UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Wednesday, July 8, 2009

8:30 - 9:15 a.m.

600 McNamara Alumni Center, East Committee Room

Committee Members
    Steven Hunter, Chair
    Linda Cohen, Vice Chair
    Richard Beeson
    John Frobenius
    Maureen Ramirez
    Patricia Simmons

Student Representatives
    Christina Brakken-Thall
    Jennifer McCabe

A G E N D A

1. Approval of External Audit Contract - Review/Action - M. Volna/D. Seck (pp. 2-3)

2. Internal Audit Plan - G. Klatt (pp. 4-19)

3. Peer Review Report: Follow-Up - G. Klatt (p. 20)

4. Committee 2009-10 Workplan Discussion - G. Klatt (pp. 21-22)

Audit Committee   **July 8, 2009**

Agenda Item: Approval of External Audit Contract

☐ **review**   ☒ **review/action**   ☐ **action**   ☐ **discussion**

Presenters: Associate Vice President Michael Volna
                        Associate Controller Denise Seck

Purpose:

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

To review and approve an engagement with an external audit firm that exceeds $25,000, as required by Board of Regents Policy: *Audit Committee Charter*.

Outline of Key Points/Policy Issues:

The University's Office of Information Technology (OIT) would like to engage the audit firm of Virchow Krause & Company to assist in planning the Constituent Relationship Management (CRM) project. This project is meant to address the growing need expressed by academic and administrative units across the University to improve the quality of service, be more effective in communicating with internal and external audiences, and deliver additional services to contribute to the success of students in both credit and non-credit programs. To accomplish this, a more productive approach is needed to manage relationships and interactions with constituents. While many tools currently exist at the University, no tool systematically tracks student, faculty, staff, and guest contact data across the enterprise. In the absence of an enterprise solution for recording constituent relationship information, individual entities have begun to purchase systems to serve their own individual units. The result has been redundancy, higher costs and a lack of institution-wide visibility.

In response to the need for an enterprise solution, OIT would like assistance from Virchow Krause in defining their Constituent Relationship Management Strategy and documenting critical requirements.

Specific objectives of this engagement are:
- Define the scope of the project based on the needs of the University.
- Work with "core" constituent entities to identify and document existing processes.
- Identify those processes that can be "common" across constituent groups where beneficial and feasible.
- Design new future-state processes that leverage "common" processes and permit "unique" constituent needs.
- Develop a set of CRM requirements which will form the basis for a Request for Proposal.

- Identify and confirm validity of business metrics based on preliminary measures as defined by the University.

The fees for this engagement are estimated to be $144,800.

The Controller's Office has reviewed the engagement. The scope of work outlined in the engagement would not impair the independence of the firm with respect to the University.

Background Information:

This approval is being requested by the Board of Regents Audit Committee in conformance with the Board of Regents Policy: *Audit Committee Charter*.

President's Recommendation for Action:

The President recommends approval of the Virchow Krause & Company engagement.

Audit Committee   **July 8, 2009**

Agenda Item: Internal Audit Plan

☐ **review**   ☐ **review/action**   ☐ **action**   ☒ **discussion**

Presenters: Associate Vice President Gail Klatt

Purpose:

The Audit Committee is delegated the responsibility, via its Charter, to review the annual Internal Audit plan on behalf of the Board of Regents.

Outline of Key Points:

The recommended 2009-2010 Internal Audit plan is risk-based and continues to reflect the principles of the **Integrated Framework of Internal Control**. The plan includes 22 audits of University units, processes, and information systems and focuses on high-risk activities and areas of strategic focus. Audit resources have also been reserved for administrative/special requests and investigative audit needs.

Background Information:

The Audit Committee charter states the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.

OFFICE OF INTERNAL AUDIT
2009-2010
INTERNAL AUDIT ANNUAL PLAN

PURPOSE OF THE ANNUAL PLAN

The annual internal audit plan is intended to demonstrate:
- the breadth and depth of audit activities addressing financial, operational and compliance risks of the University;
- accountability for our resources; and
- the progress in our efforts to continually improve the University's Internal Audit program.

It is our intent to convey a current sense of the University's internal control environment and the extent to which controls are being assessed by regular audit activities, addressed proactively through advisory services, or investigated as a result of issues raised.

DEVELOPMENT OF THE ANNUAL PLAN

The development of the annual audit plan is based on information gathered through broad consultation across the University and a formal assessment of existing and emerging risks.

External Risk Assessment

To aid in our planning efforts we surveyed other Big 10 institutions regarding the assessment of risks within their institutions. Of the identified risks, we assessed the following to be specifically relevant to the University of Minnesota at this time:
- Processes to manage and meet the reporting requirements associated with the American Recovery and Reinvestment Act (ARRA).
- Impact of the budgetary stresses on the University's financial and operational controls.
- Vulnerability to increased fraudulent activities in light of current economic stresses.
- Conflicts of interest (both personal and institutional), and conflict of commitment.
- Information technology; specifically the challenges of properly managing new technology and the overall technology spending needed to remain competitive.

In addition to the above we also identified the following to be relevant to our institution. Although these are important and merit monitoring, we do not believe they currently pose a significant or specific threat at the University.
- Sponsored account management, particularly the federal regulatory areas of concern regarding effort certification, cost transfers, and sub-award contracting. We recently performed audits of both effort reporting and sub-award contracting and found these activities to be generally well controlled.
- Efforts to expand University activities internationally. We are not aware of specific plans to undertake significant expansion of our global activities.

Internal Risk Assessment

As part of the planning process, discussions were held with 81 institutional officials from 45 units to solicit input on our institutional risks and any specific areas of concern. We also used these meetings as an opportunity to obtain feedback on the quality of audit services we provide. Risks identified through this process are:
- Implementation challenges with the Enterprise Financial System (EFS).
- Effect of budget cuts, the hiring pause and overall staff reductions on the University's strategic initiatives and its day-to-day operations and activities.

In response to a recommendation made in our recently completed external peer review, we solicited the opinions of the Chair, Vice Chair, and the committee chairs of the Board of Regents as to their views from a governance perspective of the University's institutional risks. Risks identified through this process include:
- Graduation rates
- The financial performance, oversight, and succession planning of the medical school and the AHC
- Continued expansion of the University and its ability to afford the associated operating and programmatic costs
- Long term financial planning and strategy
- Leadership development, evaluation, and succession planning
- The use of metrics to promote a continually improving university

Operational Risk Assessment

Our annual planning process also includes reconsideration of the audit universe as new activities and programs are identified, together with changes in the existing organization. In addition to the changes within the operating units, we also consider changes in the overall environment within which the University exists.   These environmental changes include such circumstances as new regulatory developments, new business processes, and new institutional priorities and strategic initiatives. For FY 2010, the audit universe was redefined as 188 auditable units; up from the 160 units in 2009. The majority of this increase is due to our decision, in consultation with the senior leaders of these units, to further delineate the auditable units in the Medical School and within the Controller's Office to better reflect their related organizational structures.

The Office of Internal Audit continues to utilize a formalized risk assessment methodology in selecting units/processes/activities for inclusion in the annual audit plan.   Relative risk assessment is necessary to provide a basis for the rational deployment of our limited resources across the institution. The risk factors considered remain unchanged from 2009 and include:

- Known or perceived control concerns
- Impact of unit on UM mission
- Impact of information technology
- Regulatory compliance issues
- Organizational change/turnover in key personnel
- Complexity/diversity of operations
- Audit history

Based on the outcome of this assessment, the 188 individual auditable units are categorized as high, moderate, or low risk. A rating as a "high-risk unit" does not mean that the unit is perceived to have control problems, but rather reflects the criticality or centrality of the unit to the University's mission.

We have a commitment to the Board of Regents Audit Committee to provide audit coverage of high-risk activities on at least a three-year cycle, and we align our audit plans with the Audit Committee's Institutional Risk Profile. (See Appendix A). Because of the way we have structured our auditable units, several large schools within the University (Medical School, Institute of Technology, College of Food, Agricultural and Natural Resource Sciences, College of Liberal Arts) have been broken down into a number of smaller auditable units. These schools, if considered in their entirety, would be placed in the "high risk" category; however, the component units are now considered to be moderate or low risk. Our intent and plan is to audit units within each of these colleges each year to ensure ongoing coverage, but we will not be able to audit them in their entirety during a three year period.

OVERALL RISK ASSESSMENT

Taking into account the information we obtained in our risk assessment process, we believe the University is most vulnerable to risks associated with its response to current financial and economic conditions. The impacts of the decisions made to manage the reduction in the University budget are not yet evident in regards to the University priorities to improve graduation rates, control its cost structure, and make investments in strategically important areas.

Operationally, the University is still extremely challenged by the impacts of the Enterprise Financial System and has not yet returned to the pre-implementation level of financial and operational control. This will be a focus of audit coverage provided for both centralized and departmental units in FY 2010. Audits are included in the proposed audit plan to review three financial processes specifically impacted by changes associated with the EFS implementation.

Reflecting the governance and leadership concerns regarding the cost structure of the University, we have included audits of two of the largest cost pools in the FY 2010 audit plan.

ALLOCATION OF AUDIT RESOURCES

The audit plan is based on a planned staffing complement of 14.6 FTE professionals, down from 16.6 in FY2009. This results in 2,600 fewer hours available for internal audit work.

Approximately 57% of the Office of Internal Audit's resources are committed to the completion of planned audit projects. The annual audit plan is designed to provide appropriate coverage utilizing a variety of audit methodologies: audits of individual units, functional and process audits, University-wide reviews, and information system projects.

In selecting specific units/functions for inclusion in the audit plan we placed priority on providing coverage of high-risk units/processes, and areas of interest to University administrative and Board leadership. In the selection process we also aligned our audit plan with our overall risk assessment as well as with the major organizational components of the University.
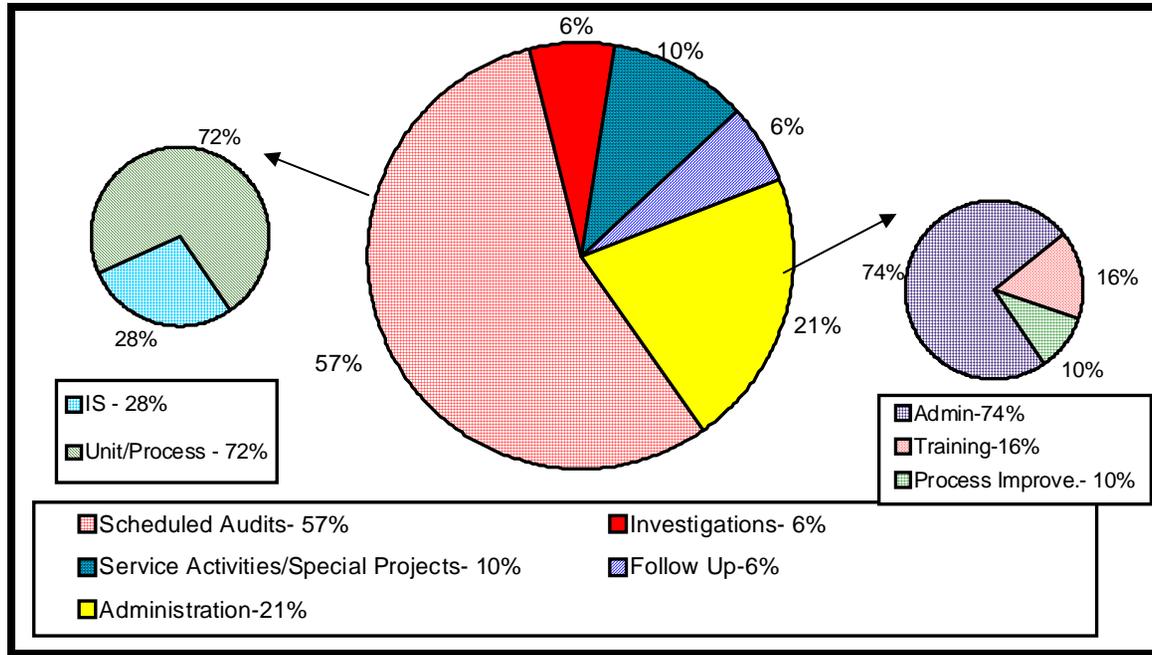
In addition to risk-based audits we have also included University-wide reviews of selected business processes, which are an effective and efficient means for extending audit coverage to a broad spectrum of units, including those of moderate/ low risk.

This year 10% of those resources will be needed to complete a higher than average amount of carry over work from our FY 2009 audit plan. Eight audit projects are currently in process and need to be completed.   While the amount of carry over work exceeds what we normally expect, our approach to the FY 2009 internal audit plan (which delayed the commencement of audit work for 90 days to accommodate the transition to EFS) had the effect of "back-loading" our work effort. We also have experienced delays in obtaining information and access to personnel within departments as staffing levels have been reduced.

The remainder of our FY 2010 audit resources are reserved as follows:
- 10% has been reserved to accommodate requests from the President, the Board, or executive committee members. This has been supported by the Audit Committee. The actual hours reserved for these requests is slightly lower (by 200 hours) than that of previous years.
- 6% has been reserved for investigations. The number of hours remains unchanged from previous years.
- 6% has been reserved for follow-up procedures performed on behalf of the Audit Committee. Both the actual hours and resulting percentage are slightly higher (by 350 hours and 2%, respectively than that of previous years).
- 21% has been set aside for internal administrative functions, including our continuous improvement efforts.

FY 2010 PLANNED ALLOCATION OF AUDIT RESOURCES

IS - 28%	
Unit/Process - 72%	

Admin-74%	
Training-16%	
Process Improve.- 10%	

Scheduled Audits- 57%	Investigations- 6%
Service Activities/Special Projects- 10%	Follow Up-6%
Administration-21%	

FY 2009- 2010 AUDIT PLAN

Taking into consideration the risks identified externally as well as internally, and balancing all of the above with our available resources, the audit plan recommended for FY 2010 includes 22 audits which will provide audit coverage of:
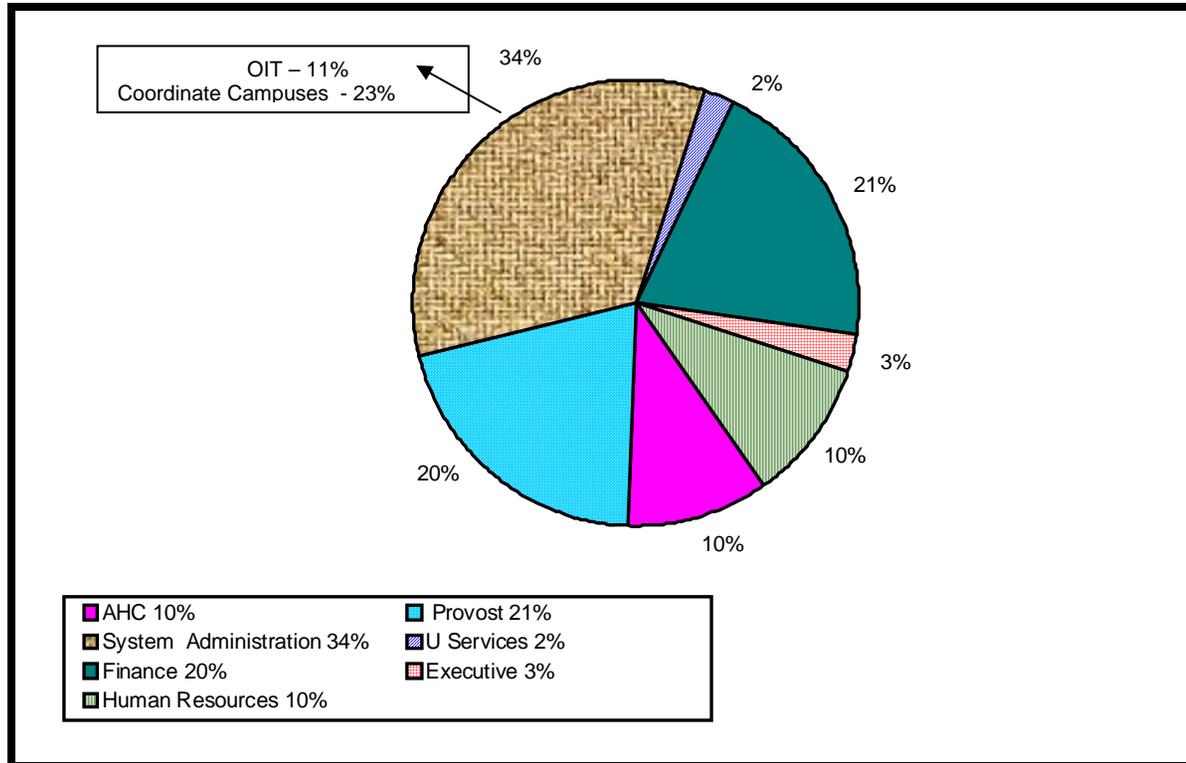
- Two high-risk cost pools
- Four central high-risk units/processes within the Chief Financial Officer's portfolio
- One high-risk technology management process
- One high risk information system replacement
- One high-risk unit within the President's Office
- Seven moderate-risk functional units; three of which involve high-risk collegiate units
- Four audits of coordinate campus activities including two campuses (one moderate-risk and one low-risk) and two audits on the UMD campus
- One low-risk unit
- A system-wide review of the University's performance appraisal process

The audits selected for inclusion in the FY 2010 audit plan also provide significant coverage of critical activities:
- 28% of the plan is devoted to information technology risks.
- Nineteen audits will include a technology component.
- Seven audits will include evaluations of service quality and productivity.
- Eight audits will include evaluations of central services.
- Nine audits will include evaluations of research activities.
- Six audits will include a component on gift activities in accordance with the Memorandum of Understanding between the University and the University foundations.

By the end of FY 2010, we will have provided audit coverage of 17 of the 21 high risk units. The FY 2010 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2010.

FY 2010 AUDIT COVERAGE BY UNIVERSITY COMPONENTS

OIT – 11%
Coordinate Campuses - 23%

34%
2%
21%
3%
10%
10%
20%

AHC 10% Provost 21%
System Administration 34% U Services 2%
Finance 20% Executive 3%
Human Resources 10%

As compared to prior years, Finance is receiving a significantly greater percentage of audit resources. This is consistent with the strategy we have followed for the last several years when we provided audit coverage of all the University's major business processes in the years preceding the implementation of EFS. Last year we focused our attention on academic units to enable the central financial staff to focus on acclimating to EFS and fine-tuning their centralized business processes. The centralized financial units are now at the end of their three-year audit cycles, thus warranting audit attention. The audit resources allocated to the Academic Health Center have decreased from 25% in FY 2009 to 10% in 2010. We also do not have any audits planned for Research Administration units, although audits of sponsored projects will still be conducted during collegiate audits and an audit of sponsored project financial reporting is included in the FY 2010 audit plan. This audit, in addition to other advisory services we are involved in, will enable us to evaluate the processes put in place to comply with ARRA reporting requirements. Very limited audit work will be conducted within University Services in this plan; all of its major units, however, have had recent audit coverage.

ANALYSIS OF AUDIT COVERAGE

By the end of the four-year period through FY 2010, we will have completed audits of:
- 17 of the 21 high-risk units on a three-year cycle. Three of these high-risk units has been reviewed more than once in these four years.
- 53 of the 101 moderate-risk units, as well as 24 of the 66 low-risk units. Of those, 33 units in the moderate risk category and 15 of the low risk units have also had some review through a University-wide audit.
- University-wide reviews of effort reporting, sub-award contracting and purchasing processes.

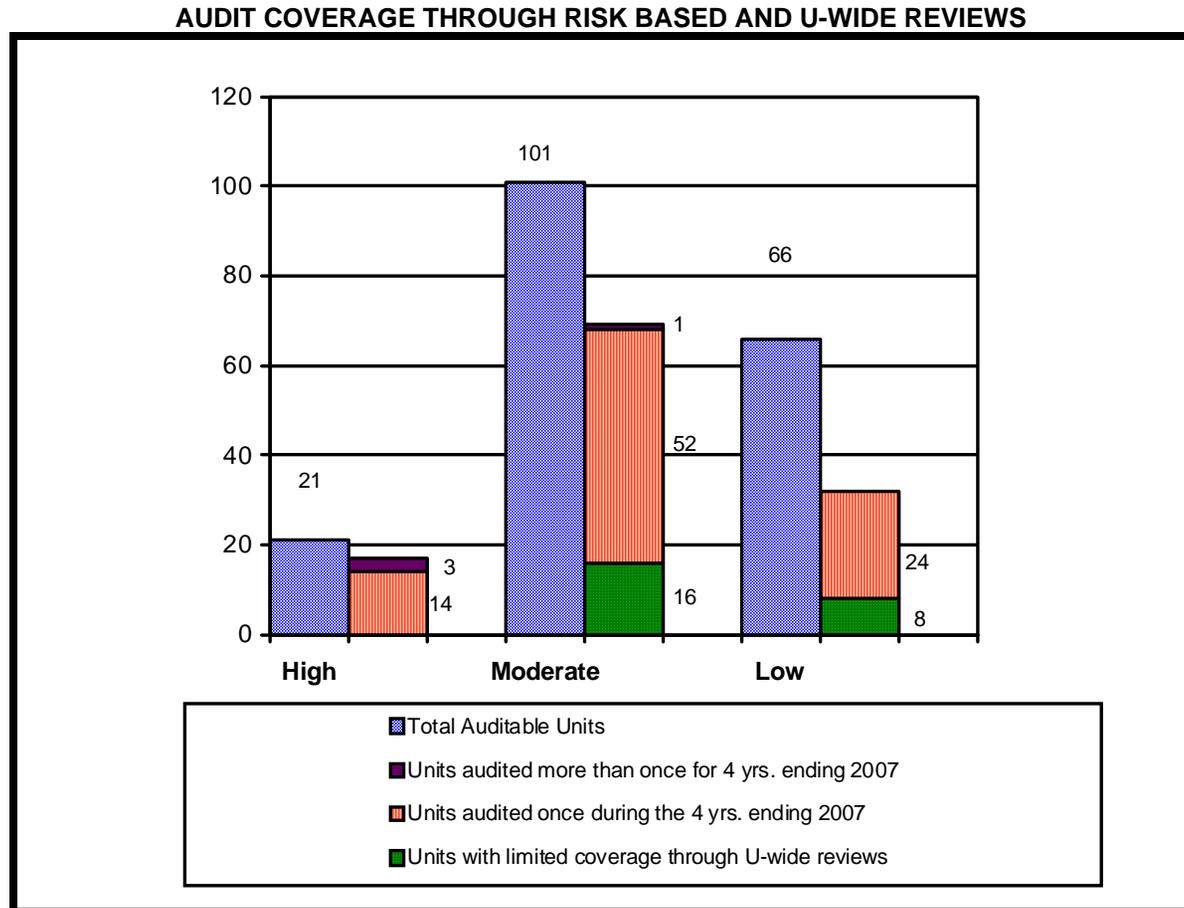We will be out of cycle on four high risk auditable units:
- Payroll - which does receive ongoing coverage in departmental/collegiate audits
- Treasury Accounting & Internal/External Sales
- Accounting Services – which receives regular coverage by LarsonAllen in the annual financial statement audit
- Medical School Administration – we are uncertain what this auditable unit will be comprised of and are waiting for greater delineation to occur as the AHC/Medical School reorganization rolls out.

Accounting Services and Treasury Accounting were previously audited as part of the Controller's Office audit. In breaking out the Controller's Office's activities into separate auditable units, all of the units are cycling at the same time.   With audits of central financial functions consuming 20% of our resources, it seemed prudent to delay these two audits until FY 2011.

The following charts illustrate our coverage of University activities based on risk levels, as well as the coverage we have provided through University-wide reviews.

AUDIT COVERAGE THROUGH RISK BASED AUDITS
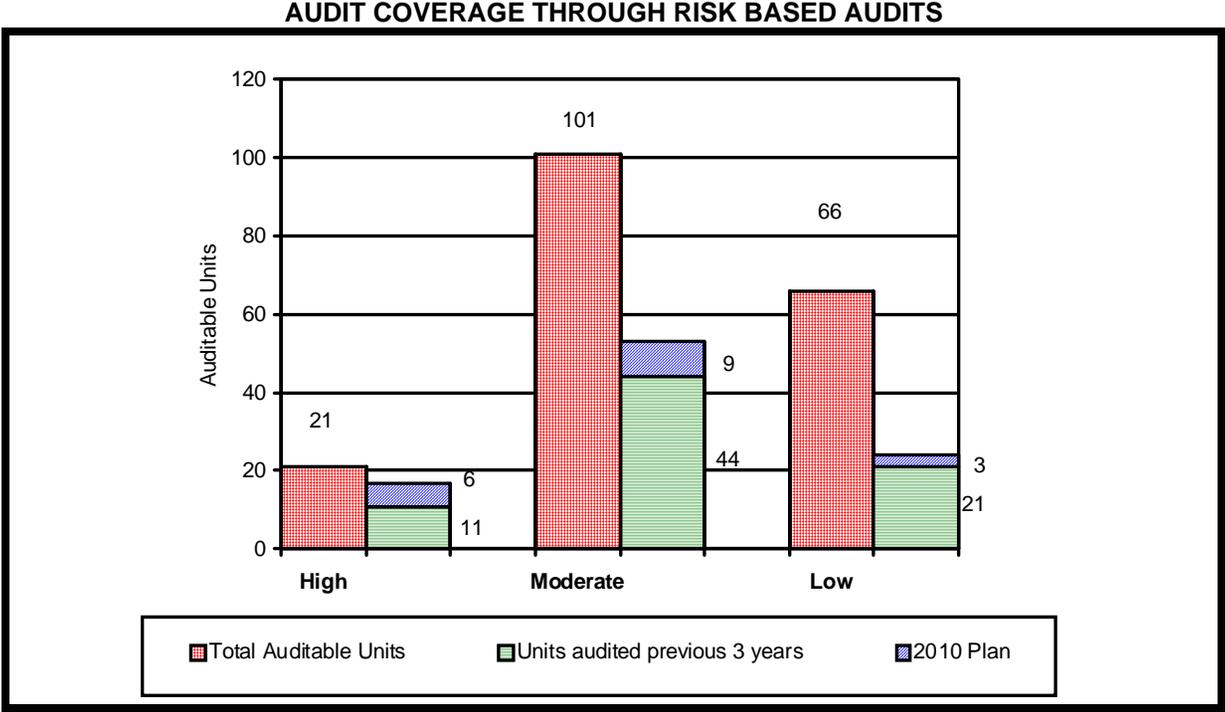
Of the 188 auditable units, 28 units have not had audit coverage since prior to FY 2000. Fourteen of the 28 units are in the moderate-risk category, while the remaining units are considered low-risk units.

AUDIT COVERAGE THROUGH RISK BASED AND U-WIDE REVIEWS

	High	Moderate	Low
Total Auditable Units	21	101	66
Units audited more than once for 4 yrs. ending 2007	3	1	
Units audited once during the 4 yrs. ending 2007	14	52	24
Units with limited coverage through U-wide reviews		16	8

Legend:
- Total Auditable Units
- Units audited more than once for 4 yrs. ending 2007
- Units audited once during the 4 yrs. ending 2007
- Units with limited coverage through U-wide reviews

Of the 28 units which have not had audit coverage since prior to FY 2000, five did receive some coverage as part of University-wide process reviews in the past three years.

FY 2008-2009 RESULTS

To date for FY 2009, we issued 23 audit reports which were the result of planned reviews and requests from management (See Appendix B).

In addition,
- Two audits are in the final stages of completion and reports will be issued in the next two months.

- Eight audits are currently in the planning or fieldwork stages and will be completed in FY 2010.
- Nine audits were either deferred to FY 2010 or not completed. Explanations for these adjustments to the audit plan are included on Appendix B.

During the past fiscal year we completed and closed out four investigations from FY 2008 and also conducted 18 new investigations in response to allegations of financial or operational misconduct, eleven of which have been closed out. Where appropriate, we have partnered with the University Police or the Office of the General Counsel to complete these reviews. Three of the investigations have been referred to the University of Minnesota Police for possible prosecution.

In the FY 2009 Audit Plan, approximately 24% of our resources had been allocated for administrative functions. However, the actual time spent was approximately 41%. Of the 17% difference, 9% was devoted to updating audit programs and processes to accommodate the EFS system, investigating opportunities to further automate our audit tools, and continuous improvement opportunities. Another 6% was devoted to our external peer review.

COMPARSION OF AUDIT RESOURCES FOR FY 2009 AND FY 2010
Percent of Available Time
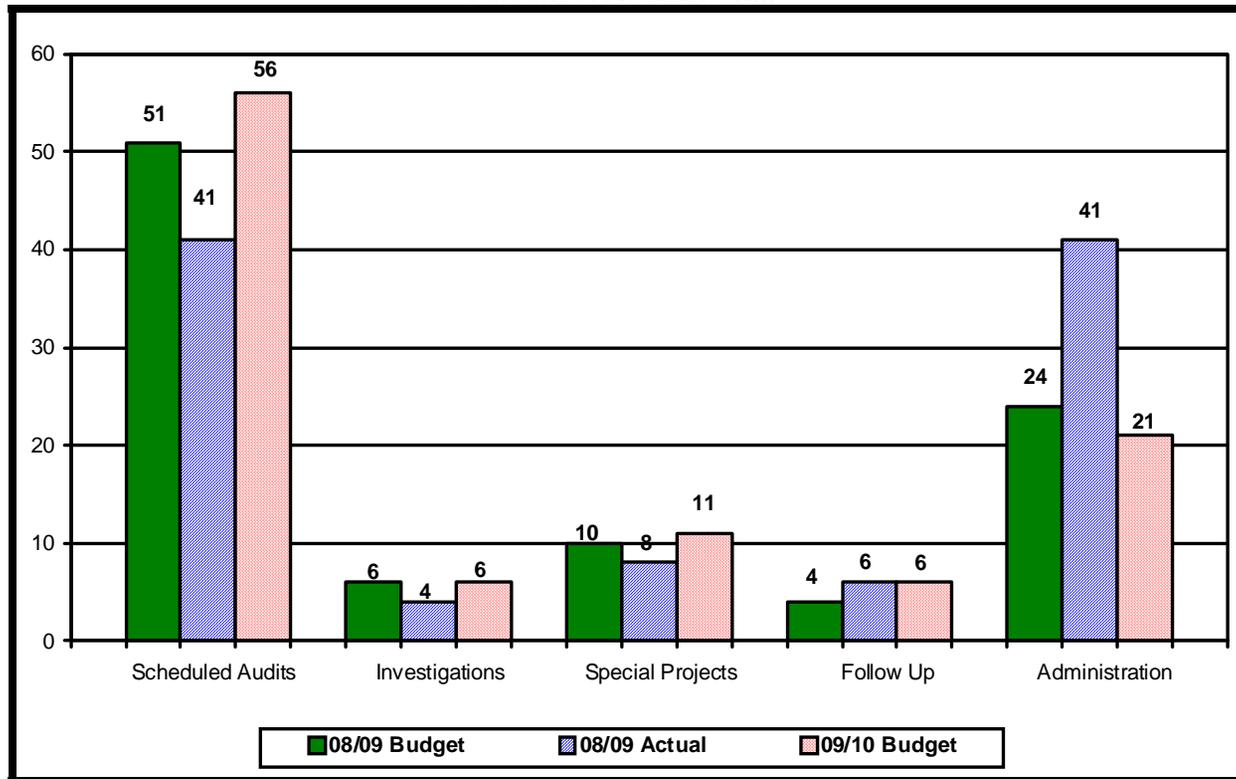
COORDINATION WITH EXTERNAL AUDITORS

The Office of Internal Audit continues to coordinate its audit plan with LarsonAllen, LLP to ensure appropriate coverage is achieved through the internal and external audit plans and to leverage the collective efforts of both organizations. The Office of Internal Audit meets the professional standards required by LarsonAllen to place reliance on internal audit work.

COORDINATION WITH OTHER INTERNAL RESOURCES

The Office of Internal Audit coordinates its work with other internal units to maximize the quality of audit coverage provided as well as to promote prompt attention when University-wide trends are identified. We have established strong working relationships with the University's Compliance Officer, the Office of Research Integrity, the Office of Oversight, Analysis and Reporting, the Office of Regulatory Affairs, the Institutional Review Board, and the Department of Environmental Health and Safety, each of which work closely with us during audits involving complex regulatory issues.

The Office of Internal Audit interfaces regularly with the Institutional Compliance Officer and we serve on the Executive Compliance Oversight Committee and the Research Compliance Committee. Input from the Compliance Officer is solicited during our annual audit planning. In addition, throughout the year we report to and collaborate with the Compliance Officer on issues identified during our audits. We also share the results of employee surveys with the Compliance Officer. During fiscal year 2009, a total of 905 surveys were sent out as part of our audit process, with a 57% response rate. Along with the Institutional Compliance Office, we serve as a triage office for managing U Report, the University's confidential reporting line.

Audit results are also shared with central support units such as Office of Information Technology, Sponsored Project Administration, Payroll, Purchasing, Training Services, and Human Resources, when policy non-compliance or when the need for process enhancements are identified. Best practices identified in local unit audits are also shared with these central unit process owners for consideration of broader adoption. This year we have worked extensively with the Office of Information Technology and collegiate IT Directors to identify actions and tools that can be immediately leveraged to resolve or prevent common control issues identified in internal audits. The CIO and the collegiate IT Directors chartered separate working groups to work on 1) disaster recovery preparation, 2) security, 3) code change management, and 4) IT risk assessment. The groups have produced specific deliverables that collegiate and functional units have found to be very useful in quickly and successfully resolving outstanding audit findings.

STAFF DEVELOPMENT AND QUALIFICATIONS AND PROFESSIONAL INVOLVEMENT

The Office of Internal Audit is committed to providing educational opportunities to our staff in order to enhance our audit knowledge and abilities and to achieve our professional best. Ever-changing government regulations, new technologies, and new developments in auditing principles and methods dramatically affect not only what we audit, but also how we audit. We constantly strive to stay abreast of new developments and improve our audit proficiency in order to enhance the overall quality of our audits. To accomplish this, we pursued a variety of methods to continue our staff's professional education.

Our departmental memberships with the Institute of Internal Auditors (IIA), the Association of College and University Auditors (ACUA), the Association of Certified Fraud Examiners (ACFE), the American Institute of Certified Public Accountants (AICPA), and the Information Systems Audit and Control Association (ISACA) provided staff members the opportunity to attend seminars and conferences that specifically address current issues and techniques in internal auditing. The interaction of our staff members with their peers through these professional organizations helps to keep us up-to-date on the latest auditing trends and issues affecting higher education.

Of the current fifteen professional staff:

- twelve have professional certifications of Certified Internal Auditors, Certified Public Accountants, Certified Information Systems Auditors, and Certified Fraud Examiners;
- five have Master of Business Administration degrees;
- one has a Master of Arts- Economics degree;
- one is pursuing a Master of Public Policy degree; and
- two are pursuing professional certifications.

In FY 2009, the Office of Internal Audit provided 1,844 hours of training (an average of 123 hours for each employee). These hours do not include the time associated with completing evening coursework funded by the University's Regents Scholarship Program. A significant amount of time was devoted to training on the EFS system.

Our information systems auditors developed and provided a curriculum for information systems auditing to the remainder of the audit staff to increase our overall skills in this important and fairly technical area. The staff of Hennepin County's audit function participated in this training at our invitation.

We continue to hold monthly Brown Bag lunch meetings at which University leaders are invited to speak with the audit staff.

For FY 2010, 810 hours have been budgeted for staff training, an average of 55 hours per employee.

A member of the audit staff is participating in a review of the audit function at the City of Minneapolis being conducted at the request of the City Administrator and the Board of Estimation and Taxation.

STAFFING

During FY 2009 two of our managers retired under the Retirement Incentive Option. Each of these individuals had over 35 years of experience in the Office of Internal Audit. We replaced one of the positions through internal promotion. Another Senior Auditor left the University mid-year and has not been replaced. Keeping these two positions open enabled us to accommodate the reduction in our budget for this fiscal year.

We continue to receive appropriate financial and organizational support from the administration.

QUALITY ASSURANCE REVIEW

As required by the ***International Standards for the Professional Practice of Internal Audit*** we underwent an independent external quality assurance review in March 2009. The review determined that 1) the practices of the Office of Internal Audit fully comply in all respects to the ***Standards***, and 2) University Management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office of Internal Audit.

**Audit Committee's
Institutional Risk Profile
Heat Map**

APPENDIX   A

Likelihood

High

Moderate

Low

■ Academic Quality
Quality of Faculty & Staff ■
■ AHC
■ Research
■ Financing
■ Athletics
■ Investments
■ Strategic Decisions
Leadership/Succession ■
Financial Management ■
■ Tech Transfer/IP
International ■
■ Student Experience
■ Technology
Campus Safety ■
Asset Optimization/Utilization ■
Associated Organizations ■
Public Info ■

Low   Moderate   High
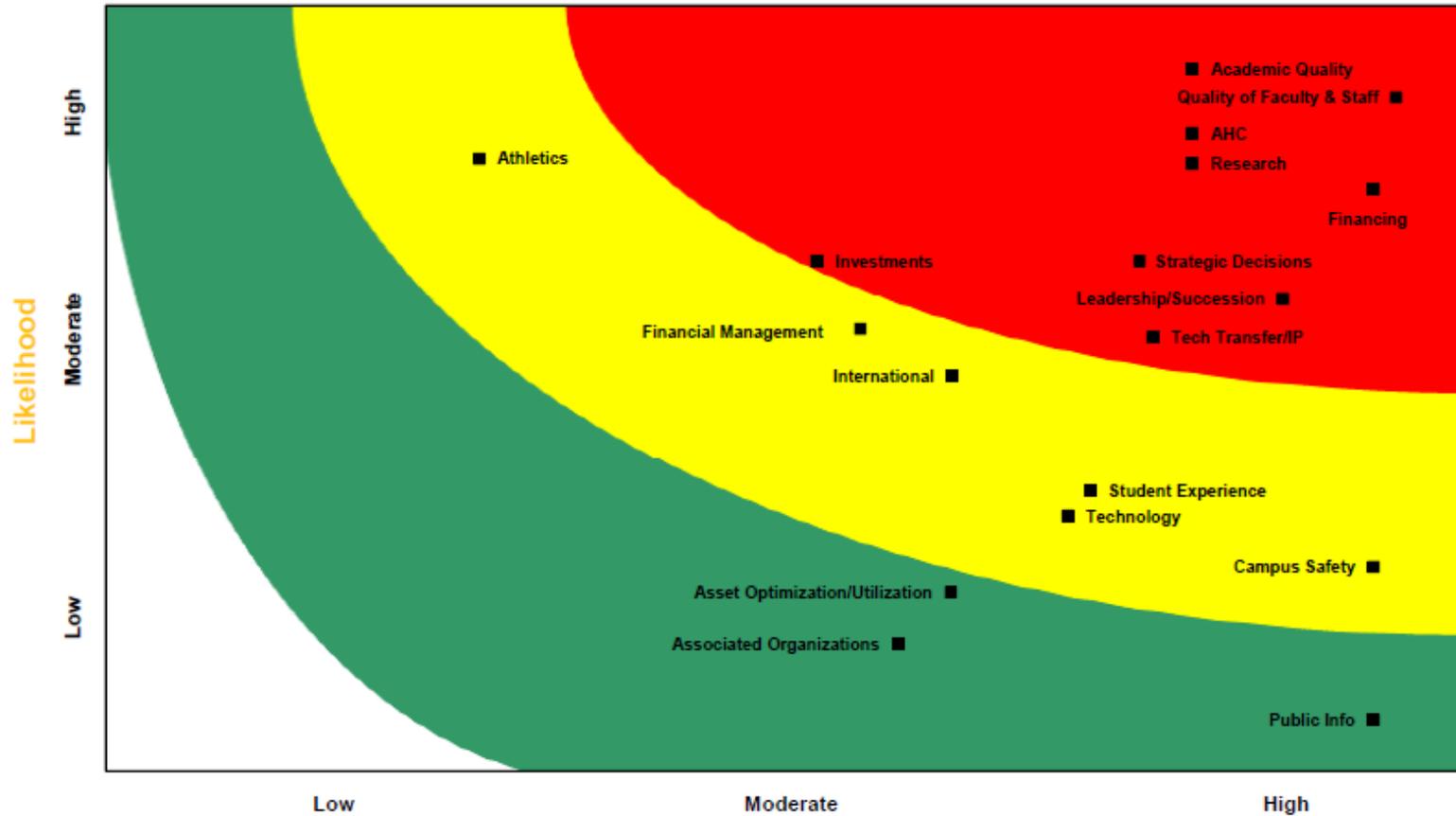
Impact

Audit Coverage Provided

Unit	FY 10	FY 09	FY 08	FY 07	Unit	FY 10	FY 09	FY 08	FY 07
Research- Infrastructure	x	x		x	Investments	x			
Individual Sponsored Projects	x	x	x	x	Fringe Benefits	x			x
AHC	x	x	x	x	Student Experience	x	x	x	x
Athletics	x	x	x	x	Associated Organizations	x	x	x	x
Financial Management	x	x	x	x	Tech Transfer			x	x
Technology	x	x	x	x	Campus Safety		x	x	
Academic Quality		x			Strategic Decisions	x	x		

<div style="columns: 2">

Audits Completed

High Risk
College of Education
Department of Ob Gyn
CFANS
Purchasing
Central Security
File Backup – SAN
Sponsored Project Subawards
Sponsored Project Effort
Energy Management

Moderate Risk
Molecular and Cellular Therapeutics
Minnesota Population Center
Plant Funds/HEAPR/General Obligation Debt
Department of Mechanical Engineering
Audience View – Athletics
Concerts and Lectures
UMD Cashier
UMD Bookstore
Center for Magnetic Resonance Research
Department of Integrative Biology and Physiology

Low Risk
Bio Med Engineering & Inst. for Engineering in Medicine
UMD Housing
UMD College of Education and Human Service Professions

Non-scheduled
Clinical Trial Budgeting and Billing System

Audits in Final Stage of Completion

High Risk
School of Dentistry
Database Management

Audits Started in FY09 but will be Completed in FY10
Departments of Medicine and Dermatology
Fleet Services
Non-Sponsored Billing and Accounts Receivable
AHC Information Systems
PCI Compliance
Academic Advising
UMD Theater
Office of Student Finance

Audits Deferred and in the 2010 Audit Plan
Sponsored Financial Reporting – due to unit staffing constraints
Research and Outreach Centers and Cloquet – due to unit staffing constraints
Email/Google – due to planned replacement of the system in 2009
University of Minnesota – Rochester

Audit Substitutions
OIT Administration Reviews (2)
Wireless Upgrade
The resources allocated to these audits were used to complete the Clinical Trial and Billing System audit.

Audits Not Completed
Sr. VP Health Sciences – due to pending reorganization
Medical School Administration – due to pending reorganization

</div>

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Audit Committee   **July 8, 2009**

Agenda Item: Peer Review Report: Follow-Up

☐ **review**   ☐ **review/action**   ☐ **action**   ☒ **discussion**

Presenters: Associate Vice President Gail Klatt

Purpose:

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

The March 2009 Quality Assurance Review of the Office of Internal Audit included the following recommendation:

> "Currently the Office conducts follow-up reviews only on "essential" comments that have been issued in a formal report. Since both "essential" and "significant" comments are included in final reports, we recommend the Office conduct follow-up reviews on all comments included in issued reports. Additionally, the Office should consider enhancing their follow-up reporting to the Audit Committee to include information on past due recommendations.

The options for, and ramifications of, changing existing practice will be reviewed and the Audit Committee's opinion solicited as to which option best fulfills its oversight obligations.

Outline of Key Points/Policy Issues:

Four options for addressing the Quality Assurance Review recommendation regarding the follow-up on "significant" audit findings will be discussed.

Information will be provided regarding relevant professional requirements and benchmarking data.

Resource implications will be addressed.

The recommendation to include information on past due recommendations in Audit Committee reporting will be implemented.

Background Information:

The Audit Committee is charged with oversight of the internal audit function.

Audit Committee   **July 8, 2009**

Agenda Item: Committee 2009-20010 Workplan Discussion

☐ **review**   ☐ **review/action**   ☐ **action**   ☒ **discussion**

Presenters: Regent Steven Hunter
Associate Vice President Gail Klatt

Purpose:

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

The purpose of this discussion is to reach agreement on the committee workplan for the upcoming year.

Outline of Key Points/Policy Issues:

The workplan should focus on the oversight and monitoring of risks the Committee feels could impede the University from achieving its goal to become one of the top three research universities in the world. Topical discussion items should be selected based on their relevancy to the Audit Committee's institutional risk assessment and their import to strategic positioning outcomes.

The workplan should also ensure the Committee receives the information necessary to carry out the governance responsibilities assigned to it in its Charter, including the supervision of the external auditor and oversight of the internal audit program.

In addition to identifying appropriate topics for inclusion in the workplan, the Committee members are requested to consider:
▪ If the time typically allocated to individual agenda items is appropriate.
▪ If the materials provided to the Committee are at the appropriate level of detail.

Background Information:

Each standing committee of the Board of Regents establishes an annual workplan. The workplan is a means to assist the Committee in discharging its responsibilities under its Charter and provides a structure to ensure the topics of highest priority receive the Committee's attention.

Board of Regents Audit Committee
Committee Workplan Discussion
FY2010

September: Audit Committee Workplan
             External Audit Update (LarsonAllen)
             Compliance Officer Report (L. Zentner)
             Internal Audit Update (G. Klatt)

October: Even though the committee is not expected to meet in October, it will need to
             review the annual financial statements prior to their finalization. In previous
             years this has been handled by the Chair via a conference call.

November: External Auditor Report (LarsonAllen)
             Information Item: Semi Annual Controller's report

February: External Auditor's Review of Completed Audit Work and
              Letters to Management (LarsonAllen)
             Internal Audit Update (G. Klatt)

March: External Auditor Review (Fees and 2011 Engagement) (M. Volna)
             Compliance Officer Report (L. Zentner)
             Information Item:
                ▪ External Auditor Relationships and Services Provided

May   External Audit Plan (LarsonAllen)
             Internal Audit Update (G. Klatt)
             Information Item: Semi-Annual Controller's Report

July   Internal Audit Plan (G. Klatt)

Potential Topics
   • Readiness to handle ARRA (Stimulus) funding requirements.
   • Changes to the University's Conflict of Interest infrastructure
   • University guidelines for acceptable relationships with industry
   • What is the University's "appetite for risk" in the current economic environment
   • Longitudinal trending of the University's control environment