposium attended by researchers and grants administrators included quality educational and informational sessions highlighting the importance of compliance efforts and providing resources to faculty and staff to meet compliance requirements.

2. Enhanced Definition of Roles and Responsibilities

As recognized by the United States Sentencing Commission in outlining core elements of a model compliance program, it is vital for organizations to clearly define responsible parties and roles for compliance risk areas. The University has several strong distributed compliance programs in certain high risk areas, such as Twin Cities' athletics compliance and HIPAA compliance.

Significant progress is being made to better identify and define roles and responsibilities, thereby better manage, other compliance risk areas as well. For example, the Office of the Vice President for Research has posted a new full-time position, the Director for Research Integrity and Oversight, to consolidate previous functions and better coordinate the oversight of research – related compliance efforts, including activities such as policy making, training, and monitoring. Another example is the newly created Office of Occupational Health and Safety. This office reports to the Senior Vice President for Health Sciences and will allow better coordination of distributed components of an occupational health and safety program. Efforts such as these should result in more effective management of complex compliance risk areas.

3. Demonstrated Accountability and Stewardship

As previously reported by the Institutional Compliance Director in September, there is a continued and growing emphasis on compliance for higher education, particularly regarding enhanced physical security and for accountability and stewardship of federal funds. In the past months, this growing emphasis has manifested itself in several new regulations. Two significant examples are described below.

The Department of Homeland Security intentionally included higher educational institutions in the Chemical Facility Anti-Terrorism Standards (“CFATS”), regulations issued in November 2007 to establish risk-based performance standards for the security of high-risk chemical facilities. In a roughly four-month period, the University’s Department of Environmental Health and Safety (“DEHS”) worked with administrators in research labs and facilities operations across the University system to conduct an inventory determining the quantity of 325 identified chemicals of interest and submit one institutional response to Homeland Security outlining the results. DEHS continues work to monitor the levels of chemicals of interest and comply with continuing reporting requirements and prepare for possible security assessments and site security plans.

Another new federal requirement of note is the National Institutes of Health Public Access Policy mandating that authors of journal articles based on NIH funding deposit copies of their manuscripts in PubMed Central depository as soon as they are accepted for publication. The regulatory intent is that knowledge supported by federal monies should be made available to the public within twelve months of publication of that knowledge in a private journal. University Libraries and the Office of Sponsored Projects Administration have been working diligently to ensure our institution is positioned for compliance with these requirements that go into effect on April 7. This work primarily requires ensuring two items: (1) that University researchers retain the right to deposit articles into the public database when they negotiate publication copyrights with publishers and (2) that such articles actually are placed in the public depository.

III. Conclusion

In summary, as a new Institutional Compliance Director is appointed, the University stands well-positioned to meet rising higher education compliance obligations. As described above, many elements of an effective institutional compliance program are well established, and work continues to improve other areas and meet the challenges of new regulations. An overarching focus on strengthening the University's compliance and ethics culture ties this work together.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

April 10, 2008

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 2007 and FY 2008.

Report on external auditor engagements.

Outline of Key Points/Policy Issues:

Report on Audit and Non-Audit Services and Fees

Total fees of \$694,772 have been paid through February 2008 to seven different public accounting firms for a variety of audit and non-audit services, which are described in the accompanying narrative and schedule.

Report on External Auditor Engagements

The Community University Health Care Center (CUHCC) has engaged LarsonAllen to assist in the preparation of CUHCC's Medicare reimbursement report for the year ending June 30, 2006. This engagement is for an amount not to exceed \$5,000. This engagement was reviewed by the Controller's Office and was not deemed a risk to LarsonAllen's independence. The contract was signed by the chair of the Board of Regents on March 9, 2008.

Background Information:

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

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
APRIL 10, 2008**

**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 2007 and FY 2008 (through February, 2008).

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 2007 and FY 2008. 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 2007 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 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 2007 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 quarterly royalty reports for the period April 1, 2002 – June 30, 2007. This contract was for an amount not to exceed \$43,500. This contract was approved by the Board of Regents.
- 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 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 2007 and FY 2008, 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
APRIL 10, 2008**

REPORT OF FEES PAID TO AUDIT FIRMS

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<u><i>Audit Firm</i></u>	<i>FY 2008 YTD (thru Feb. 2008)</i>			<i>Total FY 2007</i>
	<u><i>Audit Fees</i></u>	<u><i>Non-Audit Fees</i></u>	<u><i>Total Fees</i></u>	<u><i>Total Fees Paid</i></u>
Charles R. Ziegler Co., LTD		\$ 1,500	\$ 1,500	\$ 1,400
Deloitte & Touche, LLP				89,805
Grant Thornton, LLP				10,000
Larson Allen Weishair & Co., LLP	\$ 476,850	51,644	528,494	503,349
Licari Larsen & Co., LTD	4,500		4,500	4,500
Mayer Hoffman McCann, PC	8,600		8,600	8,000
McGladrey & Pullen, LLP		43,500	43,500	--
PriceWaterhouseCoopers, LLP		99,000	99,000	--
Virchow Krause & Co, LLP	9,178		9,178	8,410
Total Fees Paid	\$ 499,128	\$ 195,644	\$ 694,772	\$ 625,464