

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

February 8, 2007

A meeting of the Audit Committee of the Board of Regents was held on Thursday, February 8, 2007 at 9:00 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: John Frobenius, presiding; Clyde Allen, Dallas Bohnsack, David Larson, Cynthia Leshner, and Patricia Simmons.

Staff present: Chancellor Jacqueline Johnson; Senior Vice President and Provost Thomas Sullivan; Vice Presidents Steve Cawley, Timothy Mulcahy, and Richard Pfitzenreuter; Executive Director Ann Cieslak; and Associate Vice Presidents Gail Klatt and Michael Volna.

Student Representatives present: Joshua Colburn and Will Kellogg.

EXTERNAL AUDITOR'S MANAGEMENT LETTER

Associate Vice President Klatt introduced Don Loberg, Partner, and Chad Lassen, Manager, LarsonAllen, to present the external auditor's management letter for the year ending June 30, 2006, as included in the docket and associated materials distributed at the meeting. The management letter presents LarsonAllen's observations and recommendations regarding the University's internal controls and other matters resulting from the FY2006 annual audit.

Loberg reported that the University had outstanding audit results and there were no audit findings. He reviewed the management letter, including some recommendations related to subcontractors, timeliness of filing reports, oversight of associated organizations, and alternative investment portfolios. None of these issues were deemed critical; rather, significant improvements were noted in a number of areas since last year.

Lawson discussed the results of the compliance and internal control over financial reporting, and the Federal Awards Compliance Audit (A-133), which measures the University's compliance with federal laws and regulations applicable to federal financial assistance received, noting that both received unqualified opinions.

Loberg reported that LarsonAllen has completed all nine engagements included in their contract and commended the management team who assisted their work.

**LONGITUDINAL ANALYSIS OF RESEARCH INFRASTRUCTURE
AUDIT RESULTS AND THEIR STRATEGIC IMPLICATIONS**

Associate Vice President Klatt introduced Vice President Mulcahy to discuss present and emerging compliance risks associated with the University's research agenda and plan to become a top three public research university.

Mulcahy presented a summary of the University's research expenditures from various sources. This summary led to the identification of areas where the institution might focus increased attention to improve performance in sponsored research, including securing external funding, raising additional internal resources, increasing corporate partnerships, and boosting grant applications to close the gap between this institution and the current top research institutions.

Mulcahy used a "heat map" to illustrate risks associated with grant administration, clinical research, conflict of interest, and technology transfer and noted that all risks will increase as the University pursues increased research funding. He added that increased research funding would also impact personnel, systems, and technology. He emphasized that the institution is in a strong position to assess and manage risk, with systems in place that are recognized nationally. Not all risks are the same and the institution should endorse a risk management approach to research, knowing that there is internal capacity to manage these risks effectively.

Regent Frobenius commented that it would be beneficial to see an analysis of the cost of increased research at the University.

INTERNAL AUDIT UPDATE

Associate Vice President Klatt presented the Internal Audit Update, as included in the docket materials.

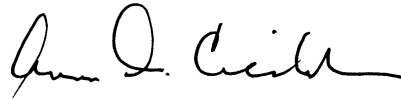
Klatt reported that, during the past quarter, 53 percent of the outstanding recommendations rated as "essential" were implemented by University departments, a percentage significantly higher than the previous quarter and exceeding the expected rate of 40 percent. In addition, eight units fully implemented all their remaining "essential" recommendations.

INFORMATION ITEMS

Associate Vice President Klatt referred the committee to the Information Items contained in the docket materials, including:

- A-133 Federal Audit; and
- NCAA Agreed-Upon Procedures.

The meeting adjourned at 10:12 a.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary