

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

September 6, 2007

A meeting of the Audit Committee of the Board of Regents was held on Thursday, September 6, 2007 at 8:30 a.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Linda Cohen, presiding; Clyde Allen, Dallas Bohnsack, John Frobenius, Venora Hung, and Dean Johnson.

Staff present: Senior Vice President and Provost Thomas Sullivan; Vice President Timothy Mulcahy; Executive Director Ann Cieslak; and Associate Vice Presidents Gail Klatt and Michael Volna.

Student Representatives present: Meghan Keil and Nathan Swanson.

EXTERNAL AUDIT UPDATE

Acting Controller Denise Seck introduced Don Loberg and Craig Popenhagen, Principals, LarsonAllen, to present progress on the June 30, 2007 annual external audit.

Loberg and Popenhagen reported that the audit is progressing ahead of schedule, with a significant portion of the work in process or completed on the financial statement, and audits of the Office of Asset Management, sponsored research, student financial aid, and information technology. Popenhagen identified a number of improvements that have increased efficiencies during the audit process. He also pointed out challenges in the areas of alternative investments, federal programs, and potential impacts from the current strike by AFSCME employees.

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

COMPLIANCE OFFICER REPORT

Chair Cohen introduced Thomas Schumacher, Director of Institutional Compliance to report on University compliance initiatives, as detailed in the docket materials.

Schumacher noted that September 2007 marks the five-year anniversary of the institution of the University's compliance program. He highlighted three areas of activities within the compliance office: UReport, the University's confidential reporting service; the plan to conduct compliance assessments for high-risk areas; and an evaluation of the compliance program.

Schumacher briefly discussed UReport, which allows individuals concerned with legal or policy violations to report them confidentially or anonymously to a third party vendor retained by the University. He summarized the nature of reports received,

indicating that trends continue to show a majority of reports involve human resources and employment issues. Schumacher noted that expanding the percentage of employees who are aware of the program remains a challenge and requires continued attention.

Schumacher described an initiative launched by the Office of Institutional Compliance and the Office of Internal Audit to evaluate compliance performance in higher risk areas. The pilot project will focus on grants administration, an area of heightened federal scrutiny and will include review of selected transactions in departments conducting federally sponsored work. The results of the pilot project review will be presented at a future meeting of the committee.

Schumacher reported that with respect to its peers, the University has a strong compliance program and is well positioned to meet rising higher education compliance obligations. He described a number of program initiatives and successes, and future challenges. He emphasized the continued need to focus on building a culture for ethics and compliance within the University community.

COMMITTEE WORKPLAN, 2007-08

Associate Vice President Klatt presented the proposed committee workplan for the coming year. She noted the workplan incorporates the Board of Regents desire to receive more information from the University compliance officer, and to continue the discussion of the changes in areas of federal research funding. Committee members expressed support for the workplan.

INTERNAL AUDIT UPDATE

Associate Vice President Klatt presented the Internal Audit Update, as included in the docket materials. She reported that, during the past quarter 38 percent of the outstanding recommendations rated as "essential" were implemented by University departments, a percentage higher than the previous quarter and nearly equal to the expected rate of 40 percent. In addition, five units fully implemented all their remaining "essential" recommendations.

CONSENT REPORT

A motion was made and seconded, and the committee voted unanimously to recommend approval of the consent report as presented in the docket materials, and including the following:

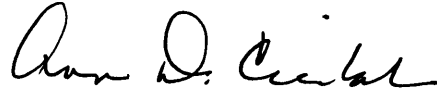
- Engagement of PriceWaterhouseCoopers, LLP, by the University's Office for Technology Commercialization, to perform audit services on royalty calculations for sales occurring in the calendar years 2005 and 2006, for an amount not to exceed \$99,000.

INFORMATION ITEMS

Associate Vice President Klatt referred the committee to the information items contained in the docket materials, including:

- Report on external auditor engagements.

The meeting adjourned at 9:40 a.m.



ANN D. CIESLAK
Executive Director and
Corporate Secretary