

Year 2003-04

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
November 13, 2003**

A meeting of the Audit Committee of the Board of Regents was held on Thursday, November 13, at 9:15 a.m. in the East Committee Room, 600 McNamara Alumni Center.

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

Staff present: President Robert Bruininks; Vice President Kathryn Brown; Interim Vice President David Hamilton; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; Provost David Carl; Associate Vice Presidents Steve Cawley, Gail Klatt, Richard Pfitzenreuter, and Michael Volna.

Student Representatives present: Josh Colburn and Jacob Elo.

REPORT OF EXTERNAL AUDITOR

Regent Frobenius introduced Associate Vice President Pfitzenreuter, and Clifford Hoffman, Partner, and Tom Roos, Senior Manager, Deloitte & Touche, who presented the report of the external auditor. The presentation is intended to inform the committee regarding the accuracy of the University's financial statements and that appropriate policies, procedures, and systems of control are in place to produce accurate financial information.

A copy of the report is on file in the Board Office.

A. Review of Audited Financial Statement.

Hoffman referred the committee to a report distributed entitled, Consolidated Financial Statements for the Years Ended June 30, 2003 and 2002, Independent Auditor's Report and Management's Discussion and Analysis. He summarized the financial performance of the University for the reporting period and the accomplishments and future challenges for the institution.

Hoffman discussed several highlights of the report, noting that the financial information provided in the financial statement gives important insight into the University's financial future. Hoffman briefly discussed the University's outstanding debt, noting that the average life of debt was 12.39 years compares favorably with the 24-year property depreciation average. Hoffman stated that the successful capital campaign, which resulted in \$1.6 billion in new restricted resources for academic programs, scholarships, and capital facilities and equipment, are further indicators of the University's financial position. Hoffman noted that the most significant line item in the University's financial statement from the position of a rating agency is the unrestricted fund balance of \$313 million, which represents the only part of equity that is truly liquid.

Hoffman discussed strengths of the University, including the institution's proactive approach to replacement; the six-year capital plan; successful implementation of GASB Statement No. 39; strong accounting and finance function; diverse revenue source from tuition, state appropriations, federal grants and private gifts, grants and contracts; strong asset position; growth in the student body; and the continued strong bond ratings.

Hoffman noted that limited litigation exposure; no unreported audit adjustments; and improved departmental communication

between accounting services and critical central units involved in the accounting and reporting process are significant accomplishments made by the University in the previous year.

The challenges for the University includes addressing the significant decrease in state appropriations and only a slight future increase in next fiscal year; how the University will continue to reduce operating expenses; the need to continue strong recruitment in financial and accounting areas; and the need to continue to support the infrastructure.

Hoffman reported that the University is following generally accepted accounting principles and that no materials weaknesses or reportable conditions in internal control were found.

EMERGING ISSUES RELATED TO FINANCIAL REPORTING

Clifford Hoffman, Manager, Deloitte & Touche, presented emerging issues related to financial reporting. Hoffman reported that the Sarbanes-Oxley Act of 2002 and other changes in audit standards have resulted in publicly traded corporations becoming more involved in financial reporting. Hoffman summarized emerging issues related to financial reporting and how they could impact the audit committee, noting practices already adopted by the committee and issues Deloitte & Touche recommends the committee adopts. A copy of the presentation, Emerging Issues Relating to Financial Reporting, is on file in the Board Office.

Hoffman summarized "best practices" for audit committee effectiveness, summarizing three groups of issues including risk management, internal controls, and corporate governance. He made several recommendations to the committee: reading financial statements for inconsistencies with their own knowledge prior to issuance to the public; reviewing and approving bond offerings and consolidating financial statements prior to finalization; and ascertaining whether there has been a major migration of accounting staff and if there is sufficient staffing in finance and internal audit organizations prior to the audit being performed.

PROCUREMENT OF EXTERNAL AUDIT SERVICES

Regent Frobenius noted that representatives from Deloitte & Touche were not present for this agenda item. Associate Vice President Michael Volna led the discussion, reporting that the current five-year contract with Deloitte & Touche would end with the FY 2006 audit. Volna stated that factors to consider regarding the timing of a re-bid of the audit contract included changing auditors during a major financial system implementation project and the ability to complete the request for proposal process in time for the FY 2004 audit. The administration does not have a compelling reason to recommend that the Board of Regents consider rebidding the contract until prior to the FY 2005 audit. The committee concurred.

The administration will prepare a draft of policy issues regarding the oversight of nonaudit services and present them to the committee at a future meeting.

INFORMATION ITEMS

President Bruininks reported that General Counsel Mark Rotenberg is conducting a review of relationships of affiliated organizations to the University. Regent Reed commented on the importance of defining the relationship of the University to these organizations.

Associate Vice President Michael Volna presented the semiannual Controller's Report and an update on administrative actions related to Sarbanes-Oxley Act.

The meeting adjourned at 10:23 a.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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