

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

February 6, 2002

A meeting of the Audit Committee of the Board of Regents was held on Wednesday, February 6, 2002 at 3:30 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Robert Bergland, presiding; Dallas Bohnsack, Frank Berman, Richard McNamara, and Lakeesha Ransom.

Staff present: President Yudof; Senior Vice President Cerra; Executive Director Ann Cieslak; Associate Vice Presidents Steven Cawley, Gail Klatt, and Michael Volna.

Student Representatives present: Kyle Althoff and Venora Hung.

Associate Vice President Klatt informed the committee that, in light of issues raised by the Enron bankruptcy, President Yudof requested that she and Associate Vice Presidents Pfitzenreuter and Volna review University practices to determine if there are any policy implications that should be brought to the committee at a later meeting.

DEPARTMENT OF AUDITS CHARTER

Associate Vice President Klatt presented for action proposed changes to the Charter for the Department of Audits, as found in the docket materials. The changes, reviewed by the committee at the November 2001 meeting, update the charter and ensure consistency with revised Institute of Internal Auditors standards.

A motion was made, seconded, and the committee voted unanimously to recommend approval of the changes to the Department of Audits Charter.

EXTERNAL AUDITOR'S MANAGEMENT LETTER

Associate Vice President Volna introduced Clifford Hoffman, Audit Partner of Deloitte & Touche, to present the External Auditor's Management Letter resulting from the annual financial audit performed by Deloitte & Touche for the fiscal year ending June 30, 2001, as found in the docket materials.

Hoffman explained that the External Auditor's Management Letter ("Management Letter") presents observations and

recommendations resulting from the annual audit, as well as the written response of the administration. He pointed out that his firm found no matters involving the University's internal control and its operations that they considered to be material weaknesses. Hoffman emphasized that management is very responsive and noted that significant progress has been made on all recommendations from the previous year's Management Letter, particularly relating to timely billing of sponsored accounts receivables.

Among Deloitte & Touche's recommendations for this year is careful and frequent monitoring of alternative investments in the University's Consolidated Endowment Fund. A critical part of the monitoring process will be good interdepartmental communication regarding the investments.

Regarding the inclusion of alternative investments in the University's long-term investment strategy, Hoffman stressed the importance of understanding the risks and volatility involved with certain types of alternative investments, the difficulty involved in determining a fair market value for these investments, particularly on a quarterly basis, and the need to determine whether the level of risk is appropriate.

The committee discussed the importance of the institution monitoring the relative risks of alternative investments. Regent Bergland noted that he would bring these issues to Regent O'Keefe as Chair of the Finance Committee, which is scheduled to discuss investment policy over the next few months.

AUDIT OF FEDERAL PROGRAMS (A-133)

Associate Vice President Volna introduced Clifford Hoffman, Audit Partner of Deloitte & Touche, to present the results of the Audit of Federal Programs (A—133), as found in the docket materials. Volna explained that the A-133 audit report measures the University's compliance with federal laws and regulations that govern the receipt of federal funds.

Hoffman announced that the University now meets the low-risk audit criteria, which Deloitte and Touche will use for the upcoming annual audit. He noted the successful resolution of all findings from the previous year, including the compliance issues relating to the PeopleSoft system implementation.

Hoffman then highlighted the University's achievements over the last year, indicating that while federal funding increased by \$30 million this year, audit findings decreased and corrective action plans are already in place. Among the challenges for the University will be continuing recruitment and retention of highly-skilled employees and completing upgrades within the PeopleSoft system.

ALTERNATIVE INVESTMENTS: STRATEGY AND RISK ASSESSMENT

Associate Vice President Klatt announced that the presentation would be postponed until the May meeting.

INTERNAL AUDIT UPDATE

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

Klatt reported that the majority of the oldest essential recommendations have been implemented since the last update. President Yudof commented that he regularly reviews the reports with Klatt and Associate Vice President Pfitzenreuter and takes appropriate administrative action when necessary.

Klatt then gave a brief overview of recently completed audits and discussed the status of the National Sciences Foundation

(NSF) audit request. She reported that the University has submitted the additional information requested and is awaiting NSF's response.

The meeting adjourned at 4:30 p.m.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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