



Audit Committee

May 2014

May 08, 2014

8:00 a.m - 9:30 a.m.

East Committee Room, McNamara Alumni Center

AUD - MAY 2014

1. External Audit Plan

Docket Item Summary - Page 3

Deloitte and Touche Audit Plan - Page 4

2. External Auditor Review and Summary of Other External Auditor Relationships and Services Provided

Docket Item Summary - Page 30

External Auditor Relationships - Page 31

3. Academic Risk Profile

Docket Item Summary - Page 38

Academic Risk Profile - Page 40

Previous Profiles - Page 41



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

May 8, 2014

Agenda Item: External Audit Plan

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenters: Associate Vice President Michael Volna
Kirsten Vosen, Partner, Deloitte & Touche
Judi Dockendorf, Senior Manager, Deloitte & Touche

Purpose & Key Points

The external audit plan sets forth the approach, objectives, and scope to be used by Deloitte & Touche for the University's financial and compliance audits. Members from the Deloitte engagement team will provide the Audit Committee with an overview of the audit plan including their assessment of audit risks, testing approaches, and timelines for the year-ending June 30, 2014.

Background Information

This report assists the Audit Committee with its audit oversight responsibilities, and it is presented annually in conformity with Board of Regents Policy: *Audit Committee Charter* and Board of Regents Policy: *Board Operations and Agenda Guidelines*.

The University of Minnesota 2014 Client Service Plan



May 8, 2014

The Board of Regents Audit Committee
University of Minnesota
1300 South Second Street
Minneapolis, MN 55454
USA

Dear Members of the Board of Regents:

We are pleased to present Deloitte & Touche LLP's ("Deloitte & Touche") 2014 audit service plan to serve the University of Minnesota (the "University"). First and foremost, we value our role as your external auditor. We understand our responsibility to you as the Board of Regents' chosen representatives of the University, and we have developed an audit plan that is specific and candid. This audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence.

Our audit addresses financial statement and internal control risks through targeted procedures that are responsive to the nature of the risks, including changes in the University, the business environment, and the regulatory landscape. Our procedures include identifying and analyzing issues and facts relevant to our audit conclusions and providing objective challenges to management's judgments and assumptions.

In this document, we describe our plan to serve you, the protocols for communication with the Audit Committee of the Board of Regents (the "Audit Committee") and management, and other permissible services we provide for the University.

Our organization is dedicated to bringing a high level of quality and service to the audit of the University. We commit to proactively addressing your needs; delivering the right team; and providing understanding, perspective, and industry insights.

We appreciate the opportunity to serve the University. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan. Please contact me at +1 612 397 4418 if I can be of assistance in any way.

Yours truly,



Kirsten Vosen
Your Lead Client Service Partner

cc: Management of the University

Contents

Executive summary	1
Risk assessment	4
Commitment to quality	6
Scope of services	7
The Deloitte Audit Approach	8
Center for Corporate Governance	17
Independence communications	19
Our client service team	20
Audit timeline	21
Recent accounting and industry matters	22

Executive summary

We are pleased to present an overview of our plan to serve the University. We have prepared this document to assist the Audit Committee in fulfilling its role in overseeing the financial reporting process and the performance of the independent auditor.

First and foremost, we value our role as your external auditor. The foundation of our relationship is based on this important role and responsibility to you, as the Board of Regents' chosen representative of the University. Our primary responsibility is to plan and perform the audit of the University's consolidated financial statements to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. It is our professional responsibility to challenge significant management assumptions and estimates and to employ an appropriate level of professional skepticism to evaluate these assumptions and estimates, including related audit evidential matter. We also perform certain permissible services that further develop our understanding of your business; we can leverage this understanding to further improve our audit procedures.

Below are the key elements that demonstrate our commitment to quality:

- Strong tone at the top
- Comprehensive ethics and compliance programs
- Communication of professional standards and client service standards
- Multifaceted approach to monitoring independence
- Strong industry qualifications
- Robust technical consultation
- National office consultation
- Appropriate technical training for our professionals
- Annual internal and external inspections
- Continuous improvement.

As professionals, we are each responsible for gaining a thorough understanding of the applicable auditing standards and for executing our audit in accordance with those standards; thus, the Deloitte Audit is based on auditing standards generally accepted in the United States of America ("generally

Our reputation is based on:

- Doing the right thing
 - A high degree of integrity
 - Our ability to recognize and act in accordance with our professional responsibilities
 - A commitment to objectivity and independence
- Technical excellence
 - Ongoing training in technical matters for all professionals
 - Intensive case-based programs for audit partners and managers each year
 - A consultative approach to resolving accounting, internal control, auditing, and reporting issues
 - Assessment of the quality of our performance against our objectives, service goals, and client service standards
 - Dedication to employing the best and serving the best
 - Effective systems for monitoring independence
- A robust audit approach

accepted auditing standards”) and emphasizes a risk-based approach. We identified the risks of material misstatement facing the University, beginning with a reassessment of risk areas from our 2013 audit, followed by consideration of the University’s fiscal 2014 enterprise goals, and the current state of the industry and the economy. As a result of our planning process, we identified the following items as areas of significant risk for the fiscal 2014 audit:

- Alternative investment valuation
- Management override of control

Our professional judgment is central to the application of due care and professional skepticism in these areas of significant risk.

See Section “The Deloitte Audit Approach” for further discussion of identified risks of material misstatement and related audit responses.

Engagement team

Our engagement team is led by Kirsten Vosen, lead client service partner. Ms. Vosen is responsible for all services provided to the University.

We have assigned a senior technical partner to our team to help evaluate issues of importance to the University. Deborah Metalsky, your engagement quality control review partner, has 24 years of experience, with a main focus on higher education clients. Her main clients include The Pennsylvania State University, Temple University, and Drexel University. She also leads the Philadelphia office’s higher education and not-for-profit practice. In addition to her engagement review responsibilities, Ms. Metalsky is Ms. Vosen’s primary consultation resource. When a matter requires review at a higher level, Ms. Vosen will work with Deb DeHaas, national office liaison partner for the University.

Our specialists often assist the audit team with procedures in areas involving management’s most subjective and complex judgments. These procedures will be developed in conjunction with the core audit team, and the core audit team has a responsibility to develop the scope of the work performed by the specialist, review the working papers, and participate in reaching the audit conclusions.

Deloitte’s audit approach uses a broad range of industry and functional specialists who are integral to the audit team. For the University’s audit, we have identified specialists to assist in:

- Assessing the design and operating effectiveness of information technology and security controls
- Auditing income tax exemption
- Auditing estimates that involve actuarial calculations
- Auditing fair value of alternative investments.

We also recognize the importance of sharing our accounting, reporting, and industry knowledge and experience, and we will provide skilled resources for the specialized risks and industry issues affecting the University. Our specialists have been actively involved in the planning and risk assessment process, and will be available to the audit team and the University’s management year-round to discuss ongoing risk assessment, accounting and financial reporting issues, industry developments, and other matters of interest. As a complement to management’s current process to respond to new and developing standards, these specialists will periodically update the University’s management on technical accounting and industry matters that affect the University.

See Section “Our client service team” for more information on the University’s engagement team.

Streamlining our audit approach

We recognize that the quality of our audit depends on us providing a robust challenge to significant assumptions of management, coupled with unambiguous and direct communication. That does not mean the process needs to be cumbersome or tedious. We will focus our service approach on what matters most by providing timelines and involving senior members of our leadership team, including having Ms. Vosen develop and approve the audit scope and attend meetings with management to discuss key matters.

We have provided you with a timeline for our audit that articulates the timing of our planning and testing procedures (see Section “Audit timeline”).

Our plan of action includes:

- Managing the work of our professionals and affiliates
- Avoiding surprises to the best of our ability
- Responding to your questions quickly
- Timely identification and communication of key issues
- Working with you directly to manage deadlines
- Providing our broader views and perspectives on the University’s operations and internal control, not just in the traditional areas of accounting and financial reporting, but by setting out our observations on the University’s operations and activities identified during the audit.

Risk assessment

Risk assessment is a critical facet of our audit approach and scoping process. We identify risks of material misstatement associated with the University and its various businesses, material account balances, assertions, and related controls. We design all phases of the audit to identify and address risks associated with the University and to enable us to respond to the challenges posed by the business, regulatory, and economic environment in which the University operates. Risk identification takes place at several levels throughout the year.

In developing our audit plan for each material account balance or disclosure, we consider:

- What could go wrong to cause a material misstatement of the consolidated financial statements
- Control activities that management has identified, documented, and tested
- The nature and extent of substantive testing needed.

For each risk of material misstatement we identify, we perform substantive procedures to address that risk. The number and nature of the risks identified may be adjusted as circumstances change during the audit. We will update the Audit Committee on significant changes to our risk assessment or audit scope as we perform our work.

Deloitte's approach to the University's audit is grounded in our understanding of your organization, as accumulated from our experience. We begin by gaining a comprehensive perspective of your operations and objectives, as well as material financial statement accounts and disclosures.

When we speak about risk, we don't mean errors are occurring. Rather, we identify significant areas in the financial reporting process where judgment, complexity, or infrequency of occurrence may give rise to a higher chance that misstatements exist.

Deloitte & Touche audit planning process



Accumulated knowledge about your organization is the foundation for our audit planning process.

Our top-down risk assessment begins with the consolidated financial statements to determine material account balances and disclosures.

Using assertions, we organize and refine the focus of our audit procedures. All relevant assertions for material account balances and disclosures are addressed in our audit plan.

Our knowledge and understanding of your organization allows us to pinpoint risks. We assess each risk and determine whether it is a significant risk or normal risk.

We develop tailored responses to significant risks and normal risks.

- Control and substantive responses are integrated, where control reliance is taken.
- We consider the effectiveness of the responses and align the budget with risks.
- Using our most current understanding, we reconsider our approach at the end of each audit cycle.

Commitment to quality

We take our responsibilities to investors and the capital markets seriously, and we are dedicated to building confidence in the independent audit process. The intent of our *Audit Quality: Our responsibility, our commitment* report is to provide investors, audit committees, regulators, and other market participants with information that will help them understand our commitment to audit quality. The *Audit Quality: Our responsibility, our commitment* report includes, among other things, information about the steps we have taken in recent years to transform our audit practice, our improved inspection results, actions we are taking to innovate and further strengthen the quality of our audits and our perspectives on current audit reform proposals.

We hold ourselves to very high standards, and take pride in the important public interest role entrusted to us. To continuously raise the bar on audit quality, we have made substantial, comprehensive investments in our audit practice. Through a combination of these investments, the diligence and dedication of our partners and professionals, and constructive engagement with our regulators, we have made significant progress toward the achievement of our audit quality objectives. We now have objective evidence that the significant audit quality investments we have made are achieving desired outcomes.

The number of inspection comments we received from the PCAOB declined by more than 50 percent during our most recent inspections (2012 and 2013) as compared to 2011. Additionally, the PCAOB recently notified us that it has determined that the remedial actions we took in response to Part II of our 2009 and 2010 inspection reports addressed the quality control criticisms in those reports to the Board's satisfaction (in contrast, portions from 2007 and 2008 were publicly released, as efforts made several years ago in response to those reports were not satisfactory to the PCAOB). These determinations close the inspection cycles for 2009 and 2010 and are further evidence of the substantial progress we have made towards the achievement of our audit quality objectives.

Audit quality remains our number one priority. As we look forward, we will continue institutionalizing the audit process enhancements we have made throughout our system of quality control to ensure they endure.



Scope of services

Our responsibility under generally accepted auditing standards will be described to you in our engagement letter. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, is to express an opinion on the fairness of the presentation of the University's consolidated financial statements for the year ending June 30, 2014, in conformity with accounting principles generally accepted in the United States of America, in all material respects. We consider the University's internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's ICFR. Accordingly, we will not express an opinion on the effectiveness of the University's ICFR.

We will also issue certain other reports as described below:

Reports on financial statement audits

- University of Minnesota Consolidated Financial Statements
- RUMINCO, Ltd (performed by Deloitte Bermuda)
- Weisman Art Museum (a unit of the University of Minnesota)
- Department of Concerts and Lectures (Northrop Auditorium) (a unit of the University of Minnesota)

Compliance reports

- Federal Award Programs (Office of Management and Budget Circular A-133)
 - Schedule of Expenditures of Federal Awards
 - Report on Internal Control and Compliance Related to Financial Reporting
 - Report on Internal Control and Compliance Related to Major Programs
- Examination of Management's Assertion of the University's Compliance with the Minnesota Office of Higher Education Audit Guide

Agreed-Upon Procedures

- National Collegiate Athletic Association (NCAA) Agreed-Upon Procedures
- Office of Student Affairs and Fees Committee Agreed-Upon Procedures for student groups

Should you require additional attest and compliance-related services, we will work closely with the University to scope such services appropriately.

In addition to our independent auditors' reports, we will report significant deficiencies and material weaknesses identified in internal controls and issue a management letter when opportunities for improvements or efficiencies come to our attention during the audits and a letter to the Audit Committee and management summarizing the results of our audits.

The Deloitte Audit Approach

Our responsibility to you is the foundation of our role as the University's independent auditor. As your independent auditor, we recognize that you operate in an environment that demands objectivity, skepticism, responsiveness, and deep technical skills. A critical facet of our audit approach is the risk assessment. We design the audit to identify and address risks to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

Our audit approach is partner-led, focused, interactive, and dynamic and follows four major steps:



Deloitte's audit approach is rooted in professional standards and involves using the right resources at the right time to tailor our response to the risks of material misstatement that have been identified. Continuous communication with the Audit Committee and management to inform you of key issues throughout the audit process is an essential element for success in the audit.

In applying our audit approach for the University, we will:

- Conduct a partner-led planning process that enhances risk identification and assessment and promotes an appropriate response in controls testing, where applicable, and substantive procedures
- Empower our people to apply professional judgment and apply an appropriate level of skepticism in evaluating management's significant assumptions based on a thorough understanding of your business strategies, operations, structure, risks, internal control environment, and accounting policies, paired with an awareness of related industry and economic events

- Leverage our global investments in technology to deliver the level of effort needed to address the related risk through the scalability and flexibility of our audit tools and ease of access to comprehensive accounting and financial disclosure literature
- Build our knowledge of the University and improve our risk identification and tailored procedures through delivery of additional permissible services and use the knowledge of your business we have gained through the audit to provide business process and industry insights

Year-round involvement— Our audit approach reflects our commitment to providing timely service. This approach includes:

- The consistent availability of partners, specialists, and staff
- Meetings with executive management, including the internal auditors
- Analysis and auditing of large or complex transactions

Use of specialists— The Deloitte Audit is distinguished by the use of a broad range of industry and functional specialists who are integral to the audit team and carry a deeper understanding of specific topics. These specialists augment the core audit team in understanding business processes and related risks and help the audit team in applying an appropriate level of professional skepticism to challenge significant management assumptions.

Specialized skills may be needed to assist in audit procedures in the following areas:

- Assessing the design and operating effectiveness of information technology and security controls
- Auditing income taxes exemption
- Auditing estimates that involve actuarial techniques
- Auditing fair value of alternative investments.

For the University's audit, we have identified specialists in control assurance and information technology auditing, income taxes, actuarial valuation, and alternative investments. These specialists have been actively involved in the planning and risk assessment process and are available to the core audit team and the University's management year-round to discuss ongoing risk assessment, accounting and financial reporting issues, industry developments, and other matters of interest. These specialists will regularly update management on technical accounting, industry, and other matters that affect the University to minimize surprises and provide timely information to improve your understanding and ability to respond when new standards are issued or accounting developments occur.

Partner-led audit planning and execution— The Deloitte culture is noted for its emphasis on the role of our partners in the execution of our services. Experience tells us that an audit plan developed at the direction of engagement leaders yields an audit that has clarity of purpose and is tailored to the University's business. Ms. Vosen will guide the planning and execution of the audit, using her understanding of your organization, your industry, your risks, and the professional literature to drive quality throughout the process.

The Deloitte Audit difference

- A better audit planning process that features increased partner and manager involvement in risk assessment and the pinpointed identification of the underlying risk of material misstatement for significant account balances and disclosures
- Improved design of control and substantive tests provides:
 - Tailored procedures for the University
 - Direct linkage between identified risks of material misstatement, controls that respond to the risks, and substantive testing
 - Focus on risks of material misstatement and the elimination of testing that offers little additional audit assurance.
- Development of a sampling methodology that is risk-based and easy to implement, which enables us to perform appropriate audit procedures.
- Increased on-the-job training to enhance our professionals' understanding of the objectives of specific audit tests and their ability to make well-reasoned professional judgments.

Ms. Vosen will guide the engagement team in identifying risks of material misstatement by considering what could go wrong in significant account balances and disclosures. She will be involved in the detailed audit execution, including assessing which procedures are most responsive to the identified risks, the level of testing required, and the timing of the testing. She will continuously challenge the procedures performed to deliver an effective audit.

When issues are identified and warrant discussion with the Audit Committee and management, Ms. Vosen will provide prompt communication of significant developments and findings.

Our coordination plan features:

- Onsite supervision of fieldwork by our partners and managers
- Regular weekly status meetings with the Controller's group conducted by Ms. Vosen and engagement team members throughout fiscal 2014 audit timeframe
- Regular meetings with key members of management other than Finance and Internal Audit in areas important to the audit to help build upon our understanding of your business

A key to maintaining our responsiveness are the regular meetings we conduct with key members of management and the Internal Audit function. These meetings provide opportunities for candid discussion of important matters.

Ms. Vosen and our team will keep you informed of progress, provide findings and feedback in a timely manner, and offer insights on your processes and business for you to consider. When questions arise about accounting positions or procedures, Ms. Vosen will be proactive and candid in discussing these concerns with you. It is our professional responsibility to challenge significant assumptions and positions, and we are committed to fulfilling it. We will consult with the Audit Committee and management openly and candidly.

Initial planning process

We plan our audit to parallel the financial reporting and organizational structure of the University based on our understanding of your business. Our planning emphasizes the continuous identification of organization, control, and financial risks. Our audit approach is tailored to focus on those risks and is flexible enough to allow adjustment as risks are identified or eliminated.

The audit plan allows constructive, timely feedback to management regarding matters warranting attention, including significant deficiencies or material weaknesses.

In developing the audit plan, we plan tests to obtain evidence regarding the design and operating effectiveness of relevant controls, as applicable, and we plan substantive auditing procedures to test for risks of material misstatement related to significant account balances and disclosures. Our procedures focus our attention on risk areas. When necessary, we will devote special attention to areas of interest identified by the Audit Committee or management.

Develop audit plan

A laser focus on your most significant risks

Our approach pinpoints what could go wrong to cause a material misstatement for significant account balances and disclosures. Applying this lens to the University’s audit, we will spend time on the areas that matter most. We will develop our audit plan for the University at the financial-statement level and craft an audit plan that targets the risks of material misstatement in each area.

Customized procedures

We customize the nature, timing, and extent of the control and substantive procedures we perform by matching the level of risk identified for each material account or disclosure to the relevant assertions. The decisions in these areas are matters of professional judgment. In this regard, Deloitte’s depth of resources, understanding of professional standards, and risk-based audit approach come together in an audit that is specifically tailored for the University.

The following represents our preliminary detailed risk assessment and our responses to these risks. As we perform our audit procedures, we will update our risk assessment and inform the Audit Committee and management of any significant changes to this assessment.

Areas of audit focus

Based on our knowledge of the University and its industry, we have identified the following areas where we intend to focus significant time.

Audit focus areas	Description	Planned audit response
Cash and cash equivalents	<ul style="list-style-type: none"> Fair value of investments, particularly those that are not readily marketable 	<ul style="list-style-type: none"> Evaluate management’s methodology and process for valuing investments
Investments	<ul style="list-style-type: none"> Illiquidity in cash accounts, specifically money market accounts 	<ul style="list-style-type: none"> Review support for valuation of investments, including money market funds, for potential impairment Confirm all investment balances, including more detailed confirmations, on a sample of alternative investments Obtain the most recent audited consolidated financial statements for a sample of alternative investments for which a readily determinable market value is not available Perform additional analysis as appropriate to support the valuation and existence assertion relative to alternative investments Perform analytical procedures to test fair value measurements, recorded appreciation/depreciation, and investment returns both for the audited period and for the most recent audited consolidated financial statements to the reporting date

Benefits of pinpointing risk

Professional standards and our policies require an audit response for each material account and relevant assertion. Performing our risk identification at this level helps us pinpoint risk and develop a well-tailored, integrated response for both significant and normal risk areas.

Our service

- Helps us identify opportunities for the University’s management to consider in refining its assessment of risks and related controls
- Provides insight on industry matters, business issues, and risks that may affect the University

Quality

- Focuses our specialists by identifying and addressing areas of significant risk
- Facilitates the identification of more effective audit methods

Efficiency

- Creates a targeted response for significant risk areas and normal risk areas, aligning audit effort with the risk.

Audit focus areas	Description	Planned audit response
Long-term debt	<ul style="list-style-type: none"> • Default by counterparties on SWAP agreements • Existence of debt covenant violations 	<ul style="list-style-type: none"> • Obtain an understanding of all SWAP agreements • Review management's analysis and conclusion on accounting for SWAP agreements • Assess the financial condition of the SWAP counterparties • Confirm long-term debt • Assess compliance with debt covenants
Student, tuition and fees — net Federal grants and contracts Auxiliary enterprises — net	<ul style="list-style-type: none"> • Risk of overstatement of student tuition and fees, and other revenues (through premature revenue recognition or recording fictitious revenues) • Risk of understatement of student tuition and fees or other revenues (due to improperly shifting revenues to later periods) 	<ul style="list-style-type: none"> • Review student tuition and fees and other revenue recognition accounting policies and procedures through walk-throughs of revenue cycles during internal control testing • Audit student tuition and fees and other revenues recorded through substantive analytical reviews and/or dual purpose detail testing in conjunction with federal grant compliance work • Reconciliation between federal grant and contracts revenue and our audit of the schedule of federal expenditures
Management override of controls	<ul style="list-style-type: none"> • Inherent significant risk under professional standards 	<ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements • Obtain an understanding of the business rationale of significant transactions we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment • Test areas of critical management judgment and estimates • Hold discussions regarding the risk of fraud and management override with members of management and the Audit Committee
Federal grant compliance	<ul style="list-style-type: none"> • Non-compliance with grant provisions or eligibility for participation in Federal programs • Lack of effective internal controls over compliance to identify instances of non-compliance in a timely manner 	<ul style="list-style-type: none"> • Identify major programs to be tested • Identify compliance provisions applicable to major federal programs • Assess status of Federal oversight, including audit performed by Federal grantor agencies or inspector generals as well as other regulatory agencies (e.g. State Auditors) • Identify internal controls over compliance • Perform detail testing of compliance and internal control over compliance pursuant to the sampling guidance defined by the Federal government inspectors general.
Information management and communication	<ul style="list-style-type: none"> • Accuracy of all information generated or stored in the University's financial information systems 	<ul style="list-style-type: none"> • Perform internal control testing around the University's ability to accumulate accurate and reliable information for various departments throughout the University

Fraud-related procedures

There is continued emphasis on the auditor's responsibility to detect material misstatements resulting from fraud. Our audit procedures related to fraud include evaluating the design, implementation, and operating effectiveness of management's process for identifying and responding to the risk of material misstatement resulting from fraud and the programs and controls that management has established to mitigate that risk. In addition, we perform the following audit procedures to address fraud risks:

- Identify unusual trends in account balances and ratios
- Perform tests of journal entries exhibiting possible characteristics of management override of controls, identified using electronic data interrogation techniques

- Consider the potential for bias in judgments and estimates, including performing retrospective analysis
- Evaluate the business rationale for significant unusual transactions
- Engage in periodic fraud discussions with certain members of senior management and others, including the Audit Committee
- Evaluate identified audit adjustments (recorded and passed) for potential fraud
- Consider the impact of the results on financial statements.

Communication with the Audit Committee and management

We believe in timely communication that is candid and open at all times. We also believe in fostering constructive dialogue between the Audit Committee and us about significant audit and financial statement matters. We will coordinate with management to establish clear communication protocols and audit timelines, and we will meet regularly to provide our independent perspective on key issues. By coordinating with management, we can communicate all relevant matters promptly and focus meetings with the Audit Committee on issues of importance to the University, its financial reporting process, and our audit services. This should assist the Audit Committee in fulfilling its oversight responsibilities regarding the financial reporting process and will benefit us in performing an effective audit.

Execute the audit plan

Execution of the audit plan includes evaluating the design and testing the operating effectiveness of certain controls and performing substantive audit procedures.

Testing controls and evaluating deficiencies

An integral part of our audit approach is the consideration of the control environment, which encompasses both manual and automated controls. Our consideration of controls is based predominantly on an analysis of the key business cycles that constitute management's financial accounting and reporting process.

We consider the University's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we will not express an opinion on the effectiveness of the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in ICFR that might be significant deficiencies or material weaknesses.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detail tests of transactions and balances; these procedures are designed to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. We apply a professional level of skepticism to the evidential matter provided by management to support their assertions in the consolidated financial statements. To obtain this assurance, we accumulate known and likely misstatements that were identified while performing substantive auditing procedures and consider such misstatements in relation to the consolidated financial statements as a whole. Misstatements that are identified above a certain threshold will be reported to the Audit Committee and management.

Evaluate financial statement presentation and disclosures

Among the final steps of our audit is the overall evaluation and assessment of the consolidated financial statements' presentation and the related disclosures. Our overall review and evaluation consists of analytical procedures and consideration as to whether the consolidated financial statements are consistent with our knowledge of the University's business, our understanding of individual balances and relationships, and the evidence accumulated throughout our audit. In addition, we review the appropriateness and adequacy of the required disclosures.

Perform subsequent-events review and obtain management representations

Our subsequent-events review will cover the period from June 30, 2014, through the date of our reports on the consolidated financial statements, which we expect to be issued in October 2014. This review is performed to identify any significant matters that would require adjustment of year-end amounts or disclosure in the consolidated financial statements.

The consolidated financial statements are the responsibility of management. We obtain written acknowledgment from management of its responsibility for the preparation of the consolidated financial statements. We ask management to affirm its belief that the effects of any unrecorded audit adjustments are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. In addition, we request that management confirm certain specific representations that comprise or supplement our audit support in significant areas or with respect to matters for which there may be limited audit evidence available (e.g., a matter affected by management intent and judgment). The final, signed management representation letter will be provided to the Audit Committee prior to the issuance of our report.

Continuous communication and coordination

In the course of the audit, issues will be reported to Ms. Vosen for discussion with the University's management.

Our coordination plan features:

- Regular status meetings conducted by Ms. Vosen throughout the 2014 audit
- Meetings with your professionals in areas other than finance to continue to build our understanding of your organization and further develop our audit procedures.

Our team will coordinate with your financial personnel to make effective use of their time, keep you informed of progress, and provide findings and feedback in a timely manner. We also will provide any insights related to improvements in internal controls and operational efficiencies for management to consider. As your auditor, we will challenge significant financial assumptions, and when questions arise about accounting positions or procedures, Ms. Vosen will be proactive and candid in discussing these concerns with you. That is our responsibility, and we are committed to fulfilling it.

Timely consultation on technical matters

We understand that the technical interpretation of accounting matters is frequently necessary and that these questions can range from mundane to difficult. We will discuss the issues with you to evaluate your positions in real time, rather than waiting until the end of the reporting period to judge them.

Ms. Vosen is responsible for the resolution of all technical matters. Because issue resolution is an art, not a science, deciding which issues require additional consultation is a key part of Ms. Vosen's role. When a complex technical matter arises, Ms. Vosen will immediately engage management to

understand their views and engage their team as needed, keeping management informed until the matter is resolved. The Audit Committee and management will have full access to those involved in the resolution process and are welcome to participate in related discussions. We recognize that management owns the consolidated financial statements and we are auditing them. Ms. Vosen and other team members will seek to clearly understand management's perspective on the facts and judgments underlying each issue with an open and professionally skeptical mind.

Every step of the way, we will help you understand how we are making decisions, provide you with direct access to our specialists, and talk through issues with you. Although the final decision on all matters rests with Ms. Vosen, she will have timely access to Deloitte & Touche's most knowledgeable specialists on those occasions when she believes she would benefit from the experience of others.

We have assigned a senior technical director Deborah Metalsky, your engagement quality control review director, to our team to assist in evaluating issues of importance to the University. In addition to her engagement review responsibilities, Ms. Metalsky is Ms. Vosen's primary consultation resource.

Using technology to increase effectiveness and consistency

To promote audit effectiveness and consistent service, Deloitte uses a uniform audit approach with common documentation standards and enabling software in the audit of the consolidated financial statements. These tools help us increase audit effectiveness, collaborate with University personnel more effectively, and execute our audit in a high-quality, reliable, consistent manner. Deloitte invests heavily in technology development and enhancement to meet the changing needs of our engagement teams. We are committed to being the leader in global audit technology.

Consistency

To facilitate seamless coordination, communication, and knowledge sharing across our work teams, we will customize a secure Deloitte OnLine website for the University. This is a collaborative area where we can communicate our scoping, collect and summarize audit information, and share information with the University's personnel and our team members.

Consideration of the University's use of information technology

The University's use of information technology to serve customers, maintain compliance with regulatory requirements, and support day-to-day operations is pervasive. General information technology controls continue to be a major element in the control environment of the University, and our information technology specialists will be involved to assess the general information technology and automated controls. In addition, these specialists will continue to meet with management to understand planned changes in the IT environment and assess and test changes as they occur, as deemed appropriate.

Conclude and report

The results of the audit procedures performed throughout 2014 will be analyzed and conclusions drawn based on applicable standards. Before rendering our reports, we will conclude whether (1) the scope of the audit was sufficient to support our opinions, (2) the misstatements identified, if any, have caused the consolidated financial statements to be materially misstated, and (3) the control deficiencies identified, if any, represent material weaknesses.

To obtain this assurance, we accumulate known and likely misstatements, if any, that were identified while performing our procedures and consider such misstatements in relation to the consolidated financial statements as a whole. Material misstatements that are identified by us and uncorrected

misstatements identified by us or the University will be reported to the Audit Committee and management.

Fostering year-round audit quality

The Deloitte Audit is an iterative process that responds to changes in the University's business and other developments that have an impact on the scope of our audit. Serving you with distinction means understanding and evaluating the financial reporting implications in events as they happen, identifying emerging risks or trends promptly, pinpointing issues before they become problems, and communicating regularly with the Audit Committee and management.

Soon after completing the year-end audit, Ms. Vosen will lead a planning meeting using knowledge gained during the audit of the University's business, plans, risks, governance, management, internal controls, and performance. We will use this information to tailor our audit plan for the following year to respond to your changing circumstances. We will do the same at each milestone during the year, such as following each interim review. By evaluating any significant unusual transactions as they are being contemplated and performing audit procedures when they occur, we can better identify and resolve issues well in advance.

Center for Corporate Governance

The Audit Committee oversees the financial reporting process of the University, evaluating whether there is an effective process for identifying significant risks and managing them appropriately. An important part of that oversight role is working with the independent auditor. Our commitment to an independent professional relationship with the Audit Committee focuses on the following:

- More dialogue and less presentation
- Concise, clear, tailored written communications
- Supporting the Audit Committee in fulfilling its responsibilities
- Exposure to specialists, as requested.

Our audit methodology features a high degree of formal and informal communication.

Deloitte's principles for communicating with the University's Audit Committee

- Communicate difficult matters in an open, transparent manner
- Advise the Audit Committee on key audit matters to aid in fulfilling its responsibilities
- Provide advance materials with sufficient time to allow the Audit Committee to prepare for meetings effectively
- Share our intellectual capital, highlighting and tailoring information that is relevant to the University
- Address likely questions proactively
- Provide candid, insightful feedback regarding the Audit Committee's and management's activities
- Seek the Audit Committee's assessment of our performance
- Avoid surprises
- Answer your questions.

We will demonstrate commitment to communicating with the Audit Committee in the following ways:

- Industry insights on compliance organizations, risk management initiatives, and the finance function
- Personalized communication that focuses attention on relevant matters

The willingness of the members of the Audit Committee and management to engage in an open dialogue regarding issues is instrumental in our ability to deliver high-quality service to the University.



Deloitte's Center for Corporate Governance offers a number of resources for executives, directors, and others who are active in governance. In addition to its website, the center's activities and programs include:

- Research and thought leadership
- Monthly governance webcasts
- The Directors' Series program and other sponsored events
- Governance services.

Register for the Center for Corporate Governance website at www.corpgov.deloitte.com.

- Updates on industry and market trends, as well as matters related to governance requirements and leading practices
- Access to the range of knowledge and experience used in the audit process and the opportunity to talk to subject-matter specialists about significant issues affecting the University.

In today's rapidly changing environment, our **Center for Corporate Governance** is a resource for you as you fulfill your fiduciary responsibilities. The center manages a number of offerings, including the following that provide Audit Committee members with our insight on matters of importance in corporate governance:

- **The Center for Corporate Governance** website includes the latest corporate governance thought leadership by both Deloitte professionals and leading third-party governance experts and organizations. Many of our complimentary subscription publications are housed on the website, including:
 - *Audit Committee Brief*— This monthly publication addresses key topics affecting audit committees.
 - *Audit Committee Resource Guide*— This overview of audit committee regulatory requirements discusses common practices and specific steps for audit committees to consider. It also provides references to relevant tools and resources.
 - *Hot Topic*— This monthly article discusses relevant governance topics.
 - *Corporate Governance Monthly*— A monthly newsletter that captures the most timely and relevant governance publications housed on the website.
- **Governance research and events.** The Center for Corporate Governance generates research on boardroom issues, conducts roundtables bringing together governance specialists to address board-related challenges, hosts monthly webcasts on governance topics, and provides governance-related services for audit committees.
 - **Board education programs.** Informed decision making is a cornerstone of an effective board. Our permissible board development education programs include topics such as executive development and succession planning; doing business in emerging markets; the board's role in a crisis; assessing and strengthening corporate culture; improving the board's business insight; the risk-intelligent board; the marketplace view of corporate governance; the board's role in strategic planning; assessing earnings quality; trends in executive compensation; other regulatory developments; antifraud program oversight; and conducting investigations.
 - In addition to education, Deloitte & Touche provides a variety of governance services that are supported by the Center for Corporate Governance. These services may include benchmarking of board practices, executive management and director interviews and surveys, and peer and self-evaluations.
- **Quality service assessment for audit committees.** At least annually, your Deloitte & Touche professionals, led by Mr. Jeff Cotton, your advisory partner, will meet with members of the Audit Committee to assess how Deloitte & Touche is serving the University. This will allow the Audit Committee to provide feedback and ask questions. Deloitte & Touche will use this feedback to enhance the service provided to the University.

Independence communications

Independence encompasses integrity, professional skepticism, intellectual honesty, and objectivity—freedom from conflicts of interest. No entity or circumstance is compelling enough for us to compromise our ability to serve the public interest or our reputation.

We employ a comprehensive, multifaceted approach to maintaining independence. Key components include:

- Commitment of our leaders and a culture that stresses the importance of independence
- Consultation and monitoring processes
- Clearly communicated, comprehensive independence policies on areas including, but not limited to, personal financial interests, scope of services, business relationships, employment relationships, and partner rotation
- A chief ethics and compliance officer who makes presentations regarding personal financial holdings compliance to the chief executive officer and the board of directors
- Mandatory training for all partners, principals, and professionals
- A searchable global database of restricted entities
- Electronic tracking of personal financial holdings
- At least annual representations from partners, principals, and employees
- An internal inspection and audit process for compliance with personal financial holding policies
- An internal inspection process for compliance with preapproval and scope-of-services policies
- A disciplinary process for noncompliance
- Policies to document preapproval of any permissible services by the Audit Committee.

Independence representation

The engagement team and Deloitte & Touche have complied with all independence requirements as described under Section 3 of the generally accepted government auditing standards, as provided in *Government Auditing Standards*, 2011 Revision, issued by the U.S. Government Accountability Office — more commonly referred to as the Yellow Book and as provided by applicable American Institute for Certified Public Accountants standards.

Our client service team

Consolidated financial statement audit

Kirsten Vosen — Lead client service partner

Jeff Cotton — Advisory partner

Deborah Metalsky — Quality review director

Amy Kroll — Enterprise Risk Services principal

Judi Dockendorf — Audit senior manager

Sushmita Koyanagi — Audit manager (Investments)

Terry Delahunt — Enterprise Risk Services manager

Compliance audits (A-133 single audit and OHE examination)

Katie Knudtson — Audit partner

Judi Dockendorf — Audit senior manager

Agreed-upon procedures

Katie Knudtson — Audit partner

Judi Dockendorf — Audit senior manager

RUMINCO Ltd

Muhammad Khan — Audit partner

TBD — Audit manager

Financial statement audits (Weisman and Northrop)

Katie Knudtson — Audit partner

Judi Dockendorf — Audit senior manager

Audit timeline

	Monthly activity											
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
University consolidated audit												
Audit planning and risk assessment	■	■		■								
Interim audit work	■	■										
Final audit work				■	■	■						
Conclude and report						■						
Compliance audits												
Planning and risk assessment	■	■		■								
Compliance requirements testing		■		■	■							
Conclude and report						■	■					
NCAA agreed-upon procedures				■		■						
Student Fees agreed-upon procedures							■	■				
Weisman and Northrop audits								■				
Communication and coordination	■	■	■	■	■	■	■	■	■	■	■	■

Recent accounting and industry matters

Recent GASB project updates¹

Postemployment benefit accounting and financial reporting

The Board will consider the possibility of improvements to the existing standards of accounting and financial reporting for other postemployment benefits (OPEB)—by state and local governmental employers and by the trustees, administrators, or sponsors of OPEB plans. One objective of this project is to improve accountability and the transparency of financial reporting in regard to the financial effects of employers' commitments and actions related to OPEB. Another objective of this project is to improve the usefulness of information for decisions or judgments of the various users of the general-purpose external financial reports of governmental employers and OPEB plans. This project also will address accounting and financial reporting for postemployment benefits that are not provided through a qualified trust (as defined in paragraph 4 of GASB Statement No. 68, Accounting and Financial Reporting for Pensions). This project is currently being deliberated.

Conceptual framework — recognition and measurement attributes

This project has two primary objectives. The objectives will be addressed in two subprojects. One objective is to develop recognition criteria for whether information should be reported in state and local governmental financial statements and when that information should be reported. Another objective is to consider the measurement approach or measurement approaches (for example, initial amounts or remeasured amounts) that conceptually should be used in governmental financial statements. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements and a Concepts Statement on measurement approaches. This project is currently being deliberated.

Fair value measurement and application

The objective of this project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value, the applicability of fair value guidance to investments and other items currently reported at fair value, and potential disclosures about fair value measurements. This project is currently being deliberated.

¹Information obtained from the Governmental Accounting Standards Board's website at GASB.org.



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

May 8, 2014

Agenda Item: External Auditor Review and Summary of Other External Auditor Relationships & Services Provided

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

Presenters: Associate Vice President Michael Volna

Purpose & Key Points

To review audit and non-audit services provided to the University of Minnesota by external audit firms and related fees paid during FY2013 (through March, 2014).

External Auditor Review (Sections I & II, & Schedule A)

Total Deloitte contracted audit and non-audit fees were \$2,912,119 for FY2013 engagements, with actual fees paid of \$2,513,947. All FY2013 engagements have been completed and final billed. A summary of management's evaluation of Deloitte's performance for FY2013 is also included. Finally, information is provided regarding the University's option to extend Deloitte's contract for audit services.

Summary of Audit and Non-Audit Services and Fees (Section III & Schedule B)

Total fees of \$3,388,347 have been paid through March 2014 to five 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 assists the Audit Committee with its audit oversight responsibilities, and it is presented annually in conformity with Board of Regents Policy: *Audit Committee Charter* and Board of Regents Policy: *Board Operations and Agenda Guidelines*.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 8, 2014**

EXTERNAL AUDITOR REVIEW

Background

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. Effective governance practice recommends that the Audit Committee of the Board should conduct such a review at least annually. The Audit Committee conducted its last review of audit services and fees in May 2013.

The Controller's Office presents the information below and on the accompanying schedules for the Audit Committee's 2014 review of audit, audit related, and non-audit services fees paid to external audit firms. Section I and Schedule A report on fees and services related to Deloitte & Touche, LLP (Deloitte), the University's independent external auditor. Section II is management's assessment of Deloitte's performance for the FY 2013 engagements, including management's plan to extend Deloitte's contract for 3 additional years (as provided in the original RFP and contract). Section III and Schedule B provide information on fees paid to all other audit firms for FY

Section I - Review of Fees Paid to Deloitte & Touche, LLP

Schedule A presents a summary of fees paid to Deloitte for the various FY 2013 audits and other services (through March, 2014). The top portion of the schedule represents fees paid for the University's annual institutional audit engagements. The contract amounts reported on the schedule are consistent with the amounts agreed to in the fiscal 2013 engagement letters and the firm's fixed price contract for FY 2013. The total audit fees paid to Deloitte for FY 2013 were \$15,875 less than the contract amounts in total.

The lower portion of Schedule A provides a breakdown of fees paid to Deloitte for other services. During the year, Deloitte performed eight other engagements for specific units of the University. 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 Deloitte and University departments to use Deloitte whenever possible for additional external audit or attest services.

Services performed by Deloitte during the current fiscal year that were not part of the annual audits and NCAA agreed-upon-procedures of the University included:

- Deloitte was engaged to audit the statement of activities for the Department of Concerts and Lectures. This engagement was the result of an external funder's 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 Deloitte.
- Deloitte was engaged to perform an audit of the Weisman Art Museum. This engagement was the result of an external funder's stipulations that require the Weisman Art Museum 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 Deloitte.
- Deloitte was engaged to perform agreed-upon procedures to assist the University's Student Fees Committee and the Office of Student Affairs in determining the proper record keeping and use of the University fees that are allocated to student organizations. Deloitte reviewed twenty-three organizations that received University fees and performed the agreed-upon procedures as outlined by the University Fees Committee and Office of Student Affairs. The related engagement letter was reviewed by the Controller's Office and signed by the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.
- Deloitte was engaged to perform procedures in connection with the University's Bond Offering documents. 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 perform attest procedures in connection with the bond offering, it did not present an independence issue with regard to Deloitte.
- Deloitte was engaged to perform agreed-upon procedures for the University's Schulze Diabetes Center in connection with the University's compliance with the Food and Drug Administration's Code of Federal Regulations for cost recovery of direct and certain indirect costs of manufacturing an investigational product. The related engagement letter was reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. This engagement did not present an independence issue with regard to Deloitte.
- Deloitte was engaged to perform analysis, advice and recommendations related to the University's Enterprise Asset Management system replacement program. The related engagement letter was reviewed by the Controller's Office prior to its finalization and was approved (after the fact) by the Audit Committee, consistent with Board Policy. This engagement did not present an independence issue with regard to Deloitte.

- Deloitte was engaged by the University to upgrade the University's Profiles from Beta Profiles to Profiles Version 1.0.3 and provide professional support. The engagement letter was reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. This engagement did not present an independence issue with regard to Deloitte.
- Recombinant Data Corporation was engaged by the University to provide a long-range plan and establish an initial governance structure for the Biomedical Health Informatics initiative. Recombinant was acquired by Deloitte LLP. The University added an addendum on November 16, 2012 to change the vendor from Recombinant Data Corporation to Recombinant by Deloitte. The engagement letter was reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. This engagement did not present an independence issue with regard to Deloitte.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 8, 2014
Schedule A - Fees Paid To Deloitte & Touche, LLP
FY 2013 Engagements**

<u>Annual Institutional Engagements for FY 2013</u>	<u>FY 2013 Engagements</u>			<u>Total FY 2012</u>
	<u>Contract Amount</u>	<u>Billed Amount</u>	<u>Over/(Under) Budget</u>	<u>(prior year)</u>
University Financial Statement Audit	\$ 374,000	\$ 359,832	\$ (14,168)	\$ 352,276
RUMINCO Financial Statement Audit	22,000	21,000	(1,000)	20,000
Compliance Audit (OMB A-133 and MOHE)	112,000	110,317	(1,683)	108,263
NCAA Agreed-Upon-Procedures	15,000	15,976	976	15,279
Total Fees for Institutional Engagements	<u>\$ 523,000</u>	<u>\$ 507,125</u>	<u>\$ (15,875)</u>	<u>\$ 495,818</u>
 <u>Other Audit, Audit Related and Non-audit Fees</u>				
Audit of Department of Concerts and Lectures	7,500 (1)	7,702	\$ 202	7,189
Audit of Weisman Art Museum	7,500 (1)	7,702	202	7,190
Student Organization Agreed-Upon Procedures	79,000 (1)	82,037	3,037	70,506
Consent procedures related to Series 2013 Bond Offering	16,800	16,800	0	0
Schulze Diabetes Center Agreed-Upon Procedures	5,000	5,000	0	0
Enterprise Asset Management - visioning phase	283,200	283,200	0	0
UMN Position Profile analysis	35,000	35,000	0	0
Biomedical Health Informatics Initiative	1,955,119 (2)	1,569,381	(385,738)	0
Total Other Audit, Audit Related, and Non-Audit Fees	<u>\$ 2,389,119</u>	<u>\$ 2,006,822</u>	<u>\$ (382,297)</u>	<u>\$ 84,885</u>
Total Fees	<u>\$ 2,912,119</u>	<u>\$ 2,513,947</u>	<u>\$ (398,172)</u>	<u>\$ 580,703</u>

(1) These engagement contract amounts do not include out-of-pocket expenses.

(2) This engagement was contracted with Recombinant Data Corporation January 21, 2011. Recombinant was acquired by Deloitte LLP. The University added an addendum on November 16, 2012 to change the vendor from Recombinant Data Corporation to Recombinant by Deloitte. The amounts above reflect the contract amounts for the project and contain contract amounts and billed amounts by both Recombinant Data Corporation and Recombinant by Deloitte.

Section II - Annual Review of External Auditor Relationship Performance

University management and the Deloitte engagement team leadership met on April 3, 2014 to review Deloitte's services and performance during the FY 2013 audit. The overall conclusion was that Deloitte did an excellent job during the FY 2013 audit.

The University and Deloitte had each prepared an assessment of the engagement, identifying both positives and opportunities for improvement and increased audit efficiencies. The teams met to compare notes and discuss the opportunities for improvement.

Relative to the strengths of Deloitte and the positive aspects of the audit:

- Management felt that the continuity of key Deloitte team members from the FY 2012 audit contributed to the efficiency of the audit;
- Deloitte's audit approach and audit team were consistent with the prior year;
- Many of the prior year's recommendations were incorporated into the audit processes, and as a result, efficiencies were seen by both Deloitte and the University staff
- Deloitte has done an excellent job of managing audit fees and costs. Annual audit fees have been within the contract and budget amounts.

Both the University team and the Deloitte team identified opportunities for improving next year's audit process. These included:

- Suggestions for improving data requests and submissions between the Office of Investment and Banking staff and Deloitte's field team;
- Continued focus on streamlining the process to improve the efficiency of the audit;
- Suggestions for identifying areas that can be tested earlier in the audit process;
- Continue to ensure communications between both teams and all audits are consistent and timely.

With respect to the annual A-133 compliance audit, the number of federal programs tested has increased each year, and the testing now exceeds the estimates used to develop the fees for the audit contract. Deloitte and the University have agreed to review the testing requirements and the A-133 fee schedule, prior to commencing the FY 2014 audit of federal programs, in an attempt to better match the fees with the testing work. A new fee arrangement (explained below) effective for FY 2014 provides for additional fees for each major program in excess of six that must be tested under A-133 audit requirements.

Audit Contract Extension - The original RFP and contract with Deloitte included an option to extend the contract for professional services for three years (FYs 2014, 2015, and 2016). Based on the review of services provided by Deloitte, the timeframe needed to conduct an RFP, and the possible disruption to important initiatives (primarily the Enterprise System Upgrade Program), the University has decided to exercise the option to extend the Deloitte audit contract for the three additional option years. Management has negotiated fee increases of 2.7% or less for each of the three years. A provision was included relative to the A-133 audit to pay Deloitte an additional \$3,000 for each additional major program required to be tested in excess of a baseline number of programs (six). Finally, a new arrangement has been agreed to for Deloitte to fulfill its

contractual commitment to the University's business and community economic development goals. All other terms and conditions in the original contract will carry forward unchanged.

Section III - Annual Review of All External Audit Fees and Services

In addition to the audits performed by Deloitte, other accounting and auditing firms performed a variety of audit and non-audit services at the University during FY 2013. The fees for these services are set forth on Schedule B, and were paid for work that included:

- Bradley P. Mickelson, CPA was engaged by the Tweed Museum of Art to perform a yearly report on the Tweed budgets for FY 2013, to be included 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 2013 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting. This contract was previously reported to the Audit Committee.
- McGladrey, LLP was engaged by the Office of Technology Commercialization to evaluate whether the sales subject to royalty and the royalties paid by Boehringer Ingelheim Vetmedica, Inc. were in accordance with license agreements. This contract was previously reported to the Audit Committee.
- PriceWaterhouseCoopers, LLP was engaged by the University to provide consulting services related to the implementation of the ESUP Oracle Identity Manager (OIM) solution. This contract was previously reported to the Audit Committee.

The Office of the Controller reviewed all of the contracts on Schedule B, consistent with Board policy. None of these engagements resulted in an impairment of independence, in fact or in appearance, for any of the firms.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 8, 2014**

**Schedule B - Fees Paid To Audit Firms for FY 2013
(through March, 2014)**

<u><i>Audit Firm</i></u>	<u><i>FY 2013 Engagements</i></u>			<u><i>FY 2012</i></u>
	<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>
Bradley P. Mickelson, CPA	\$ 1,915		\$ 1,915	\$ 0
Charles R. Ziegler Co., LTD				1,600
Deloitte & Touche, LLP	507,125	\$ 2,006,822	2,513,947	580,703
Larson Allen Weishair & Co., LLP		0	0	2,698
Licari Larsen & Co., LTD		5,200	5,200	4,900
McGladrey, LLP		104,891	104,891	0
PriceWaterhouseCoopers, LLP		762,394	762,394	0
Total Fees Paid	\$ 509,040	\$ 2,879,307	\$ 3,388,347	\$ 589,901



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit

May 8, 2014

Agenda Item: Academic Risk Profile

Review Review + Action Action Discussion

This is a report required by Board policy.

Presenter: Senior Vice President for Academic Affairs and Provost Karen Hanson

Purpose & Key Points

The Audit Committee work plan is structured around a series of discussions of risks associated with each of the major operational components of the University. These discussions provide the Audit Committee with the administration's views on the risks facing the University, and those risks deemed by the administration to be significant to the achievement of the University's strategic goals. This is the ninth discussion in the series.

This discussion will focus on the risks associated with the academic mission of the University of Minnesota across five broad areas:

- 1) Financial & operational health
- 2) Student, faculty, and staff well being
- 3) Academic program quality
- 4) Educational experience
- 5) Reputation and perception of value

Background Information

At its February 11, 2011 meeting, the Board expressed support for the Strategic Risk Management Work Group's operational strategy and risk principles, which provided a framework to guide the University community toward a more strategic risk management approach across all aspects of its operations.

Throughout FY2013 the Audit Committee has reviewed and discussed the risks associated with each of the major operational components of the University. Previous risk discussions by the committee include:

- Research (December 2012)
- Human Resources (February 2013)
- Information Technology (May 2013)

- University Operations (June 2013)
- Finance (September 2013)
- Intercollegiate Athletics (December 2013)
- Compliance (February 2014)
- Health Sciences (February 2014)

Academic Risk Profile

LIKELIHOOD

HIGH

MEDIUM

LOW

	<p>③ ⑤ Academic dishonesty of students</p> <p>① ⑤ Compliance with state and federal regulations (FRPA, HIPAA, AAALAC, Financial Aid)</p>	<p>① Erosion of federal and state support (financial aid, research funds, appropriations)</p> <p>① ③ ⑤ Erosion of public support for research mission</p>
<p>⑤ Personal misconduct of faculty, staff, or students</p> <p>① ③ ⑤ Course/program enrollment management failures</p>	<p>① ③ ⑤ Disruptive tech & education models (MOOCs, badges, competency-based degrees)</p> <p>① ② ③ ④ ⑤ Facility and environmental risks to people, academics, research (dorm fire, LRT, crime, (inadequate lab facilities, rare books storage)</p> <p>② ③ ⑤ Unsanctioned or uncoordinated international activity by faculty, staff, and students</p> <p>② ③ ④ ⑤ Harm to student or community participants in engagement activities</p> <p>② ③ ④ ⑤ Climate (sexual harassment, bullying, racial tensions)</p> <p>③ ⑤ Lack of robust career and job placement support, academic development opportunities</p>	<p>① ⑤ Rising student debt</p> <p>② ⑤ Behavioral issues of students (mental illness, alcohol abuse, post-game riots, hazing)</p> <p>② ⑤ Health and safety of students, faculty, and staff traveling/studying abroad</p> <p>③ ⑤ Inability to recruit & retain top faculty, staff, and students</p>
	<p>⑤ Unfavorable Specialized Accreditation Reviews</p>	<p>① ③ ⑤ Failure to successfully manage admissions</p> <p>③ ⑤ Erosion of quality of academic programs</p> <p>③ ⑤ Ineffective faculty performance</p> <p>③ ⑤ Academic and research misconduct of faculty & staff (plagiarism, falsifying data, conflicts of interest)</p> <p>⑤ Unfavorable institutional accreditation review</p> <p>① ④ ⑤ Technology Failures (course management, student records)</p>

LOW

MEDIUM

HIGH

IMPACT

Risks to:

- ① Financial & Operational Health
- ② Student, Faculty, Staff Well Being
- ③ Academic Program Quality
- ④ Educational Experience
- ⑤ Reputation, Perception of Value

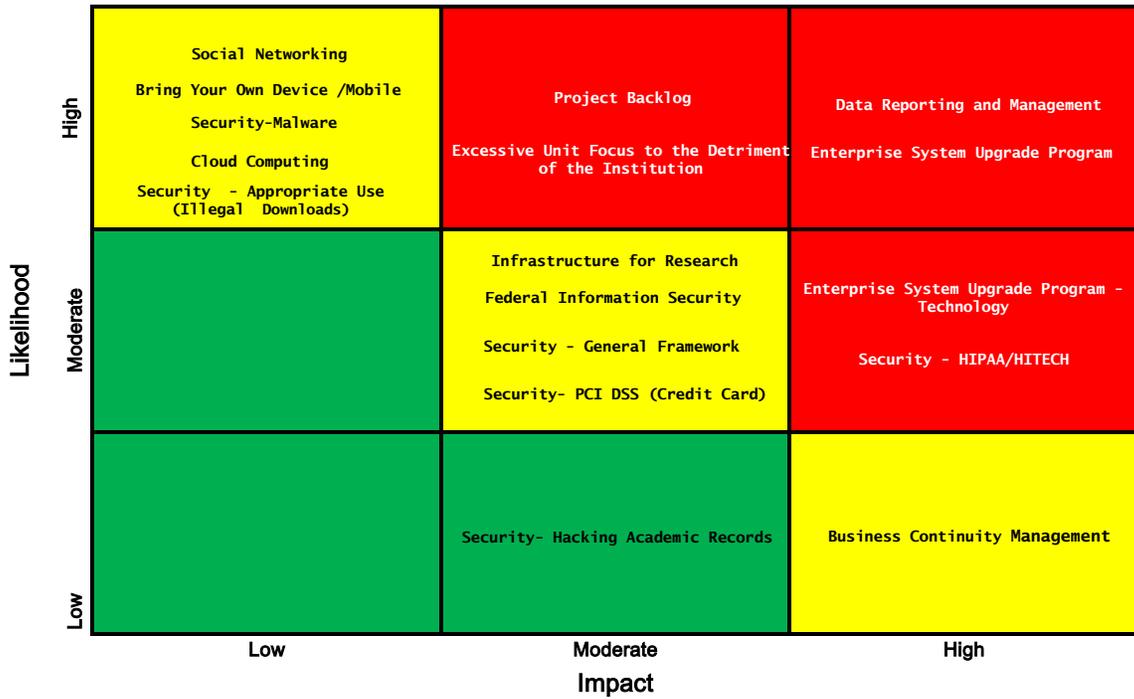
Research Enterprise Risk Profile

Likelihood	High	International Research Issues	Indirect Cost Recovery	Medical School Research Infrastructure Federal Funding Decline Regulatory Burden PI Administrative Burden Inadequate eRes Systems
	Moderate		Fed Agency Expectations VPR Transition Public/Private Research Issues Publicly-engaged Research	Risk Averse Culture Fiscal Cliff Cost of Research Accountability Efforts Star Metrics Research Facility Budgets
	Low			NIH Grant Policy Revisions Fiscal Cliff Impact of Light Rail
		Low	Moderate	High
		Impact		
		Managed Appropriately	Management Strategy In Process	Additional Management Recommended

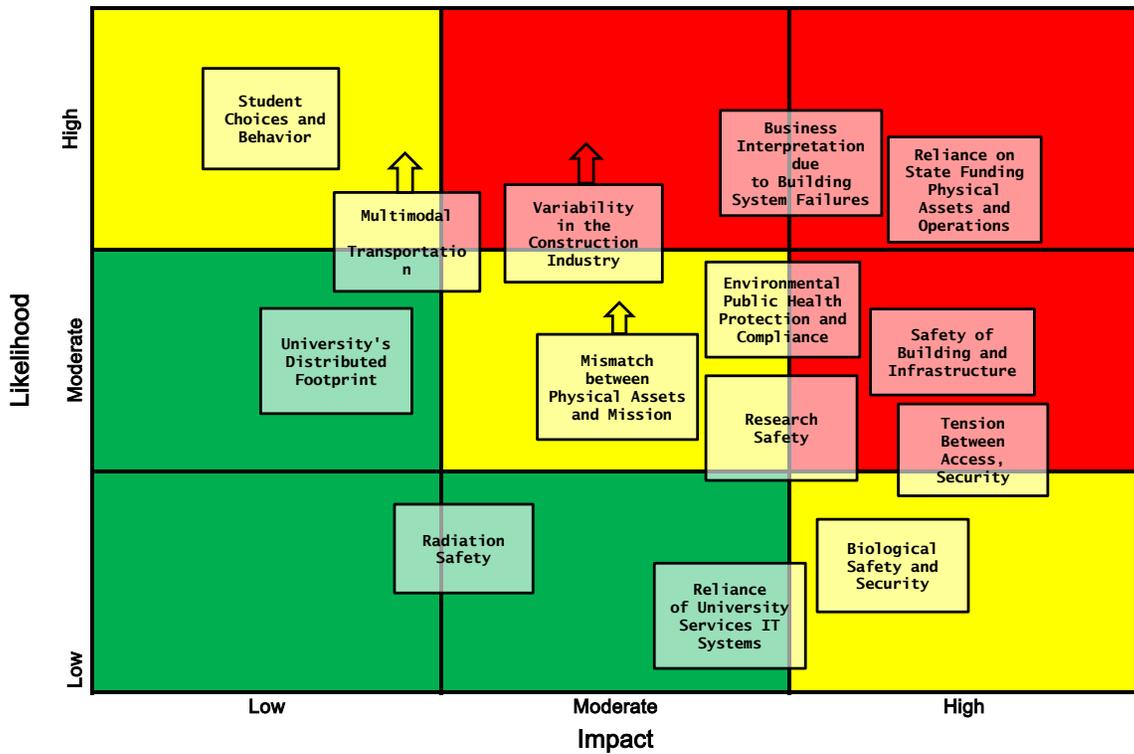
Human Resource Infrastructure Risk Profile

Need to Achieve	High		Policy and Business Process Review HRMS	Leadership Development Employee Engagement Change Management Job Class /Comp Family Work Benefits OHR Strategic Redesign
	Moderate		Labor Occupational Health & Safety Employment Law Compliance	Payroll Org.Design/Spans & Layers Hiring
	Low	Record Retention		OHR Consulting Teams Service Delivery
		Low	Moderate	High
		Impact		
		Managed Opportunity	Management Opportunity In Process	Additional Management Required

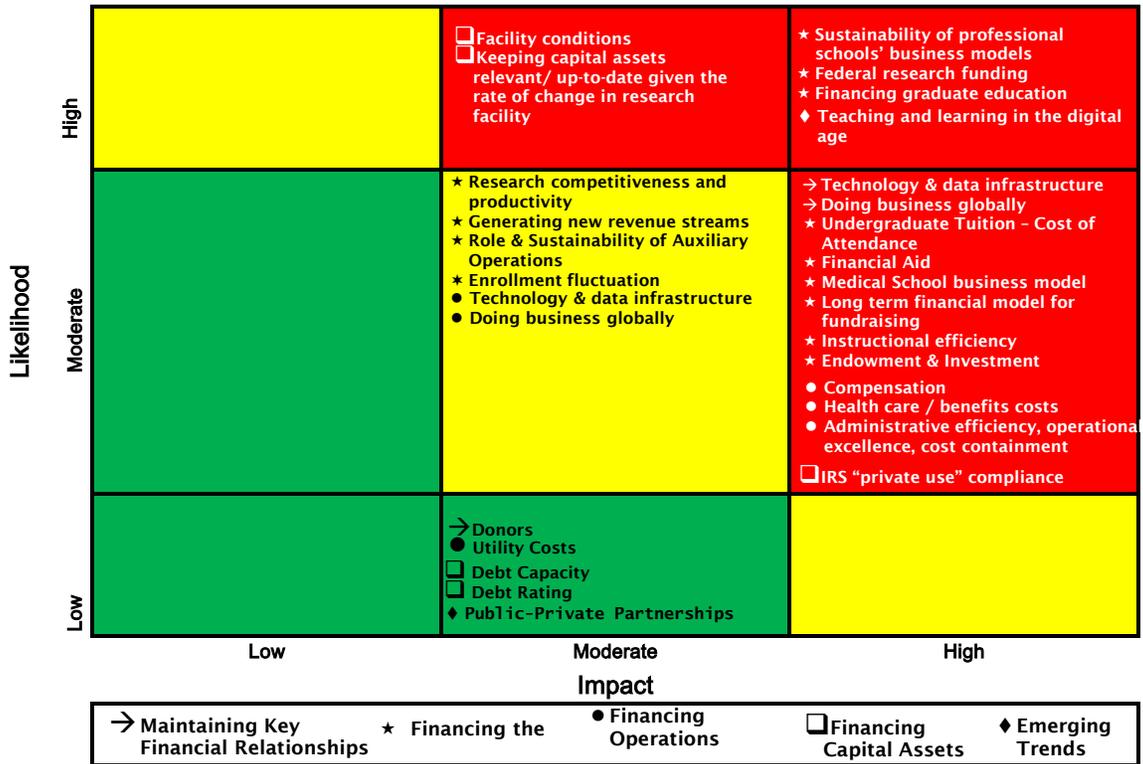
Information Technology Risk Profile



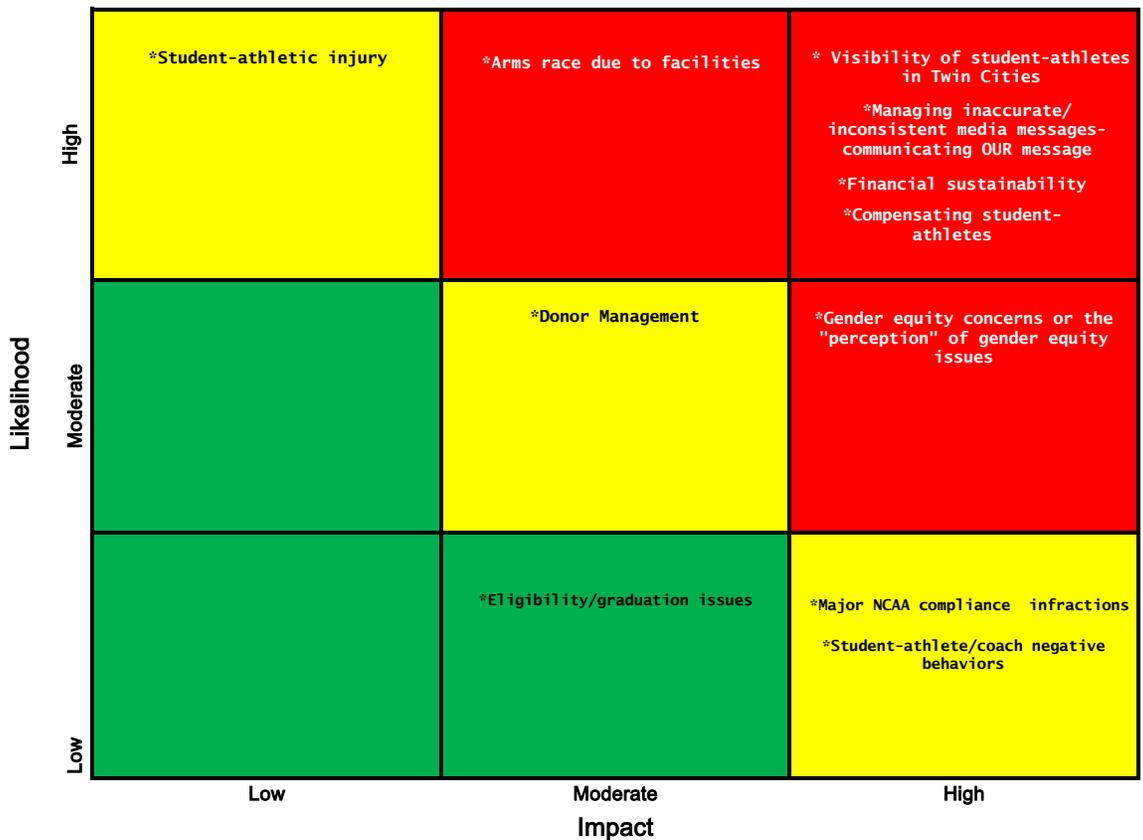
University Operations Risk Profile



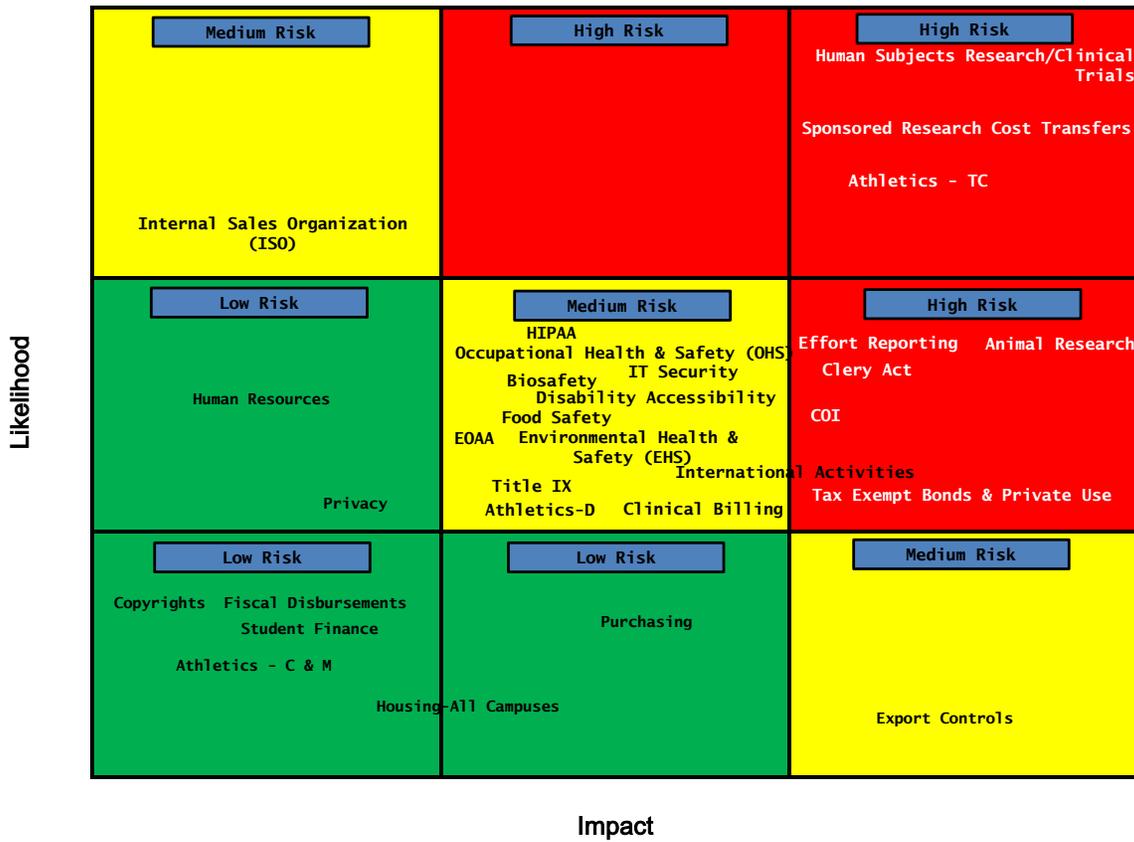
Strategic Financial Risk Profile



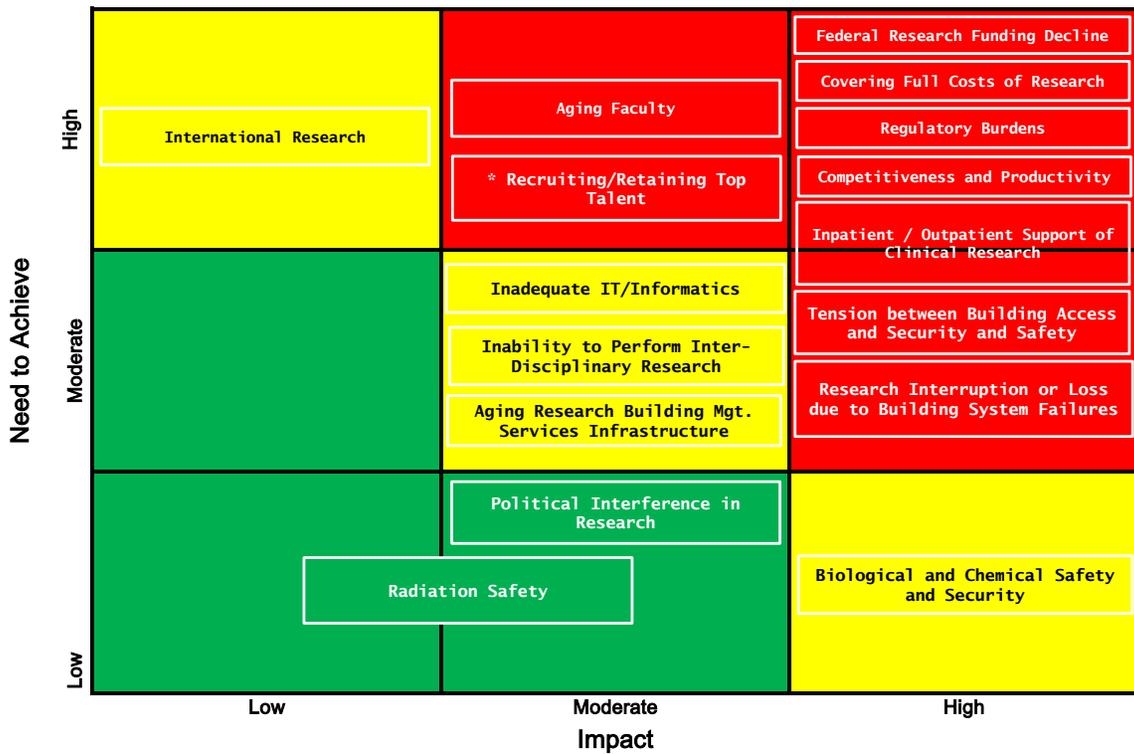
Intercollegiate Athletics Risk Profile



Institutional Compliance Risk Profile



Academic Health Center - Research Risk Profile



* Varies from school to school, by areas of need.

Academic Health Center - Education Risk Profile

Need to Achieve	High		Aging Faculty	Outdated Education Facilities Limited # of Available Training Sites Reduced MERC Funding for Training Sites Inadequate Academic Technology Investments and Infrastructure
	Moderate		New inter-professional education and training models High Tuition and Student Debt	Teaching and Learning in the Digital Age
	Low			Loss of Accreditation
		Low	Moderate	High
			Impact	

Academic Health Center - Clinical Risk Profile

Need to Achieve	High		Fairview Integrated Structure Construction / Funding of ACC * Reduced Payer Reimbursements for Some Providers	Responding to Health Care Reform and Environment; Agility to Respond to Market Maintaining Market Competitiveness Reduced Clinical Margins to Support Mission
	Moderate	Building Clinical Practices in AHC Schools Beyond Med	Maintaining/Improving Patient Aging Clinical Facilities (Dentistry and Vet Med) ** Recruiting / Retaining Top Clinical Talent	Regulatory Burden Privacy / HIPAA Violation
	Low	Faculty Practice Plans		Informed Consent Clinical Misconduct / Patient Safety
		Low	Moderate	High
			Impact	

* Payer reform could differentiate between primary & specialty.
 ** Loss of key clinical talent poses risk to research enterprise.

Academic Health Center - Cross Organizational Risk Profile

