UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Thursday, November 12, 2009

8:45 - 10:15 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-Thal
Jennifer McCabe

A G E N D A

1. External Auditor Report - M. Volna/D. Seck/D. Loberg/C. Popenhagen (p. 2)

2. Compliance Officer Report - L. Zentner (pp. 3-11)

3. Conflict of Interest: Policy & Infrastructure Changes - L. Zentner (pp. 12-17)

4. Information Items - G. Klatt (pp. 18-25)

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Audit Committee **November 12, 2009**

Agenda Item: External Auditor Report

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

Presenters: Associate Vice President Michael Volna
Associate Controller, Denise Seck
Don Loberg, Principal, Larson Allen
Craig Popenhagen, Principal, Larson Allen

Purpose:

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

The purpose of this presentation is to present to the Audit Committee the External Auditor's opinion on the University of Minnesota's fiscal year 2009 financial statements and other required audit communications. The presentation is intended to help inform the Committee in fulfilling its responsibility of assuring that the University of Minnesota has the appropriate policies, procedures and systems of controls in place to produce accurate and reliable financial information.

Outline of Key Points/Policy Issues:

Discussion of the fiscal 2009 financial statements and audit results

Required communications to the Audit Committee, including:
- External Auditor's responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133;
- Significant accounting policies;
- Accounting estimates;
- Audit adjustments

Financial Statement highlights for 2009

Background Information:

The Audit Committee is delegated the responsibility to oversee the results of the work of the external auditor on behalf of the Board of Regents. A copy of the 2009 financial statements is available in the Board office.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Audit Committee **November 12, 2009**

Agenda Item: Compliance Officer Report

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

Presenters: Lynn Zentner, Director, Office of Institutional Compliance

Purpose:

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

This presentation provides the Audit Committee with information on the activities of the Office of Institutional Compliance to help the Committee carry out its oversight responsibilities for the University's compliance program.

Outline of Key Points/Policy Issues:

1. The Institutional Compliance Officer will provide the Committee with a summary of the most significant compliance-related risks identified since her March 2009 report to the Audit Committee, focusing on the following issues: Occupational Health and Safety, the University Compliance Program, Disability Services, International Programs, Human Resources, and HIPPA/Data Security.

Background Information:

The Institutional Compliance Officer regularly reports on the institutional compliance program two times each year.

REPORT OF THE DIRECTOR, OFFICE OF INSTITUTIONAL COMPLIANCE
FOR THE AUDIT COMMITTEE OF THE BOARD OF REGENTS
ON THE UNIVERSITY COMPLIANCE PROGRAM
NOVEMBER 12, 2009

Introduction

For the benefit of new members of the Audit Committee, the Director provides brief background information regarding the Office of Institutional Compliance (OIC) as well as a summary of the process by which compliance-related matters come to the attention of OIC, OIC's interface with its Compliance Partners, and the coordination that occurs between the Director, the University's Internal Auditor and the General Counsel. The Director's most recent report to the Audit Committee was on March 12, 2009. The Director separately provides a report on the status of the University's Conflict of Interest Program.

Overview of the Office of Institutional Compliance

OIC has four components: the University Compliance Program, the University Conflict of Interest Program, the University Policy Program, and the University Delegations Program. The Office currently has a staff of eight which will increase to nine by late November. The composition of OIC makes it ideal for partnering relationships and coordination across all four programs.

The University Compliance Program

The Compliance Partner Network

The University's Compliance Program operates through a partnership with Compliance Partners who represent approximately 30 different subject matter areas and who provide the linkages for the identification and resolution of compliance-related matters. These subject matter areas include:

- Athletics
- Boynton Health Service
- Community University Health Care Center
- Conflict of Interest
- Copyright
- Dining Services
- Disability Services
- Environmental Health & Safety
- Equal Opportunity & Affirmative Action
- Facilities Management
- Fiscal Operations
- Grants Management
- HIPAA Compliance
- Housing and Residential Life
- Information Technology
- Internal Audit
- International Programs
- Occupational Health & Safety
- Privacy
- Public Safety
- Research – Animal Subjects
- Research – Human Subjects
- Research – BioSafety
- Research – Controlled Substances
- School of Dentistry (billing compliance)
- Student Finance
- Tax Management
- Technology Commercialization

- Human Resources & Payroll Operations

The Compliance Partner Process and Interface with OIC

Twice annually, in April and October, OIC requests the submission of a legal compliance report from each Partner to be followed by either an in-person meeting or a conference call. The report is submitted to the General Counsel and a copy is submitted to OIC. The report form requires the reporting of risks/compliance issues and the classification of them as Major, Significant, or Minor. Each Partner has received a document entitled Legal Compliance Reporting Standards which provides a list of indicators that may be used to determine which classification to use for a particular risk or compliance issue reported. For example, some of the indicators enumerated for the "major" category are:

- Death or serious injury due to University activities
- More than $200,000 likely at issue
- Reasonable likelihood of disqualification or major penalty from a program
- Potentially widespread serious legal problem.

By comparison, examples of the indicators enumerated for the "minor" category are:

- Minor safety concern or accident
- Less than $25,000 likely at issue
- Isolated minor legal or policy violation

Where this classification system is not particularly effective in the context of a particular subject matter area, a Partner may adopt customized criteria for determining what constitutes major, significant or minor concerns, as applied to their specific compliance risk area.

When completing the semi-annual reports, Partners provide a summary description of the compliance issue or risk, its severity classification, a summary of the information gathered, and a statement regarding the current status of the investigation or any corrective action taken.

The Reporting of Compliance-Related Training and Investigations

In addition to risk-related reporting, each Partner provides information regarding compliance-related training programs, to include not only the training they attend in their own units, but also training they conduct for other colleges, departments, and units.

The Certification

At the end of the report, each Partner certifies as follows: I confirm that, to the best of my knowledge and using my professional judgment, I have included in this summary report all major and significant legal or University policy violation risks that meet the criteria described above for my area/office.

The Meeting or Conference Call

In an effort to further OIC's understanding of the risk and to ensure that adequate measures are undertaken to diminish and/or eliminate risk, including the coordination of effort among Compliance Partners as appropriate, OIC schedules a conference call or meeting with each Partner. Following these activities, OIC identifies and prioritizes the risks of greatest significance and meets with the University's Internal Auditor and General Counsel to discuss them, recommend risk management approaches, and obtain their feedback, assessment and recommendations.

Compliance with the Process

With few exceptions, the Compliance Partners engage thoughtfully and responsively in this process. Although the formalized process occurs twice annually, the communications between compliance partners and OIC are ongoing whenever significant circumstances arise that have compliance-related implications. Some compliance areas, by the nature of them, require more frequent communication and for those areas, regularly scheduled meetings occur in addition to the process described above. Examples include research compliance and occupational health and safety.

The Most Significant Current Risk Areas and Brief Summary of Actions

Below is a brief summary of significant compliance risks as of the date of this report:

1. The Conflict of Interest Program

- *The adequacy of current systems to effectively identify conflicts of interest.* Given the current scrutiny of conflicts of interest in higher education, it will be necessary to carefully assess the University's current systems for identifying conflicts of interest, determine the adequacy of those systems, and modify them as appropriate to increase their effectiveness. A decision has recently been made to centralize the conflict of interest review and analysis of all Reports of External Professional Activities (REPAs). This issue is discussed in further detail in the Report of the Director, Office of Institutional Compliance, on the University Conflict of Interest Program, November 12, 2009.

- *The lack of a uniform system for the monitoring and enforcement of conflict management plans.* Historically, conflict management plan monitoring and related follow-up has been conducted on an ad hoc basis. Conflict of Interest Program staff have, over the course of the past several months, worked with AHC Information Technology staff to develop a database that will enable the Program to track management plan compliance the first 90 days following implementation of the plan and annually thereafter so long as the management plan remains in effect. The monitoring will also include written affirmation by faculty and staff of compliance with each element of their respective plans and the submission of documentation reflecting compliance with disclosure requirements.

- *The need for the development of a University*-wide conflict of interest educational program. This issue is addressed in the Report of the Director, Office of Institutional Compliance, on the University Conflict of Interest Program, November 12, 2009.

- *The need for the development of a revised individual conflict of interest policy to, among other things, address University employees' relationships with external entities that overlap with their*

University responsibilities. This issue is addressed in the Report of the Director, Office of Institutional Compliance, on the University Conflict of Interest Program, November 12, 2009.

2. <u>Occupational Health and Safety</u>

- *Personal Protective Equipment (PPE).* Challenges continue to exist at the Veterinary Diagnostic Laboratory and the University of Minnesota Veterinary Medical Center with respect to the appropriate use of PPE. Meetings have been held to address these issues and have included representatives from the University's Office of Occupational Health and Safety (OHS), the Department of Environmental Health and Safety (DEHS), the College of Veterinary Medicine, and OIC. A team of individuals are reviewing all existing PPE-related standard operating procedures (SOPs) for sufficiency and comprehensiveness. Current SOPs will be revised as appropriate and new SOPs created to fill any gaps that currently exist. These efforts have the full support of Dean Trevor Ames.

- *Research Outreach Centers (ROCs).* For the past several months, inspections have been conducted by OHS and DEHS staff at all 9 ROCs. These inspections were initiated at the direction of Senior Vice President Cerra and Vice President Kathy O'Brien after safety concerns were raised in connection with multiple ROCs, to include OSHA's imposition of fines for health and safety violations found at one ROC location in November 2008. The ROCs are located at Grand Rapids, Waseca, U-More Park, Lamberton, Crookston, Cloquet, Morris, Sand Plains, and at the Arboretum. The inspections have been completed and reports of the findings prepared. The majority of the work has been done. Numerous deficiencies have been identified and are reflected on individual reports prepared following each inspection. Detailed spreadsheets noting each deficiency are attached to each inspection report. The deficiencies have been prioritized with respect to the significance of the risk presented. The summaries prepared to date reflect numerous deficiencies but a low frequency with respect to those that raise significant risk to health and safety. A committee convened several months ago to address the need for these inspections will reconvene on a short term basis to address the most efficient and effective approach to ensure compliance with state and federal requirements going forward.

- *Research Lab Safety.* A sub-committee of the OHS Steering Committee has met for the past several months to address current lab safety issues and to propose a comprehensive infrastructure that will significantly improve compliance with all applicable state and federal regulations that govern lab safety. A report of the subcommittee will be finalized in November and will propose the implementation of a new infrastructure which specifically defines roles and responsibilities throughout the University and offers a well coordinated approach to effectively utilize the resources and expertise of OHS and DEHS.

- *AAALAC probation.* We are pleased to report that the probationary status imposed in 2007 by the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC) has been lifted. On October 30, the University received notification that its laboratory animal care and use program is again fully accredited by AAALAC International. The results reflect the significant efforts of the Vice President for Research and key OVPR staff, the Office of Occupational Health and

Safety, and the Department of Environmental Health and Safety. The following provides background regarding AAALAC and the University's probationary status.

AAALAC is a private, nonprofit organization that promotes the humane treatment of animals in science through voluntary accreditation and assessment programs. According to AAALAC's website, more than 770 companies, universities, hospitals, government agencies and other research institutions in 31 countries have earned AAALAC accreditation. Participation in AAALAC's accreditation process is voluntary. When accreditation is achieved, the institution has demonstrated compliance with local, state and federal laws that regulate animal research as well as meeting additional standards to demonstrate excellence in animal care and use.

In early 2007, AAALAC conducted a reaccreditation site visit at the University. Following that visit, AAALAC placed the University's program on probation and scheduled a follow-up site visit for February 2008. Following the February 2008 site visit, AALAC concluded that the program required further improvement and, as a result, placed the University's animal care and use program on continued probationary accreditation status. Concerns identified by AAALAC at that time included (1) the need to strengthen the oversight, leadership and expertise of the membership of the Institutional Animal Care and Use Committee (IACUC), (2) the variable and sometimes inadequate use of PPE, and (3) inadequate biohazard containment practices. This past summer, AAALAC conducted another site visit. The results of that site visit resulted in full accreditation status.

- *Blood borne pathogen exposures.* The University does not currently have a systematic approach to track the offering and provision of Hepatitis B series vaccinations to those employees who are exposed to blood borne pathogens. An OSHA gap analysis conducted earlier this year by an external organization identified this issue and recommended the implementation and enforcement of an exposure control plan. The Office of Occupational Health and Safety has identified this issue as a priority area of focus.

- *Occupational Health and Safety Training.* The University needs to develop a coordinated system to provide and track required health and safety training. The gap analysis referenced above identified three specific areas in this regard: lab safety, blood borne pathogens, and respiratory protection. The authors of the gap analysis made several recommendations regarding the development, implementation, and tracking of a well-coordinated approach. The Office of Occupational Health and Safety has identified this issue as another priority area.

3. Disability Services

- *The lack of consistency in the delivery of DS services across the University.* Disability-related accommodations are not provided in a consistent manner across all University campuses. The Office of Equity and Diversity, in conjunction with leadership on each of the University's campuses, is currently reviewing how services to those with disabilities are provided system-wide. Following this review, strategies to address identified issues will be developed and an implementation plan put into place.

- *The accessibility of educational materials.* The University produces and manages quantities of educational materials that are not accessible to students with a variety of disabilities. The Office of

Equity and Diversity is working to increase awareness regarding this issue and to provide additional support services for creating accessible educational materials. Similar efforts are underway to ensure that communication via e-mail and the web is accessible.

- *Crisis intervention services for faculty and staff.* The University does not currently have, although it did in the past, a coordinated threat assessment team to evaluate and address employee behavior that poses a potential threat to others. Based on information gleaned from bench marking, a University committee has recommended the reconstitution of such a team.

- *Building inaccessibility.* In some circumstances, collegiate offices are located in buildings that are inaccessible to students with disabilities. For example, CLA houses the departments for American Studies, Asian American Studies, American Indian Studies, and Chicano Studies in Scott Hall which is not accessible to eight wheel-chair bound students. Although classes are offered in or moved to accessible buildings, the concern of unequal access remains.

4. International Programs

- *The inability to track all students, staff, and faculty traveling abroad outside of programs that are offered through the Office of International Programs (OIP).* We currently have no University-wide tracking system. Although well defined procedures are in place for students traveling in connection with programs offered through the Learning Abroad Center, the picture is not as well defined for faculty and staff. This creates a risk for both the University and for the travelers who do not get the support that would otherwise be provided when travel is associated with an OIP Program (e.g., orientation and insurance coverage).

  The Proposal Routing Form (PRF), used to obtain the internal approvals necessary to submit an application for external research or training support, has recently been revised to include two questions pertaining to foreign travel. This revision to the PRF will enable the University to capture a substantial volume of information regarding researchers who contemplate involvement in University-related activities outside the United States. Should a grant proposal be awarded, appropriate follow-up can be conducted with the awardees.

  Suspending Education Abroad Opportunities. Closely associated with the issue described above is the concern that students, faculty, and staff travel to countries on the State Department travel warning list without approval of the Education Abroad Suspension Committee (EASC) as required by University procedure. OIP has and is continuing to take steps to educate the University community regarding this requirement.

5. Human Resources

Increased burden on compliance-related responsibilities. A number of laws or amendments to existing laws have recently been enacted that impose additional oversight and implementation responsibilities on the Office of Human Resources. These changes are briefly described below:

- American with Disabilities Act (ADA) Amendments (effective 1/1/2009) – expanded scope of medical conditions protected by law.
- American Recovery and Reinvestment Act (ARRA) (effective 2/17/2009):
    - Increased COBRA subsidy for employees involuntarily terminated from 9/1/2008 – 12/31/2009.
    - Provided stimulus payments to taxpayers (tax credit) by reducing the amount of federal income tax withheld from paychecks (effective 2009-2010).
- Family and Medical Leave Act (FMLA) (effective 1/16/2009) – incorporated changes that largely affect military families and provide for military family leave under certain defined circumstances.
- Electronic I-9 Employment Eligibility Verification (implementation 2/2009) – imposed requirement on federal contractors to electronically verify employment eligibility of employees.
- Lily Ledbetter Fair Pay Act (effective as if 5/28/2007) – extended the time period in which employees can bring an action for discriminatory pay-related actions.

No risk has been identified to date in any of these areas and the Office of Human Resources is taking appropriate steps to ensure compliance with these legislative changes.

6. <u>Health Insurance Portability and Accountability Act (HIPAA)/Data Security</u>

Several months ago, OIC learned that the private data of several thousand students had been compromised, largely through laptops that were lost or stolen. Since then, a concerted effort has been made at the University to install encryption software on laptops. As a result, this risk has been significantly reduced. However, another issue has arisen, namely that dentistry students do not have online access to dental appointment schedules. As a result, students enter patient information into personal paper calendars and PDAs, both of which are at risk for loss or theft. This has occurred twice. The School of Dentistry is currently working with the University's HIPAA Office to resolve the problem.

UReport

UReport is the University's confidential web-based reporting service. This reporting service is provided by EthicsPoint, an independent company that provides similar services for hundreds of companies and universities. UReport is intended to be used to report violations of local, state and federal law as well as violations of University policy. This reporting system is not intended to be used for employment concerns that do not involve legal or policy violations or that involve purely student concerns, or issues for which the University is not responsible. Reporters may submit reports either via a hotline or the web. Reports may also be submitted anonymously. Those who

submit reports are expected to report good faith concerns and are expected to be truthful and cooperative in the University's investigation of allegations.

UReport has been in existence at the University since 2005. Since its inception, a total of 532 reports have been submitted, averaging approximately 100 per year. Since January of this year, 94 reports have been submitted. Of this number, nearly half have been resolved. Approximately ¾ of the reports are submitted anonymously. Approximately the same percentage involve claims regarding:

- Discrimination, harassment and/or equal opportunity
- Abuses in wage, benefits, vacation, overtime, and leaves
- Other employment concerns

With respect to trends, a number of reports focus on a reporter's co-workers, for example, the alleged abuse of vacation time and other leaves, the alleged failure of a co-worker to take responsibility for assigned duties, a co-worker who sleeps while at work, alleged unexplained absences from the work place when not otherwise on an approved leave, and questioning the adequacy of credentials and whether they may have been falsified.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Audit Committee **November 12, 2009**

Agenda Item: Conflict of Interest: Policy & Infrastructure Changes

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

Presenters: Lynn Zentner, Director, Office of Institutional Compliance

Purpose:

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

This presentation provides the Audit Committee with an update regarding the current status of the University Conflict of Interest Program.

Outline of Key Points/Policy Issues:

1. The Institutional Compliance Officer will provide the Committee with a summary of the most significant infrastructure changes to the Conflict of Interest Program and will also provide the Committee with information regarding the development of a draft revised individual conflict of interest policy.

Background Information:

The Institutional Compliance Officer regularly reports on the institutional compliance program two times each year. This report on the Conflict of Interest Program is made in addition to the report on the status of the University Compliance Program.

REPORT OF THE DIRECTOR, OFFICE OF INSTITUTIONAL COMPLIANCE
FOR THE AUDIT COMMITTEE OF THE BOARD OF REGENTS
ON THE UNIVERSITY CONFLICT OF INTEREST PROGRAM
NOVEMBER 12, 2009

Introduction

The University has had a well developed Conflict of Interest Program in place for many years. The individual conflict of interest Board of Regents policy has been in existence since 1994 and the institutional conflict of interest policy since 2005. Both have institutional-wide application and both have corresponding administrative policies and procedures. The two policies have been implemented utilizing annual financial reporting requirements and a multi-committee infrastructure that reviews potential conflicts of interest and, where conflicts of interest are found to exist, develops conflict management plans to either eliminate, reduce or manage identified risks. For a number of years, the Conflict of Interest Program resided within the Office of the Vice President for Research. In September 2008, the Program became a component of the Office of Institutional Compliance (OIC).

Over the past year, a review of the Program's infrastructure, policies and procedures has been conducted both internally and externally. The internal evaluation was conducted by University faculty and staff having significant familiarity with the program and who have participated in the conflict of interest review and management process. The external review was conducted in November 2008 by Claudia Adkison, J.D., Ph.D., Executive Associate Dean, Administration and Faculty Affairs, Emory University School of Medicine, and Ross McKinney, Jr., M.D., Professor of Pediatrics, Duke University School of Medicine.

In February 2009, I reported to the Board of Regents Audit Committee and said that several areas had been identified for further assessment and possible refinement, modification and/or further development. Those areas included:

- the overall infrastructure;
- management plan development, enforcement, monitoring, and appeals process;
- policy and procedure development, revision, and refinement;
- training;
- expanding the focus of the institutional conflict of interest review and management process;
- the development of standards to govern relationships with external entities; and
- the positioning of the COI Program within the University.

The following is a summary of the events that have taken place since then.

Review by a Senior Leadership Advisory Committee and the Executive Oversight Compliance Committee

At the President's request, the Director convened a Senior Leadership Advisory Committee to address the recommendations that resulted from the internal and external reviews of the Program. The members of that committee included the following:

- Frank Cerra, Senior Vice President for the AHC and Dean of the Medical School
- Tim Mulcahy, Vice President for Research
- Mark Rotenberg, General Counsel
- Gail Klatt, Internal Auditor
- Carol Carrier, Vice President for Human Resources
- Kathy O'Brien, Vice President for University Services
- Rusty O'Brien, Vice President for Equity and Diversity
- Sharon Reich Paulsen, Associate Vice President, Office of the Provost
- Charles Moldow, Associate Dean for Research, Medical School
- Steven Crouch, Dean, Institute of Technology
- Claudia Neuhauser, Vice Chancellor for Academic Affairs, Rochester

This committee made recommendations which were reviewed by members of the Executive Oversight Compliance Committee (EEOC), a committee of seven executive officers that meets monthly and provides oversight of and direction to the Director. The following recommendations resulted from the deliberations of both committees:

- centralize the conflict of interest review of all REPAs;
- combine the REPA and Financial Disclosure for University Officials forms, substantially revise each form, and change the reporting period for both from the fall of each year to February of each year;
- evaluate the effectiveness of the University's current systems and processes for the identification of conflicts of interest;
- revise certain procedures and assumptions associated with the development of management plans and build certain efficiencies into the preparation of these plans;
- forego a formal appeals process given the multi-level review process currently in place;
- address certain operational issues associated with the conflict of interest committee chairs and the committees (e.g., term limits, appointment process, committee composition, and roles of the conflict of interest executive committees and full committees);
- develop a University-wide conflict of interest educational program;
- ensure that conflict of interest policies apply to all University-related activities – research, teaching, and outreach; and
- develop a statement of values for the conflict of interest program.

The Adoption of Certain Modifications and/or Enhancements to the Conflict of Interest Program

The following developments are currently underway with the approval of the President:

- **Centralization of the conflict of interest review of all Reports of External Professional Activities (REPAs).** Going forward, review at the local level will consist of verifying the accuracy and completeness of the REPA submitted by faculty and Professional and Academic Administrative (P&A) staff. If the answer is "yes" to any of the five general areas on the REPA which indicate a potential conflict of interest, the REPA will be referred to the Conflict of Interest Program for review and resolution.

- **Changing the reporting period for the REPA and Financial Disclosure for University Officials form (FDUO) from the fall of each year to February.** This change coincides with federal income tax reporting. By February of each year, University employees who earned outside income will have received 1099s reporting the receipt of that income. The receipt of this information will facilitate the reporting of financial interests on REPAs and Financial Disclosure for University Officials forms.

  In addition to changing the reporting period, the REPA and FDUO forms will be disseminated at the same time. If a University employee is not a "University Official", he or she will complete a "short form" (REPA only). If the employee is a "University Official", he or she will complete a "long form" (both the REPA and the FDUO).

  The REPA form has also been revised to:
  - provide greater clarity;
  - address conflicts of interest in the context of all University activities (research, teaching, administration and outreach);
  - provide a link to an FAQ which will provide answers to common questions;
  - remind REPA filers to complete a Request for Outside Consulting form (ROC) if outside professional activities exceed one day per month during the period of appointment and, as appropriate, to resubmit a ROC every three years; and
  - provide clarity regarding the reporting period (past 12 months plus the current year).

- **Revising certain procedures and assumptions associated with the development of conflict of interest management plans.** Since the inception of the University's Conflict of Interest Program, management plans have been advisory to the Deans. Conflict of interest management plans now represent an institutional decision and compliance with them will be mandatory. Once finalized, the employee is required to comply with the plan and the Associate Deans, Deans, and Administrators are expected to support the plan and communicate to the employee an expectation of full compliance.

- **The development of a University-wide conflict of interest educational program.** Because the University must ensure that all employees whose positions require the completion of REPAs and FDUO forms have, at a minimum, a basic level of awareness and knowledge regarding conflicts of interest, an effort is underway to develop a University-wide conflict of interest training program. A committee has been convened to address infrastructure issues. The committee membership includes the core conflict of interest team (the three committee chairs, legal counsel, and staff of the Office of Institutional Compliance), several OVPR staff, faculty representatives, two associate deans and one Human Resources representative. It is anticipated that this committee will meet only as needed to make the "big picture" recommendations. Following that work, another committee will be convened to make more specific recommendations regarding the development of materials, delivery systems and the like. Effort will be undertaken to capitalize on currently existing conflict of interest training. In

addition, the committee will need to identify the audiences for this training and also address training alternatives, refresher courses, delivery systems, conflict of interest leadership training, and audience-specific scenarios, among other topics.

Revising the Individual Business or Financial Conflict of Interest Administrative Policy

For the past couple of years, institutions of higher education across the country have focused on the development of conflict of interest policies to address and appropriately manage their relationships with industry, recognizing the significant value associated with these collaborative relationships while at the same time also recognizing that these relationships have, in recent years, caused the public to question whether the work that is done in our academic institutions is inappropriately influenced by external relationships. The University has been similarly engaged in this process.

The process began in the Medical School with a Task Force that convened in early 2008 and issued a final report in August 2008. After the Task Force completed its work, further review and development of these issues continued in the Medical School, facilitated by then Dean Deborah Powell. The Medical School's Recommendations were issued in January 2009.

In approximately November 2008, Senior Vice President Cerra convened another committee to look at these issues from a University-wide perspective. In addition to Senior Vice President Cerra, the committee composition currently includes the following individuals:

- Vice President Mulcahy
- Mark Rotenberg
- Mark Paller, Executive Vice Dean of the Medical School and the Academic Health Center
- Mary Koppel, Assistant Vice President, Academic Health Center, Public Relations
- Denis Clohisy, Chair, Department of Orthopaedic Surgery
- Keith Dunder, Associate General Counsel
- Lynn Zentner, and
- Representatives of University of Minnesota Physicians and Fairview University Medical Center

Before beginning the work of drafting a proposed policy, this committee reviewed the report of the Medical School Task Force and the recommendations of the Medical School. In addition, the committee reviewed the policies:

- considered by the Institute on Medicine as a Profession to reflect "best practices" which included the policies developed by all University of California schools, the University of Pennsylvania, the University of Pittsburgh, the University of Massachusetts, the University of Wisconsin, Boston University, Yale University, and the University of Louisville;
- developed by the Mayo Clinic, the University of Kansas, Emory University, Stanford University, the University of Alabama at Birmingham, and Duke University.

Many of these institutions of higher education have limited the application of their policies to their medical schools.

The Committee also reviewed:

- the standards developed by the pharmaceutical and device industries; and
- a report titled Protecting Patients, Preserving Integrity, Advancing Health; Accelerating the Implementation of COI policies in Human Subjects Research, A Report of the AAMC-AAU Advisory Committee on Financial Conflicts of interest in Human Subjects Research.

The committee then engaged in substantial discussion and deliberation for nearly one year and, as a result of that process, developed a draft policy which will be reviewed over the course of the next several weeks with University leadership, faculty governance leadership and committees, the Council of Academic Professionals and Administrators, and the Board of Regents. The draft policy has university-wide application, sets forth a guiding principle, identifies certain prohibited activities, and establishes standards to govern:

- consulting relationships;
- speaking engagements sponsored by commercial entities;
- the presence of commercial entities on campus;
- education and training sponsored by commercial entities;
- using educational materials developed and provided by commercial entities;
- gifts, food, and entertainment provided by external entities;
- samples provided by commercial entities;
- reporting and evaluating a University employee's relationships with external entities; and
- the disclosure of a University employee's external relationships in certain situations.

Once the consultative process has been completed and the current draft has been revised accordingly, the proposed policy will require approval by the President's Policy Committee (PPC). It may also require revisions to the current Individual Business or Financial Conflict of Interest Board of Regents policy to the extent that it conflicts with one or more provisions of the Board policy. At the time the Director makes her report to the Audit Committee on November 12, she will have more specific information regarding the anticipated timing associated with the completion of the consultative process, the PPC's review of the proposed revised administrative policy, and when proposed changes to the Board policy are likely to be presented to the Board of Regents.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS

Audit Committee **November 12, 2009**

Agenda Item: Information Items

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

Presenters: Associate Vice President Gail Klatt

Purpose:

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

To provide the Audit Committee with the Semi-Annual Controller's Report.

Outline of Key Points/Policy Issues:

Semi-Annual Controller's Report
This report presents a summary of activities completed by the Controller's Office in the last six months that enhance financial accounting and reporting, strengthen internal controls, reduce financial or compliance risks to the University, and improve efficiencies and service.

Background Information:

The Controller's Report is prepared semi-annually and presented to the Regents Audit Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE

SEMI-ANNUAL CONTROLLER'S REPORT
NOVEMBER 12, 2009

This report presents a summary of activities completed by the Controller's Office in the last six months that have improved financial reporting, enhanced internal controls, reduced financial risks, improved services to the University community, or created efficiencies in financial operations.

I. Accounting and Financial Reporting Matters

The University adopted several new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB). The adoption of these standards for fiscal year 2009 resulted in additional liabilities being recorded as well as changes to the footnote disclosures to comply with the requirements. In addition, two additional standards are being evaluated for implementation in subsequent fiscal years. These standards and the related implementation dates are explained below.

Adopted Effective June 30, 2009

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*

To Be Adopted Effective June 30, 2010

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

The following is a brief summary of these new standards.

GASB Statement No. 49*, Accounting and Financial Reporting for Pollution Remediation Obligations* - The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The statement excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. The statement provides that, once any of the defined obligating events has occurred, the University would be required to estimate the expected pollution remediation outlays and determine whether such outlays should be accrued as a liability or, if appropriate, capitalized when goods and

services are acquired. The University adopted GASB 49 for fiscal year ended June 30, 2009, and recorded an estimated total pollution remediation liability of $4.7 million. The provisions of the accounting standard also require it to be applied to prior fiscal years. The impact of the new standard on the University's previously reported net assets was $11.3 million and $12.8 million for fiscal years 2008 and 2007, respectively.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* –
This statement addresses the recognition of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Additionally, it establishes a specified-conditions approach to recognizing intangible assets that are internally generated. GASB Statement No. 51 provides guidance on determining the useful life of intangible assets when contractual or legal provisions limit the length of their life. This statement is effective for the University's fiscal year ending June 30, 2010 financial statements, and the provisions of this statement generally must be applied retroactively for fiscal years ending after June 30, 1980. Management is in the process of evaluating the impact this statement will have on the University's FY 2010 financial statements.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* – Accounting Standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. This statement establishes consistent standards for the reporting of land and other real estate as investment by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Public entities also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The University adopted GASB 52 for fiscal year ending June 30, 2009. The impact of this new accounting standard on the University's financial statements was minimal, as the University currently records land and other real estate held as an endowment investment at fair value. Additional footnote disclosure language was added to the University's FY 2009 financial statements.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* – The statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. It will require the University to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value. In addition, disclosure requirements will provide a summary of the government's derivative instrument activity and the information necessary to assess the University's objective for derivative instruments, their significant terms, and the risks associated with the derivative instruments. This statement is effective for the fiscal year ending June 20, 2010. Management is in the process of evaluating the impact of this statement on the University's FY 2010 financial statements.

Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - GASB 55 was issued in March of 2009. The objective of GASB 55 is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state

and local governments into the GASB authoritative literature. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. GASB 55 was effective when it was issued and does not present any change as to how the University reports.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* – GASB 56 was issued in March 2009. The objective of the Standard is to incorporate certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards into the GASB authoritative literature. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of GAAP for state and local governments into a single source. GASB 56 was effective when it was issued and does not establish new accounting standards but rather incorporates the existing guidance into the GASB standards. It had no impact on the University's 2009 financial statements.

II. Efforts Undertaken by Controller's Office Departments to Enhance Service, Productivity, and Efficiency, and to Improve Internal Controls

ARRA (Stimulus) Awards – Reporting Summary

September 30, 2009 was the first reporting deadline for federal research funded by ARRA awards. The Board of Regents was briefed recently on the regulations and challenges related to ARRA research awards. The table below presents a brief summary of the reporting results as of September 30:

Category	Data Reported	Comments
No. of ARRA Awards	231*	$123,621,545
No. of ARRA Reports Submitted	222**	100% on time
Jobs Created/Saved at the University of Minnesota	71.87 FTE	46 tenured faculty paid on ARRA awards with % effort equating to 6 FTE
Jobs Created/Saved by Vendors	54	NOVA project sponsored by Department of Energy
PI Surveys	123 sent out	5 non-responsive; SFR followed up with PIs

*includes sub-awards **does not include sub-awards

Sponsored Financial Reporting (SFR) took the lead on reporting, but worked closely with Sponsored Projects Administration (SPA) and faculty and staff in academic units to successfully complete this first reporting cycle. Some general comments:

- ARRA Reporting information sessions were well attended by both faculty and support staff

- Principle Investigators were asked to complete a short survey to capture the data needed for the federal reports. Responses to the survey were positive and expeditious. Other Universities have expressed interest in our PI survey, which was designed by the University's Office of Measurement Services.
- SPA provided daily updates of new award information to SFR, to ensure we reported on all awards
- SPA contacted sub recipients that did not respond to the sub recipient surveys
- Over 50% of the reports submitted had zero jobs/created saved & zero expenses. This was due to the flood of stimulus awards issued in late September where there was no time for expenditures to occur on the award prior to the reporting deadline

SFR and SPA are now planning for the next reporting deadline. Based on a review of what worked well and what did not work so well, changes will be made to the process to make it more efficient and easier for PIs to use. The PI survey will be expanded to include our sub recipients (non-University of Minnesota entities). We expect second quarter to be more intense, as there will be both more awards and more activity on those awards (expenses, vendors, sub-recipients, etc.).

Strategic Purchasing

In the late spring of 2009, Purchasing Services embarked on a strategic sourcing project, which entails completing a detailed analysis of our spend from all sources, identifying opportunities for savings, and having cross functional teams work on each opportunity. The first five "quick hit" savings opportunities will be presented in November, along with a savings range associated with each possible action. A long range plan for possible opportunities will be presented in December. Purchasing is optimistic that there will be significant savings potential through supplier consolidation, supplier negotiation, and presenting better purchase choices to University of Minnesota employees.

Performance Information Procurement System

The Performance Information Procurement System (PIPS) Best Value program has been adopted by the University of Minnesota. It is used for selecting vendors to perform construction work. PIPS is a software-assisted methodology developed by the Performance Based Studies Research Group at Arizona State University. PIPS implements the federal government best practice of documenting past performance and factoring it into vendor selections for current projects. "Best Value" refers to the practice of requiring competing vendors to identify all the risks they foresee in the construction project that could result in costly change orders during the project. The vendor with the best overall proposal then works with the University and its architects and engineers to make changes to the project to avoid or mitigate the identified risks. PIPS has resulted in no cost overruns for 95% of construction projects completed using PIPS.

Honors for Purchasing Services

Purchasing Services has received the "Achievement of Excellence in Procurement" Award from the National Purchasing Institute. The award is designed to recognize organizational excellence in public or non-profit procurement, and is based on standardized criteria that measure innovation, professionalism, e-procurement, productivity, and leadership attributes

of the procurement function. The University is one of only 21 higher education institutions in the U.S. to receive the award.

Capital Equipment Inventories

Under federal regulations applicable to institutions receiving federal funds, the University is required to conduct a complete physical inventory of all capital assets every two years. This summer Inventory Services has concluded another two-year cycle for capital equipment asset inventories. The statistics for the most recent inventory cycle, with comparative data for the prior 3 inventory cycles, are set forth in the table below. While the most recent inventory cycle showed an uptick in missing assets, we believe that some of that is due to the conversion of asset data from our previous financial systems into PeopleSoft.

Count Cycle	**7/07-6/09**	**7/05-6/07**	**7/03-6/05**	**7/01-6/03**
Total Assets Inventoried ($)	$563,805,818	$544,909,812	$554,364,309	$579,677,002
Total Assets Inventoried (#)	70,227 items	80,187 items	93,673 items	127,196 items
Total Assets Missing ($)	$1,282,818	$641,710	$728,453	$670,078
Missing as a % of Total $	0.23%	0.12%	0.13%	0.12%
Total Assets Missing (# items)	398	196	311	318
Missing as a % of Total #	0.57%	0.24%	0.33%	0.25%

Liability Coverage for Activities Outside of Minnesota

For many years, the University has relied on its wholly-owned captive insurance company, RUMINCO, Ltd., to pay for various liabilities the University legally incurs. Despite the relatively low limits the captive provides, this approach has been reasonable; the University's activities were substantially occurring within Minnesota's borders, and thus the University enjoyed legislated protections ("tort caps") under Minnesota law, making claim limits in the $1 million range adequate.

As the University continues to expand research and other operations beyond the borders of Minnesota and the United States, the probability of tort liability imposed by a jurisdiction outside of Minnesota has also increased. The University enjoys no tort cap protection in those situations, and there is the risk that the University will at some point incur tort liabilities beyond the current Minnesota tort cap of $1 million.

To address this potential risk, Risk Management has established an insurance program providing limits of insurance in excess of those available through RUMINCO, Ltd. The program provides additional coverage with limits to $40 million to protect against financial losses from adverse judgments against the University arising from General and Automobile

Liability suits outside of Minnesota. The limit chosen is in line with insurance benchmarking information on other Universities. Because RUMINCO, Ltd. is not capitalized to support a $40 million limit on its own, Risk Management placed the coverage with a third party proprietary insurer (United Educators). The net annual system-wide cost of this additional protection is less than $100,000.

III. Enterprise Financial System Post-Implementation Activities

The new PeopleSoft enterprise financial system went live on July 1, 2008. The new system consists of 14 modules that have replaced the previous central financial systems, and have impacted every financial process at the University.

From May through July of 2009, the Controller's Office was dedicated to supporting the system and the user community through the first complete budget preparation and fiscal year end close cycles. Budget preparation was completed on time. The annual closing process involved supporting finance and accounting staff in over 40 processing "clusters" and approximately 50 colleges and administrative units. There were some challenges, but generally the processes were completed satisfactorily.

For the months of August, September and October, many of the units in the Controller's Office were focused on completing the first external audit and annual financial statements with PeopleSoft. It is my belief that the accounting staff performed exceptionally well in completing the first audit in approximately the same timeframe as prior years. Larson Allen, the University's external auditor, will be presenting their audit opinion, other required communications, and other observations to the Audit Committee during the November 12 committee meeting.

Ongoing support for the new system, and the user community, continues to be an extremely high priority for the entire Controller's Office. Since the last report to the Audit Committee and the Board in May 2009, progress has been made in stabilizing the system and effecting some improvements to the efficiency of the system. However, challenges remain in the following areas:

- Reporting – Users have expressed a great desire for tools to download data directly and perform ad hoc analysis and reporting. Currently, the tools available are limited. Additionally, the new "canned" financial reports that were developed and rolled out last winter are more user-friendly than the standard PeopleSoft reports, but they were just a starting point. Users have requested many changes and improvements to the canned reports. Improvements will be made within the limits of the existing tools and technology. Finally, the fiscal year end closing process revealed some problems with "encumbrances", which are financial data displayed on the reports to assist departments in determining how much of their budget remains unspent or uncommitted, and is thus available to be spent. Encumbrance data is especially important for sponsored projects, which typically have a fixed budget and ending date. Correcting the encumbrance data has been more difficult and time consuming than was expected. The FY 2010 EFS workplan calls for resolving encumbrance issues by the end of October; developing a strategy and defining the requirements for an ad hoc reporting tool by the end of

December; and providing enhancements to the suite of canned reports through March 2010.

- Training – As system issues have been resolved and progress has been made on delivering reports, it has become apparent that there are still aspects of the new system which are not well understood by some users. Data that was converted from the old to the new systems can be confusing to interpret; there are new business processes that did not exist in the old systems; and some of the PepoleSoft business processes have changed since the initial go-live of the system as a result of system fixes or modifications. Therefore, the FY 2010 workplan includes a significant training element to assist users in being able to understand the data and use the system more effectively.
- Business process efficiencies – Last spring, a group of financial staff representing many different parts of the University was assembled to identify those business processes that are inefficient, difficult, or annoying to use in the new system. In some cases, the issues were related to the dramatic change in the business process between the old and new financial systems. During implementation, decisions were made to implement portions of the system in a less customized state than the previous financial systems, which were highly customized to the University's culture and business practices (but also more expensive to support and maintain). To address the users' efficiency issues with the new system, requirements have been defined and solutions developed for many of the users' complaints. As of the end of October, about 20% of the total identified issues (95 in all) have been resolved. However, some of the issues may not be resolved in a short timeframe or to the users' satisfaction. In some cases, the requested solutions entail extremely large and complex modifications. As a result, a number of changes will be deferred and revisited after the first series of modifications are implemented.

The FY 2010 EFS workplan will require additional temporary, one-time resources. A budget has been prepared and submitted to the President. The November Regents Finance and Operations committee consent report includes a request for the Board to approve contracts for external contractors and consultants who will assist with the scope of work planned for FY 2010.