

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**Thursday, June 9, 2011**

**8:15 - 9:15 a.m.**

**600 McNamara Alumni Center, East Committee Room**

**Committee Members**

Linda Cohen, Chair  
Richard Beeson  
Laura Brod  
John Frobenius  
Maureen Ramirez  
Patricia Simmons

**Student Representatives**

**A G E N D A**

1. External Audit Plan - M. Volna/K. Vosen/K. Knudtson (pp. 2-26)
2. The U's Assurance Map: Where is Monitoring Occurring? - G. Klatt/L. Zentner (pp. 27-34)
3. Compliance Officer Report - L. Zentner (pp. 35-41)
4. Internal Audit Update - G. Klatt (pp. 42-67)
5. Information Items - G. Klatt (pp. 68-70)



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**June 9, 2011**

**Agenda Item:** External Audit Plan

review       review/action       action       discussion

**Presenters:** Associate Vice President Michael Volna  
Kirsten Vosen, Partner, Deloitte  
Katherine Knudtson, Senior Manager, Deloitte

**Purpose:**

policy       background/context       oversight       strategic positioning

To provide an overview of the audit plan to be used by Deloitte in performing the University's annual audits for the year-ended June 30, 2011.

**Outline of Key Points/Policy Issues:**

The external audit plan presents the approach, objectives, and scope to be used for the University's financial and compliance audits. Deloitte's work plan and timeline will be reviewed with the Audit Committee.

**Background Information:**

This report is prepared annually and presented to the Board of Regents Audit Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

# The University of Minnesota 2011 Client Service Plan



May 25, 2011

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

Dear Members of the Board of Regents:

We are pleased to present Deloitte & Touche LLP's ("Deloitte & Touche") 2011 plan to serve the University of Minnesota (the "University"). We appreciate the time and candid feedback that you and your management team have shared with us as we build off of a successful first year back at the University. This feedback is the foundation of our service plan, which guides us in providing high-quality work that is delivered with integrity, objectivity, and independence and is geared toward producing true value. The relationship we have with the University is one of which we are proud. We assure you that all the resources of Deloitte & Touche are committed to providing you with the highest level of quality and client service. To demonstrate our commitment to provide you with a world-class Deloitte Client Experience, we will:

- Demonstrate responsiveness by identifying and resolving issues with a strong sense of urgency, keeping you informed at every step of the process. We will deliver timely, high-quality, consistent service and will do so in a straightforward fashion.
- Provide the right team — one that is technically qualified and knowledgeable about the industry and the University business, committed to superior client service, and managed by effective engagement leaders in a cohesive manner. We will deploy team members who understand the University's culture in order to maintain the appropriate relationships and enhance productivity and problem solving.
- Demonstrate our understanding and perspective by carefully considering the University's challenges, operating models, and recent performance. We will strive to address your concerns and issues proactively while simultaneously being sensitive to your environment. Our goal is to be regarded as a trusted adviser by providing ideas; insights; and pragmatic, relevant advice.
- Provide industry insight, drawing on our strong knowledge of your industry experience and informed sense of your organization.

We are proud of our long-standing relationship with you and appreciate the opportunity to serve the University again.

Recently, Deloitte's published "*Making the grade 2011-a Study of the top 10 issues facing higher education institutions*". A couple of key points in Deloitte's Global view:

“As operating margins shrink, higher education institutions must find new ways to cut costs without sacrificing services”.

“To succeed into the future, higher education institutions must take a good, hard look at their organizing principles. They must assess how well their academic and non-academic functions work together, the caliber of their student experience, their ability to attract the best students and faculty and the strength of their systems and processes. Ultimately, the victors will be those who can support their decision-making with the strongest business case.”

The future of the economy of the State of Minnesota is dependent upon the continued success of the University of Minnesota. We are committed to bringing the University our best insights in facing the unprecedented financial crises affecting Higher Education

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,

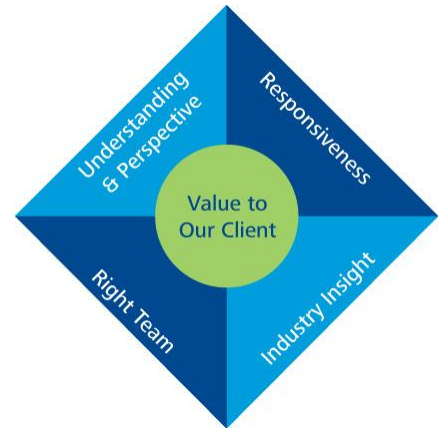
A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

Kirsten Vosen, Your Lead Client Service Partner

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# The Deloitte Client Experience



The University is important to Deloitte & Touche, and you deserve a customized approach to the services we provide. As a foundation for our service plan, we have developed a tailored set of service commitments for delivering the Deloitte Client Experience; these commitments will guide every aspect of our service. Our client service assessment, which is central to our philosophy, emphasizes listening to your expectations, reassessing your needs based on the feedback you provided in the assessment process, and responding with actions and results. We are pleased to have the opportunity to continually raise the bar by improving processes and adding value while delivering an effective and efficient audit.

The Deloitte Client Experience is our commitment to serving you. Our approach focuses on the following four key attributes of distinctive service delivery:

## Responsiveness

- Identifying and resolving issues with a strong sense of urgency, keeping you informed at every step of the process
- Striving to anticipate your needs by understanding your service expectations and making them our priority
- Delivering timely, high-quality, consistent services in a straightforward fashion

We want to anticipate your needs and questions and provide you with close personal attention in every aspect of our services. The University operates in an environment that requires swift response to new opportunities and challenges. Having dedicated and experienced Deloitte & Touche professionals at your disposal who understand your organization and environment saves critical time and resources in addressing the University's opportunities.

## The right team

- Technically qualified and knowledgeable about the higher education industry
- Commitment to superior client service
- Compatible with the University's culture and able to maintain the appropriate relationships and enhance productivity and problem solving

Our firm's mission is to be the standard of excellence. The engagement team assembled demonstrates our commitment to continuity. Our engagement team is one that you know and represents some of our most talented people who will continue to serve you with quality and distinction.

## Understanding and perspective

- Carefully consider the University's challenges, operating models, and recent performance
- Proactively address your concerns and issues while being sensitive to your environments and constraints
- Serve as a trusted advisor by providing ideas; insights; and pragmatic, relevant advice

Just as your organization operates year-round, so does our service. We believe that effective service is built on open and ongoing communication throughout the year, and our engagement team is committed to providing the Audit Committee and management with frank, frequent communication about the audit, our services, your organization, and your risk environment.

As the marketplace and the University's profile change, Deloitte & Touche's resources and specialists will be available to advise management as they evaluate the effects on your organization and your accounting and reporting requirements. Deloitte & Touche is at the forefront of new regulatory and accounting standards and will work with you to provide guidance on their implementation.

We will look for opportunities to increase the interaction among our subject-matter specialists, the Audit Committee, and management and to provide access to Deloitte & Touche's experience through avenues such as Dbriefs webcasts, conferences, publications, and other insightful resources.

## Industry and insight

- Drawing on our strong knowledge of specific higher education industry issues and an informed sense of your competitive positioning in a challenging marketplace, we will share industry knowledge and create tailored solutions to address the University's challenges and risks
- We will share cross-industry insights that affect you

Deloitte & Touche's eminence in the higher education industry sector provides opportunities for us to deliver feedback and cutting-edge insights on topics relevant to you and your industry. We are committed to making our resources available to you as we continue to provide distinctive client service to the University.



# Commitment to quality

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“It is critical that we continue to embrace the responsibilities that come with the privilege of being public company auditors. Transparency is an increasingly central element in demonstrating audit quality, and we fully support disclosure that provides investors, Audit Committees, regulators, and other market participants with information that will help them understand our commitment to audit quality.”

Barry Salzberg, Chief Executive Officer, Deloitte LLP

report includes information about our legal structure, governance processes, ethical principles, independence, and quality-control procedures, particularly for the audit practice of Deloitte & Touche. The report addresses the following types of quality-control matters related to our audit practice, among others: the approach to hiring and professional development, client acceptance and client continuance procedures, engagement risk assessment and monitoring, and the technical consultation network. It also discusses both our internal and Public Company Accounting Oversight Board (United States) (PCAOB) inspections, including a summary of the observations. In addition, the report outlines the actions we have taken and continue to take — as part of our overall continuous improvement efforts — to address those findings.

As part of our ongoing commitment to quality, we released *Advancing Quality through Transparency*, Deloitte LLP’s second annual transparency report, in March 2011. We take our responsibilities to Audit Committees and Boards of Trustees seriously, and we are dedicated to building confidence in the independent audit process. Transparency as to our governance processes, ethical standards, and quality controls demonstrates the culture of integrity, professional excellence, accountability, and continuous improvement that underpins our organization and promotes the confidence of governing bodies and client trust.

Our intent in releasing the report is to provide Audit Committees, regulators, and other market participants with information that will help them understand our commitment to audit quality. The

# Scope of services

Our responsibility under auditing standards generally accepted in the United States of America (“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 *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, 2011, 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. Our consideration of ICFR would not necessarily identify all deficiencies in ICFR that might be significant deficiencies or material weaknesses.

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)

## Compliance reports

- Federal Award Programs (Office of Management and Budget Circular A-133)
  - Schedule of Expenditures of Federal Awards
  - Report on the Internal Control and Compliance related to Financial Reporting
  - Report on the Internal Control and Compliance related to Major Programs
- National Collegiate Athletic Association (NCAA) Agreed-Upon Procedures
- Examination of Management’s Assertion of the University’s Compliance with the Minnesota Office of Higher Education Audit Guide

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 summarizing the results of our audits.

# The Deloitte Audit Approach

We recognize the importance of sharing our accounting, reporting, and industry knowledge and experience, and we will provide an enhanced level of skill for the specialized risks and industry issues affecting the University. The Deloitte Audit Approach is distinguished by the use of a broad range of industry and functional specialists, who are integral to the audit team.

For the University audit, we have identified specialists in control assurance, risk assessment and information technology (IT) auditing, and alternative investments. They 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. These specialists will regularly update the University's management on the technical accounting industry and other matters that affect the University to minimize surprises when new standards are issued or accounting developments occur.

We understand that audit effectiveness and efficiency are operating imperatives for both the University and our audit team. We have a relentless drive to achieve a more efficient audit process and a strong commitment to enhancing audit quality by increasing the effectiveness of our procedures.

The fundamentals of the Deloitte Audit Approach are rooted in professional standards, but what differentiates our audit practice it is the depth of perspective and professional judgment we bring in tailoring our audits to each client's operational risks. Deloitte & Touche listens carefully to what our clients and the accounting profession indicate are important criteria for enhancing audit quality, and we continuously improve our approach with this understanding to increase the effectiveness of our procedures and achieve an efficient audit process. With this approach, we maximize audit quality while appropriately controlling your audit costs.

Our focus on continuous improvement and our commitment to professional standards come together in the careful planning and knowledgeable execution that characterize the audit. Our approach — the Deloitte Audit — is partner-led, focused, interactive, and dynamic. We bring more than 20 years of collective audit experience serving the University. During 2010, we demonstrated our active engagement throughout the audit process; and we commit to doing the same moving forward. In 2011, you will continue to receive the same level of focused, interactive, dynamic service that you have come to expect from Deloitte & Touche. We take an active role in orchestrating and monitoring our work for you, quickly identifying potential risks, and keeping an eye out for opportunities. We will conduct periodic meetings with University management to facilitate discussions to provide timely and valuable feedback. You can trust that Kirsten and other members of our team will be involved throughout the year whenever you have questions or concerns. Our approach is:

- **Partner-led** — The audit plan is driven by our partners' experience and detailed knowledge of the University. Kirsten will be accessible daily, providing on-site support. We know you and you know us.
- **Focused** — We will update our understanding and identify the relevant risks associated with the University, the audit engagement, and potential errors in significant account balances or disclosures.

- **Interactive** — We will interact with the University’s management on site and respond to your needs and expectations appropriately. We will also work closely with Internal Audit in addressing risks identified and results of procedures they have performed.
- **Dynamic** — We will tailor our audit plan to respond to changing circumstances.

## Risk assessment

Risk assessment is a critical facet of our audit approach and our audit-scoping process. We identify risks 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 operational, regulatory, and economic circumstances of the industry in which the University operates. Risk identification takes place at several levels, both at Deloitte & Touche and at the University, throughout the year.

In developing our audit plan for each material account balance or consolidated financial statement line item, 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 have identified, we will perform a test of internal controls and/or 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 complete our work.

## Distinguishing features of the Deloitte Audit

### Partner-led audit planning and execution

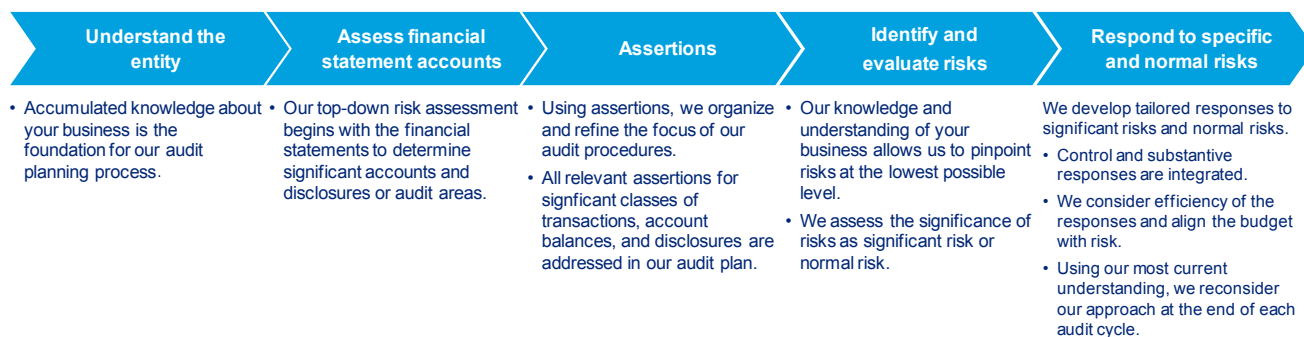
The Deloitte & Touche culture is noted for its emphasis on the role of our partners in the execution of our services. Experience tells us that an audit plan developed at the direction of engagement leaders yields an audit that has clarity of purpose and is tailored to the client’s business.

Kirsten will guide the upfront planning and execution of the University audit, using her deep understanding of your organization, your industry, and the professional literature to drive quality throughout the process. Under the leadership of Kirsten, our audit team will anticipate issues, address potential barriers to appropriate financial reporting and achievement of your operational initiatives, and help minimize surprises in the audit — all of which will bring significant value to the University.

Kirsten will guide the engagement team in identifying risks of material misstatement by considering what could go wrong in significant classes of transactions, account balances, and disclosures. She will be involved in the detailed audit execution, including assessing which procedures are most responsive to the identified risks, how much testing is required, and when the testing is performed. Kirsten will continuously challenge the procedures performed so we deliver an effective and efficient audit for the University. She will diligently monitor our hours in the context of materiality and risk and will hold everyone accountable to the audit plan and budget.

## An audit tailored to the University's organization and industry

### Deloitte Audit planning process



Deloitte & Touche's approach to the University's audit is grounded in our deep understanding of your organization. We begin by gaining a comprehensive perspective on your existing accounts and operations, and on your future operational objectives. Using this information as a foundation, we will tailor an audit plan that takes into account your unique circumstances, avoids surprises, and allows the University's personnel and the Deloitte & Touche team to focus on the account balances and transactions that are most critical.

### A laser focus on your most significant risks

When we speak of a tailored risk-based approach, we mean more than simply concentrating on headline risks. Our approach is distinguished by a refined view of risk that pinpoints what could go wrong to cause a material misstatement for significant account balances and disclosures. Applying this lens to the University audit, we will spend time on the areas that matter most and limit testing in areas that provide little or no additional audit assurance. In short, we will perform appropriate, but not excessive, audit procedures. We will initiate our audit plan for the University at the consolidated financial statement level to determine which significant accounts and disclosures require procedures and will 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 significant account, class of transaction, or disclosure to the relevant assertions. The decisions in these areas are matters of professional judgment. In this regard, Deloitte & Touche's depth of resources, deep understanding of professional standards, and risk-based audit approach come together in an audit that is specifically tailored for the University.

#### Benefits of pinpointing risk

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

#### Client service

- Helps us identify opportunities for the University to refine its assessment of risks and controls
- Enables value-added feedback on industry insights, operational issues, and risks that could have an impact on the University

#### Quality

- Focuses our use of the right specialists to address audit areas of specific risk
- Drives an integrated approach that covers both control and substantive responses
- Facilitates the identification of more effective methods of auditing

#### Efficiency

- Creates a targeted response for significant risk areas and normal risk areas, aligning audit effort with the risk
- Facilitates the identification of more efficient methods of auditing, including opportunities to integrate testing procedures

## Areas of audit focus

Based on our knowledge of the University and its industry, we have identified various areas of audit focus and areas of risks to the consolidated financial statements and have included our planned responses to those areas along with a discussion of where we will focus our resources and audit procedures. We continue to update our risk assessment as we perform our auditing procedures. We will inform the Audit Committee and management of significant changes to this assessment.

See the discussion of areas of audit focus within the “Areas of audit focus and risk” section.

## Executing the audit plan

The execution of the audit plan includes evaluating the design and testing the operating effectiveness of controls and performing substantive audit procedures. Whenever possible, we will perform tests of internal controls and substantive tests concurrently.

Our tests of ICFR will include entity-level control components, such as the control environment, risk assessment, information and communication, and monitoring, as well as process-level control components. Our process-level testing will include tests of controls related to relevant potential errors for significant accounts and disclosures.

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.

In response to Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, and continued emphasis by the PCAOB on the auditor’s responsibility to uncover fraud during an audit, we will perform audit procedures to address fraud risks present.

Our enhanced audit procedures related to fraud include evaluating the design, implementation, and operating effectiveness of management’s processes for identifying and responding to the risk of material misstatement resulting from fraud, as well as the programs and controls that management has established to mitigate that risk.

## Leveraging technology for efficiency and effectiveness

Deloitte & Touche places a high value on innovation, which has long been a strong global initiative of ours. As a result, we are leaders in the development and use of innovative auditing tools and technologies. These tools help us determine audit scope, prepare globally consistent audit work papers and files, conduct analytical reviews, select data for testing, accumulate audit results, and monitor progress to provide for the timely completion of tasks.

We continuously improve our technology to better meet the needs of our clients. Deloitte & Touche has invested significantly in developing proprietary software for conducting audits and communicating globally with audit teams and client personnel. In particular, AuditSystem/2 (AS/2) centralizes our audit and provides consistency in every region, country, and location. The tools described in the accompanying table are the most significant ones we plan to use on the University audit. We also intend to make full use of the University’s own technologies to gain further efficiencies. Based on our understanding of your IT environment, we will leverage the University’s PeopleSoft system to perform audit tests efficiently and to provide value to the University through our insights.

Technology	Description	Benefits
AS/2	Deloitte & Touche's global technology platform, AS/2 supports all Deloitte Touche Tohmatsu Limited member firms' global audit practitioners and all phases of the internal audit process. AS/2 is based on proprietary "audit packs" that outline control objectives for the cycle, describe the control priority, and present industry-preferred control activities. The AS/2 knowledge bases that support our methodology are customized to your industry, which provides an audit framework that allows rapid integration into your environment.	Rapid and effective electronic transfer of information among the audit team members.
Journal Entry Data Analysis Routines (JEDAR)	JEDAR is a standard tool for performing journal entry testing in support of testing for the risk of management override of controls. The tool helps audit teams focus more effectively on high-risk areas for fraud and error in journal entry testing analysis. JEDAR is particularly helpful on audits involving complex financial reporting systems with large volumes of data, multiple locations, or general ledger systems. We have specific JEDAR functionality that is built around PeopleSoft.	Helps audit teams focus more effectively on high-risk areas for fraud and error in journal entry testing analysis. Reduces the time necessary to perform the tests and allows tests to be performed that could not have been done manually.
Deloitte Audit Plus	An integrated audit software that supports all phases of the audit process, including planning, executing, and reporting. Deloitte Audit Plus significantly reduces the amount of time we spend on work paper preparation and allows us to devote more time to risk assessment, substantive audit, and business issues.	Facilitates sharing of knowledge; integrates tools, content, and other resources; connects Deloitte & Touche people with specialists around the world; delivers enhanced research and search capabilities; and provides content that is scalable to the University engagement.
Audit Command Language (ACL)	ACL is a powerful data analysis and management reporting tool. We use ACL to perform audit tests electronically and to interrogate files for audit applications that do not require complex data manipulations. Typical ACL procedures include simple statistical sample selection, aging, duplicate and gap identification, simple stratification, and data summary.	Allows unconstrained analyses on your data files.
Deloitte OnLine	Deloitte OnLine promotes communication with our clients and the seamless coordination of knowledge between work teams.	Allows information, leading practices, and ideas to be disseminated. Supports efficient access, interactive productivity, and communication, which represents a true collaboration between our clients and our engagement teams.



## Fostering year-round audit quality

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

Kirsten will lead a meeting soon after completing the year-end audit, a time when we have substantial knowledge about the University's operations, 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 do the same at each milestone during the year. By providing accounting consultation related to any unusual and significant transactions as they are being contemplated and performing audit procedures during the time frame in which they occur, we identify and resolve issues well in advance of the year-end.

## Monitored for quality

To further the goal of providing a high-quality audit, Deloitte & Touche employs an engagement quality assurance review process performed by a seasoned technical partner who is assigned to each engagement. Cliff Hoffman will fill this role for the University, assisting Kirsten in the early engagement planning and approval of the audit plan. Cliff is required to review consolidated financial statements and selected work papers and to evaluate the significant audit judgments made by the engagement team.

## Conclude and report

The results of the audit procedures performed throughout the year will be analyzed and conclusions drawn based on *Government Auditing Standards*. Prior to rendering our reports, we will conclude whether (1) the scope of the audit was sufficient to support our opinions and (2) the misstatements identified have caused the consolidated financial statements to be materially misstated.

To obtain this assurance, we accumulate known and likely misstatements that were identified while performing substantive audit 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 management and the Audit Committee.

### Benefits of the year-round evaluation of our tailored audit plan

#### Client service

- Enhances our responsiveness to changes in the University's business during the year
- Helps us modify the audit plan in response to changes in your business and processes

#### Quality

- Focuses our thinking and encourages advance planning to avoid surprises
- Helps us be alert to issues that will affect you and your audit and work with you to develop plans for managing those issues effectively

#### Efficiency

- Facilitates the identification of more effective and efficient methods of auditing
- Challenges prior-year and work plans to streamline and develop more responsive testing procedures



## **Audit Committee communication**

We are committed to anticipating issues and avoiding surprises. An important aspect of our professional responsibility is to bring issues to the attention of the Audit Committee and management. We will consult with management and the Audit Committee openly and candidly on a variety of matters, including accounting and financial reporting issues, significant deficiencies and material weaknesses, complex business transactions, and emerging issues from regulatory or standard-setting bodies.

We aim to provide management and the Audit Committee with insight into the condition of the operations and meaningful suggestions for improvement. These suggestions will be reported to appropriate management personnel for their consideration.

## **Client service assessment**

To determine how well we have achieved our client service objectives, we undertake a client service assessment that may involve meetings with, or the completion of questionnaires by, members of the Audit Committee and management. The client service assessment enhances our understanding of your expectations through your evaluation of our performance. This process allows us to refine our client service objectives so that we remain focused, responsive, and proactive in meeting your needs while fulfilling our professional responsibilities.

# Going beyond required communications

We recognize our responsibility to the Audit Committee and our role in its governance responsibilities. During our audit, we will provide updates on our status, areas of emphasis, and coordination efforts with management. Beyond the audit, Deloitte & Touche will provide relevant insights, market and economic trends, governance leading practices, and access to specialists and educational tools to enhance the effectiveness of the Audit Committee's oversight role.

The Audit Committee should be satisfied that the University has an effective process for continually identifying, assessing, and managing significant risks. Further, the Audit Committee should be confident that key issues are communicated to them and resolved appropriately. An important part of our responsibility as the University's independent auditor is to support the Audit Committee in carrying out their governance responsibilities.

More importantly, and in addition to these needs, our independent relationship provides a commitment to a collaborative and resourceful relationship as a trusted adviser. We will provide the following resources to help you as you fulfill your responsibility to the University:

- Personalized communication that focus attention on relevant matters
- 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

## Your resource for effective governance

Deloitte LLP's Center for Corporate Governance develops programs and resources to help Audit Committees and boards fulfill their oversight responsibilities by keeping them informed of governance trends, regulations, and leading practices. The center generates research on boardroom issues, conducts roundtables that bring together governance specialists to address board-related challenges, and hosts monthly webcasts on governance topics featuring prominent speakers. The Center for Corporate Governance Web site includes Deloitte LLP publications, as well as thought-ware from third-party public policy groups and various governance specialists, including The Aspen Institute, The Millstein Center for Corporate Governance and Performance at the Yale School of Management, National Association of Corporate Directors, Financial Executives International, American Institute of Certified Public Accountants (AICPA), and Institute of Internal Auditors.

Informed decision-making is a cornerstone of an effective board. Through our alliances with the University of Michigan's Ross School of Business and The Directors' Network, we offer a full range of development services for boards of directors. Our customized continuing 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, the Securities and Exchange Commission's agenda and other regulatory developments, antifraud program oversight, conducting investigations, and board considerations in mergers and acquisitions.

We encourage you to attend programs such as Deloitte LLP's Directors' Series and Audit Committee Symposium, which provide opportunities for face-to-face interaction with your peers and for further insights to help you fulfill your responsibilities. In addition, we offer Dbriefs webcasts on a range of topics that may be of interest to you and your management.

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

- Research and thought leadership
- Monthly governance webcasts
- The Directors' Series program
- Governance services



[Register now](#)

Register for the Center for Corporate Governance Web site at [www.corpgov.deloitte.com](http://www.corpgov.deloitte.com)

# Independence communications

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

- The commitment of our leaders and a culture that stresses the importance of independence
- Consultation and monitoring processes
- Clearly communicated, comprehensive independence policies
- A chief ethics and compliance officer
- Mandatory training
- A searchable global database of restricted entities
- Electronic tracking of personal financial holdings
- 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.

## **Independence representation**

The engagement team and the Member Firm have complied with all independence requirements as described under Section 3 of the generally accepted government auditing standards, as provided in *Government Auditing Standards*, July 2007 Revision, issued by the U.S. Government Accountability Office — more commonly referred to as the Yellow Book.

# Our client service team

## Consolidated financial statement audit

**Kirsten Vosen** — Lead Client Service Partner

**Deb DeHaas** — Advisory Partner

**Cliff Hoffman** — Quality Review Partner

**Amy Kroll** — Enterprise Risk Services Director

**Katie Knudtson** — Audit Senior Manager

**Judi Dockendorf** — Audit Manager

**Kirti Parakh** — Audit Manager (Investments)

**Reginald Abraham** — Minority Business Partner (IT Controls)

## A-133 single audit

**Tom Roos** — Audit Partner

**Judi Dockendorf** — Audit Manager

## NCAA agreed-upon procedures

**Tom Roos** — Audit Partner

**Judi Dockendorf** — Audit Manager

## RUMINCO

**Stephen Kuzyk** — Audit Partner

**Muhammad Khan** — Audit Senior Manager

**Clay Holland** — Audit Manager

# Areas of audit focus and risk

Audit focus areas	Description	Planned audit response
<p><b>Cash and cash equivalents</b></p> <p><b>Investments</b></p>	<ul style="list-style-type: none"> <li>▪ Fair value of investments, particularly those that are not readily marketable</li> <li>▪ Illiquidity in cash accounts, specifically money market accounts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate management’s methodology and process for valuing investments</li> <li>▪ Review support for valuation of investments, including money market funds, for potential impairment</li> <li>▪ Confirm all investment balances, including more detailed confirmations on a sample of alternative investments</li> <li>▪ Obtain the most recent audited consolidated financial statements for a sample of alternative investments for which a readily determinable market value is not available</li> <li>▪ Perform additional analysis as appropriate to support the valuation and existence assertion relative to alternative investments</li> <li>▪ 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</li> </ul>
<p><b>Long-term debt</b></p>	<ul style="list-style-type: none"> <li>▪ Default by counterparties on SWAP agreements</li> <li>▪ Current-year termination of SWAP agreements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Obtain an understanding of all SWAP agreements</li> <li>▪ Review management’s analysis and conclusion on accounting for SWAP agreements</li> <li>▪ Review management’s analysis on the accounting for SWAP terminations in the current year</li> <li>▪ Involve specialists to review SWAP accounting and documentation</li> <li>▪ Assess the financial condition of the SWAP counterparties</li> <li>▪ Confirm long-term debt</li> <li>▪ Assess compliance with debt covenants</li> </ul>
<p><b>Student, tuition and fees — net</b></p> <p><b>Federal grants and contracts</b></p> <p><b>Auxiliary enterprises — net</b></p>	<ul style="list-style-type: none"> <li>▪ Risk of overstatement of student tuition and fees, and other revenues (through premature revenue recognition or recording fictitious revenues)</li> <li>▪ Risk of understatement of student tuition and fees or other revenues (due to improperly shifting revenues to later periods)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review student tuition and fees and other revenue recognition accounting policies and procedures through walkthroughs of revenue cycles during internal control testing</li> <li>▪ 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</li> <li>▪ Reconciliation between federal grant and contracts revenue and our audit of the schedule of federal expenditures</li> </ul>

Audit focus areas	Description	Planned audit response
<b>Information management and communication</b>	<ul style="list-style-type: none"> <li>▪ Accuracy of all information generated or stored in the University's financial information systems</li> <li>▪ Accuracy of information accumulated throughout the University</li> </ul>	<ul style="list-style-type: none"> <li>▪ Perform internal control testing around the University's ability to accumulate accurate and reliable information for various departments throughout the University</li> </ul>
<b>Federal grant compliance</b>	<ul style="list-style-type: none"> <li>▪ Noncompliance with grant provisions or eligibility for participation in federal programs</li> <li>▪ Lack of effective internal controls over compliance to identify instances of noncompliance in a timely manner</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identify major programs to be tested</li> <li>▪ Identify compliance provisions applicable to major federal programs</li> <li>▪ 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)</li> <li>▪ Identify internal controls over compliance</li> <li>▪ Perform detail testing of compliance and internal control over compliance pursuant to the sampling guidance defined by the federal government inspector general</li> </ul>

# Audit timeline

	Monthly Activity											
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<i>University</i>												
Audit planning and risk assessment	█	█		█								
Interim audit work	█	█										
Final audit work				█	█	█						
Conclude and report						█						
<i>Compliance Audits</i>												
Planning and risk assessment	█	█		█								
Compliance requirements testing		█		█	█							
Conclude and report						█	█					
<i>NCAA Agreed-Upon Procedures</i>				█		█						
<i>Communication and coordination</i>	█	█	█	█	█	█	█	█	█	█	█	█



# Recent accounting and industry matters

## Recent GASB Project Updates<sup>1</sup> and American Recovery and Reinvestment Act:

### Codification of pre-November 30, 1989, FASB Pronouncements

The objective of this project is to specifically identify provisions in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins of the AICPA Committee on Accounting Procedure, and AICPA Accounting Interpretations issued on or before November 30, 1989, as referenced in paragraph 17 of GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, that do not conflict with or contradict GASB pronouncements and to incorporate those provisions into GASB's literature. An exposure draft was issued on January 29, 2010.

### Statement 14 reexamination

The objective of this project is to reexamine the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, as amended, to determine the effectiveness of the current standards, including its provisions for reporting fiduciary activities. It would determine whether consolidated financial statement users, preparers, and attestors believe that reporting entities applying that standard are including all appropriate, related organizations and excluding organizations that should not be included. The reexamination also would raise the question of whether the financial information of the included organizations is displayed and disclosed in the most appropriate and useful manner. Issued in November 2010.

### Economic condition reporting: fiscal sustainability

The overall, long-term objectives of this research are to identify the information that users require to assess a government's economic condition, to compare these needs with the information users receive under current standards, and to consider whether guidance should be considered for the remaining information. The principal focus of the project is to consider whether any additional information useful for assessing a government's economic condition should be required or encouraged for inclusion in a government's financial report. In light of growing national concern with fiscal sustainability, the project will consider how these concerns relate to economic condition. Along those lines, this project includes consideration of the information necessary for users to assess the risks associated with a government's intergovernmental financial dependencies, which previously was a separate project in the technical plan. This project is currently being deliberated.

### Postemployment benefit accounting and financial reporting

The objective of this project is to consider the possibility of improvements to the existing standards of accounting and financial reporting for postemployment benefits — including pension benefits and other postemployment benefits (OPEB) — by state and local governmental employers and by the trustees, administrators, or sponsors of pension or OPEB plans. One objective of this project is to improve accountability, or the transparency of financial reporting, in regard to the financial effects of employers' commitments and actions related to pension benefits and OPEB. This objective would include improving the information provided to help financial users assess the degree to which interperiod equity has been achieved. The other objective of

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<sup>1</sup> Information obtained from the Governmental Accounting Standards Board's Web site at GASB.org.

this project is to improve the usefulness of information for decisions of judgments or relevance to the various users of the general-purpose external financial reports of governmental employers and pension or OPEB plans. This project is currently being deliberated.

### **Conceptual framework — recognition and measurement attributes**

This project has two primary objectives. The first 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. The second objective is to consider the measurement attribute or measurement attributes (for example, historical cost or fair value) that conceptually should be used in governmental financial statements. This project is currently being deliberated.

### **Derivative Instruments—Application of Hedge Accounting Termination Provisions**

The objective of this project is to clarify the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, when a counterparty of an interest rate or commodity swap is replaced. An exposure draft was issued in February 2011.

### **Federal compliance: American Recovery and Reinvestment Act (ARRA)**

- The Office of Budget and Management is still working on the 2011 version of the Compliance Supplement.
- ARRA grants will be considered higher risk consistent with 2010. The government is continuing to monitor the use of ARRA funds.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**June 9, 2011**

**Agenda Item:** The University's Assurance Map - Where is Monitoring Occurring?

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt  
Lynn Zentner, Director, Institutional Compliance

**Purpose:**

policy       background/context       oversight       strategic positioning

Assurance activities are carried out for the express purpose of providing an assessment of risk management, compliance, and control processes of an organization. Such activities are a potential source of information for Boards and executive leadership, increasing confidence in the effectiveness of oversight.

**Outline of Key Points/Policy Issues:**

A project was undertaken to inventory the assurance activities carried out within the University of Minnesota. Specific attention was paid to identifying the amount of resources committed to these activities and whether duplications or gaps exist among the units in the assurance provided. The results and conclusions of the project will be shared with the Audit Committee.

**Background Information:**

The *Strategic Risk Management: Guiding Principles* implementation plan shared with the Board of Regents in February of 2011 included a step to: "Inventory assurance functions, review assurance reports to identify areas of continuing risks, and implement appropriate remedies."

## **Board of Regents**

### **Audit Committee**

**June 9, 2011**

## **The University's Assurance Map – Where is Monitoring Occurring**

### **What is Assurance**

Assurance is defined as “an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.”

Assurance is different from monitoring. The primary source of monitoring is the supervision of employees. This is the first line of defense over the risks and controls associated with the work of the University. Monitoring can also be performed by process and policy owners as a means to assess the efficacy of their processes and policies.

Assurance is also different from operational compliance activities. Many employees carry out activities that are subject to legal, regulatory, or policy requirements as part of their day-to-day work, and some units exist solely to ensure that University activities are conducted in a compliant manner (Student Finance, Sponsored Project Administration, etc.). While compliance is an integral part of these activities, they do not themselves constitute assurance; assurance, if it is provided, is done so by other functions.

Assurance activities are differentiated by the stakeholders they serve, their level of independence from the activities over which they provide assurance, and the robustness of that assurance. There are two general categories of assurance functions:

- Those that report to management (Institutional Compliance Officer, Research Compliance, Data Security, etc.)
- Those that report to the board (internal and external auditors)

The level of assurance desired, and who should provide that assurance, will vary depending on the risk.

Internal audit provides objective assurance to the Board of Regents on a wide spectrum of risks. External auditors provide independent assurance to the Board on the University's financial statements. The Institutional Compliance function is another source of assurance, and while reporting to the management, direct reporting of information is provided to the Board of Regents through the Audit Committee.

It is common for organizations to have a number of separate groups performing different assurance activities independent of one another, but most organizations do not have a clearly documented framework showing where assurance comes from, how much of it there is, who is providing it, or mechanisms for reporting results. In many cases the assurance activities reporting to management are embedded in the institution and are not immediately visible. The reporting of results can be varied in terms of formality and frequency.

Appropriate and robust assurance activities enable organizations to engage in strategic risk management more effectively. Having a comprehensive understanding of the University's assurance functions is considered important to furthering the administration's desire to undertake a more disciplined approach to strategic risk management. Included as Step 2 in the Strategic Risk

Management: Guiding Principles implementation plan shared with the Board of Regents in February 2011 was: “Inventory assurance functions, review assurance reports to identify areas of continuing risk and implement appropriate remedies.”

### **What is an Assurance Map**

Assurance mapping is a methodology recommended by South Africa’s 2009 King Report that dealt with improving organizational governance. It involves systemically identifying where assurance activities are being performed and over what types of institutional activities, looking at what information is being generated from the assurance functions and where it is reported. The aim is to ensure that there is a comprehensive review of assurance activities for duplicated effort or unintended gaps.

Assurance maps provide a better understanding of the roles and scope of the work undertaken by the various assurance providers within the University – many of which do not have visibility at the Board level.

### **Uses of the Assurance Map**

A robust assurance map enables the Board/Audit Committee to assess whether they are comfortable with the quantity and focus of assurance within the organization. This can increase the Board’s confidence in the effectiveness of their oversight.

By providing a platform to support the objective evaluation of the level of assurance being provided by assurance and compliance functions, as well as the quality and independence of the assurance that each provides, assurance maps can also help inform the administration in its determination of its optimal assurance framework, taking into account its strategic approach to risk management. The maps also can help identify, and eliminate, overlaps by the various assurance providers, thereby optimizing and integrating the level of assurance that an organization has in place. Finally, the maps provide information that can help to begin to quantify the cost of assurance as both a component of the cost of compliance, and as a discrete activity.

Internal audit places reliance on some assurance functions, allowing us to focus our resources on other risks.

Assurance maps allow an organization to tackle overly complex governance and control structures. Better coordination among assurance activities can reduce disruption, distraction, and control fatigue on the day-to-day operations through coordinated inspections/reviews, etc.

Assurance maps can help an organization to better align assurance delivery and what is actually needed. If you start with the assurance needs of stakeholders rather than the assurance delivery by providers you will usually get a more streamlined set of requirements.

The process of completing the assurance map also provides the opportunity to evaluate the existence, consistency and frequency of the information presented to give assurance.

## **Review of Assurance Mapping Activities by University Units**

In the fall of 2010-11, staff of the Office of Institutional Compliance (OIC) met with staff of several University units for the purpose of determining where and to what extent assurance activities are occurring. The purpose of the initiative was to: (1) identify University units engaged in assurance activities; (2) determine whether multiple units were engaged in the same assurance activities; and (3) also determine whether certain compliance risk areas had no associated assurance-related activities. In other words, the purpose was to identify duplication of effort and gaps. Although not reflected in the attached spreadsheet, each of the units which participated in this review provides assurance information to OIC via a semi-annual reporting process.

### **The Information Gathering Process**

The data gathering effort involved a phased approach. The initial five pilot groups were used both for data gathering purposes as well as to test the methods/tools used to implement the information gathering process. Once the methods/tools used to implement the project were evaluated, interviews were conducted of staff in five additional units. The information obtained was captured on a spreadsheet in order to identify patterns across units and to determine where activities overlapped and gaps existed. In all, interviews were conducted of staff in the ten units referenced below.

*Academic Support Resources*  
*Disability Services*  
*Environmental Health and Safety (pilot)*  
*Equal Opportunity & Affirmative Action*  
*Institutional Animal Care and Use Committee (pilot)*  
*Occupational Health and Safety (pilot)*  
*Research Animal Resources (pilot)*  
*Research Integrity and Oversight Programs (pilot)*  
*Sponsored Financial Reporting*  
*Sponsored Projects Administration*

The associated nine subject matter areas cut a swath across the Compliance Risk Profile Heat Map (high, medium, and low). See Exhibit A. A summary of the results of the interviews conducted is reflected on Exhibit B. The key conclusions drawn from this exercise are reflected below.

Although the Office of Athletic Compliance was not interviewed, the sole function of this office is to provide assurance for compliance activities that are routinely performed by many athletic personnel (coaches, trainers, equipment managers, etc).

### **Overall Conclusions**

- No overlapping assurance monitoring was found. Although several units provide assurance for a single risk area such as research, each unit is responsible for discrete monitoring activities.

- With respect to all the activities captured through this process, fewer resources were identified as carrying out assurance activities than was originally anticipated.
- A greater level of assurance monitoring activities occurred in the units categorized as medium or high risk on the heat map. No assurance monitoring activities were identified with respect to the two low risk units, Disability Services and Academic Support Services (Student Finance).
- While every assurance activity produces a report, the reports are not always distributed. The most frequent recipients are an institutional official or a regulatory committee.
- Resources dedicated to assurance monitoring ranged from as little as .25 FTE (controlled substances) to as high as 9 FTE (monitoring the welfare of vertebrate animals).
- Approximately 50% of the assurance monitoring also had an external agency that routinely audits the activities, or requires completion of a compliance report that is submitted to them.
- At least 2/3 of the activities included some form of on-site inspection.

## Summary of Assurance Monitoring Activities that Report to University Administration

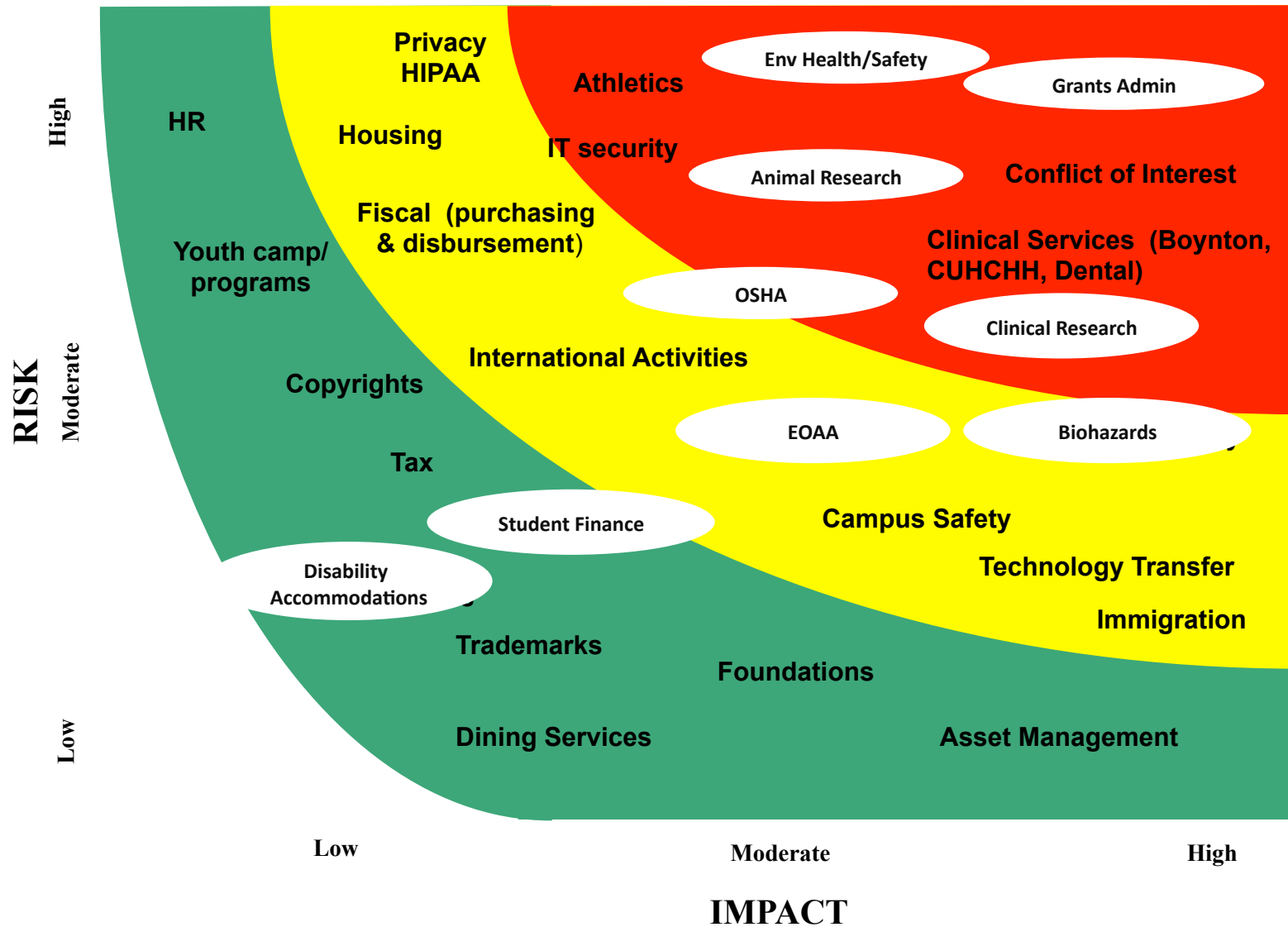
Risk Area	Risk	Monitoring Unit	Type of Assurance Monitoring	Frequency of Monitoring	Audience(s) for Report	# FTE	Agency(s) that Monitor
Human Subjects		OVPR: Institutional Review Board	Determines whether the PI is following protocol	Continuing Review	PI and IRB	2 FTE	AAHRPP
		OVPR: Research Integrity and Oversight, External Consultant	Review of post approval monitoring results and IRB processes in protocols	Annual	VP for Research	.5 FTE	AAHRPP
		OVPR: Clinical monitors AHC: Clinical and Translational Science Institute	Confirms appropriate forms, etc are completed	Continuing Review	PI, Council Research Associate Deans, VP for Research	4 FTE	FDA
Effort certification		OVPR: Sponsored Projects Administrative	Monitors effort statements	Three times a year	Department chairs; Resource Resp Center managers	1.15 FTE	None
Controlled Substances		OVPR: Research Integrity and Oversight	Ensures security of controlled substances	Continuing Review	PI and Director, Research Integrity and Oversight	.25 FTE	MN Board of Pharmacy, DEA
Stem Cell Research		OVPR: Research Integrity and Oversight, Human Embryo and Embryonic Stem Cell Research Oversight	Determines compliance with research protocol	Continuing Review	Institutional Review Board, VP for Research	.25 FTE	None
Finance		OVPR: Sponsored Financial Reporting	Reviews spending deficits on sponsored awards	Annually	Accounting Services and Internal Audits	.03 FTE	None
		OVPR: Office of Analysis and Reporting	Performs financial oversight of sponsored projects	Monthly: transactional depts every three years	VP for Research	3.25 FTE	External auditor's A-133 Audit
Environmental Health and Safety		Department of Environmental Health and Safety	Monitors chemical security and quantities of selected chemicals	Other	Vice Presidents	1.25 FTE	DHS
			Monitors chemical waste handling	Semi-annually	Lab PI and staff	1 FTE	Hennepin Cty, MPCA, EPA
			Monitors waste collection areas	Other	Environmental Health and Safety; operators of the area	0.25 FTE	MPCA
			Monitors storm water operations	Other	Annual report to MPCA	0.5 FTE	None
			Conducts food safety inspections	Other	Env Health and Safety, Director of Univ Dining Svcs	1.25 FTE	MN Dept of Health
			Verifies quarterly inventory of radioactive materials.	Other	U Radiation Protection Comm	8 FTE	Mn Dept of Health
			Conducts inspections of Select Agent inventories	Other		.80 FTE	CDC, APHIS (USDA)
			Inspections of high-impact waste water areas (e.g., animal waste in St Paul)	Semi-annually	Metro Council - Environmental Services	.20 FTE	None
Occupational Health and Safety		Occupational Health and Safety	Evaluates proper fit of respirators	Other	Occupational Health & Safety, Graduate Medical Education	.25 FTE	None
			Inspects labs to ensure chemicals are being managed appropriately	Other	PI, Dept of Env Health & Safety, and Occupational Health & Safety	.8 FTE	None



## Summary of Assurance Monitoring Activities that Report to University Administration

Risk Area	Risk	Monitoring Unit	Type of Assurance Monitoring	Frequency of Monitoring	Audience(s) for Report	# FTE	Agency(s) that Monitor
Title IX		Equal Opportunity and Affirmative Action	Measures progress against NCAA Self Study goals	Monthly	Vice President and Chief of Staff	.02 FTE	None
Affirmative Action		Equal Opportunity and Affirmative Action	Identifies missing race and gender information in application files.	Periodically (at least annually)	Human Resources	.01 FTE	None
Animal Research		OVRP: Institutional Animal Care and Use Committee	Lab inspections	Semi-annually	Inst Animal Care & Use Committee, VP Tim Mulcahy	.25 FTE	USDA
		OVRP: Institutional Animal Care and Use Committee	Lab inspections for animals not covered by AAALAC	Semi-annually	VP Tim Mulcahy	.25 FTE	None
		OVRP: Institutional Animal Care and Use Committee	Rodent Surgery Lab Inspections	Semi-annually		.5 FTE	NIH
		OVRP: Office of Animal Welfare	Post approval monitoring results.	Annually		1.0 FTE	None
		OVRP and AHC: Research Animal Resources and IACUC	Inspections of animal housing outside of RAR	Monthly	Inst Care Animal Care & Use Committee	.1 FTE	None
		OVRP: Research Integrity and Oversight	Reviews and trends inspection results	Every 3 years	VP for Research	.5 FTE	AAALAC
		OVRP: Institutional Animal Care and Use Committee	Monitors the welfare of vertebrate animals.	Semi-annually	Pis, VP Tim Mulcahy and Off of Inst Compliance	9.0 FTE	AAALAC, USDA, PHS/NIH
Biosafety		OVRP: Institutional Biosafety Committee	Determines whether the PI is following protocol	Continuing Review	PI and Institutional Biosafety Committee	IBC members	None
		Department of Env Health and Safety	Inspects labs using biosafety controlled substances	Annually	Principal Investigator and Institutional Biosafety Committee	1.3 FTE	None
			Reviews and trends post approval monitoring results	Every 1-2 years	VP for Research, Director, Dept of Env Health & Safety	.15 FTE	None
<b>Legend: External Agencies</b>							
AAALAC	Assoc. for Assessment and Accreditation of Laboratory Animal Care						
AAHRPP	Assoc. for the Accreditation of Human Research Protection Programs						
APHIS	Animal and Plant Health Inspection Service						
CDC	Center for Disease Control			MPCA	Minnesota Pollution Control Agency		
DEA	Drug Enforcement Administration			NIH	National Institutes of Health		
DHS	Department of Homeland Security			PHS/NIH	Public Health Service, National Institutes of Health		
EPA	Environmental Protection Agency			USDA	United States Drug Administration		
FDA	Food and Drug Administration						

# Assurance Mapping – Units Interviewed – Institutional Compliance Heat Map Ranking





**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**June 9, 2011**

**Agenda Item:** Compliance Officer Report

review       review/action       action       discussion

**Presenters:** Lynn Zentner, Director, 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:**

The Institutional Compliance Officer will provide the Committee with a summary of the most significant compliance-related risks identified since her November 2010 report to the Audit Committee, and current compliance-related initiatives, focusing on the following issues: HIPAA-related matters, International Programs, conflict of interest program and policy issues, research outreach centers, and UReport.

**Background Information:**

The Institutional Compliance officer regularly reports on the institutional compliance program at least twice each year.

**REPORT OF THE DIRECTOR, OFFICE OF INSTITUTIONAL COMPLIANCE  
FOR THE AUDIT COMMITTEE OF THE BOARD OF REGENTS  
ON THE UNIVERSITY COMPLIANCE PROGRAM  
JUNE 9, 2011**

**INTRODUCTION**

This report provides an update on significant compliance-related matters for the period April 1 through September 2010 as well as matters of significance that have occurred since then. Information for this report was gleaned from reports submitted by and communications with each of the 30 Compliance Partners for the six-month legal compliance reporting period ending September 30, 2010, from the Director's participation on numerous compliance-related committees, and from other sources of available information since the end of that reporting period.

Further information regarding the University's Compliance Program is available at <http://www.compliance.umn.edu/complianceHome.htm>.

**I. THE MOST SIGNIFICANT CURRENT RISK AREAS AND BRIEF SUMMARY OF THE ACTIONS TAKEN TO ADDRESS THEM**

**A. HIPAA Concerns with Google Implementation**

As previously reported, in 2009 the University decided to move all electronic mail and calendaring to Google applications. This decision impacted the Academic Health Center (AHC) as well as other University health care components and has implications for the University under the Health Insurance Portability and Accountability Act ("HIPAA") enacted in 1996. HIPAA governs the disclosure and use of protected health information ("PHI"). Under HIPAA, the University is a "covered entity" and Google is a "business associate". Every health care provider which electronically transmits health information is a "covered entity". A "business associate" is a person or organization that performs certain functions or activities on behalf of the covered entity that involve the use or disclosure of individually identifiable health information. Business associate functions or activities can include claims processing, data analysis, utilization review, and billing. Business associate services can include legal, actuarial, accounting, consulting, data aggregation, management, administrative, accreditation, or financial services.

When the University, as a covered entity, uses an organization to perform "business associate" services or activities, HIPAA requires that the covered entity and business associate enter into a business associate agreement that establishes certain safeguards regarding PHI which the business associate gains access to as a result of its relationship with the covered entity. As previously reported to this Committee, despite substantial effort by the University, Google has not, to date, agreed to enter into a business associate agreement. As a result, the University has delayed the transition to Google for University units that create and/or receive PHI. The HIPAA Office and the Office of Information

Technology (“OIT”) have worked closely with each other to ensure that technical controls are in place to protect PHI in units that transmit PHI in e-mail prior to transitioning those units to Google applications.

**B. Global Programs and Strategy Alliance (formerly the Office of International Programs)**

The Global Programs and Strategy Alliance (GPS Alliance) has identified over the course of the past couple of years a number of challenges facing faculty and staff who conduct University-related research and other academic initiatives outside the United States. The challenges are often not with the academic initiatives themselves, but rather with “business” related issues associated with these academic initiatives. As a result, the University must acquire the expertise needed to adequately support this work. Below are examples of the current challenges:

- hiring, compensating, and providing benefits to individuals working outside the United States;
- determining the foreign legal requirements that apply to overseas activities and the options available for complying with those requirements;
- addressing tax implications for both the University and individuals;
- responding to insurance needs and requirements;
- leasing real property and vehicles; and
- accessing banking services.

More than a year ago, an Employment Outside the University States Working Group was convened by the Office of Human Resources (OHR) in an effort to address some of these issues. The membership of the working group includes representatives of OHR, the Office of the General Counsel, GPS Alliance, Risk Management, and the Tax Management Office. Over time, the working group concluded that they lack the resources and expertise necessary to adequately address the issues brought to their attention. This matter was addressed last fall and again early this year by the Executive Oversight Compliance Committee. Input was provided by Senior Vice President Robert Jones and Associate Vice President and Dean Meredith McQuaid. As a result of information provided by GPS Alliance and awareness regarding the limitations associated with current internal resources and expertise, a decision was made to develop an RFP to identify prospective vendors capable of providing a variety of compliance-related services in an international context. A couple of large accounting firms and other commercial entities appear to have the capability to address the issues currently facing the University around the world. GPS Alliance staff are currently preparing an RFP and leading this initiative.

**C. Conflict of Interest Program**

*The Public Health Service’s Proposed Revised Conflict of Interest Rule.* As previously reported, on May 21, 2010, the Public Health Service (PHS) issued a Notice of Public Rule Making, soliciting public comment on its proposed revision of its current rule regarding financial conflicts of interest. The revised rule, if adopted, would impose several substantial changes on institutions of higher education as noted below. It would:

- require investigators who receive funding from NIH to disclose all significant financial interests (SFIs) related to their University responsibilities, not just those that are related to PHS-funded research as determined by the investigator;
- lower the monetary threshold at which interests require disclosure from \$10,000 to \$5,000 and require the disclosure of all equity interests in non-publicly traded entities;
- significantly narrow the financial interests that are currently excluded from financial reporting requirements, notably, remuneration received from nonprofit organizations for participation in seminars, lectures, teaching, and service on advisory or review panels; and
- require every institution receiving NIH funds to post, on a publicly accessible Web site, information regarding significant financial interests that the institution has determined are related to NIH-funded research and constitute a financial conflict of interest.

The proposed final rule was submitted by PHS to the Office of Management and Budget (“OMB”) in March of this year. We understand that OMB has 90 days to review the matter and determine whether to approve the proposed rule or return it to PHS for revision. The 90-day period will end in June. Should the final rule retain any of the above referenced provisions, greater resources likely will be required to comply with them. If the final rule imposes requirements that exceed those in the University’s recently revised conflict of interest policies, the University will need to address a couple of key issues, namely whether to limit the application of the new requirements to those faculty and staff involved in PHS/NIH-sponsored research or to make the new rule applicable University-wide which it has done in the past. If a decision is made to implement the rule University-wide, the University will need to consider whether to allocate additional resources to conflict of interest identification and management.

Administrative Policy: Individual Conflicts of Interest: Standards that Govern Those Involved In Clinical Health Care. This policy contains the University’s most restrictive conflict of interest provisions. It was formerly an appendix to the policy titled: *Individual Conflicts of Interest* which has been in effect since last October. As an appendix, the policy document governed only faculty and staff with appointments in one of the colleges or schools in the Academic Health Center (AHC) who are involved in “clinical health care” (the provision of medical, dental, nursing, or other health-related care to humans or animals for the treatment of disease or injury). In the course of considering the proposed revisions to the University’s conflict of interest policies, the President’s Policy Committee requested that the Appendix eventually have University-wide application.

During the winter months, the Director identified units in schools and colleges outside the AHC where faculty and staff were involved in the provision of clinical health care. Those colleges and schools included, for example:

- Health Services on all University campuses
- Athletic Trainers

- Speech, Language and Hearing Services in CLA
- School of Kinesiology in the College of Education and Human Development
- Music Therapy Program in CLA

The draft policy was vetted with individuals who would be impacted by its terms. It was also vetted with the Faculty Consultative Committee and the Senate Consultative Committee and endorsed by the University Senate on April 14. The 30-day review and comment period has recently expired and the policy will be published.

*Conflict of Interest Training Module.* The University’s recently revised conflict of interest policies require conflict of interest training every 3 years. Staff in the Conflict of Interest Program developed an on-line training module to address this requirement. When the University community was asked to complete Reports of External Professional Activities (REPAs) this year, they were also provided with a link to the training module and asked to complete the training. To date, approximately 50% of University employees required to complete a REPA have completed this training.

*Current Reporting Statistics for the University’s Annual Reporting Requirements – Report of External Professional Activities (REPA) and the Financial Disclosure for University Officials Form (FDUO).*

REPAs

Total number of University employees required to file a REPA: 9,073  
 Number of REPAs filed to date: 8,426 or 93%  
 Number of REPAs approved to date: 7,454 or 82%

FDUOs

Total number of University officials required to file a FDUO: 248  
 Number of FDUO’s filed to date: 233

**II. FOLLOW-UP ON A PREVIOUSLY REPORTED MATTER**

**A. Research Outreach Centers**

In reports submitted to the Audit Committee in March and November 2009, the Director described inspection activities that were taking place at the University’s Research Outreach Centers (“ROCs”) to ensure these centers are in compliance with all applicable occupational health and safety and environmental health and safety requirements and standards which include the following:

- The American National Standards Institute’s Standard for Occupational Health and Safety Management Systems
- Minnesota Occupational Safety and Health Regulations
- Accreditation requirements of the Association for the Assessment and Accreditation of Laboratory Animal Care (where applicable)
- National Agricultural Safety Database

The ROCs are located at Grand Rapids, Waseca, U-More Park, Lamberton, Crookston, Cloquet, Morris, Sand Plans, and the Arboretum. The purpose for the inspections was to gather information that would inform the University about whether and to what extent it needed to strengthen its ROC-related policies, procedures and training program and address particular resource, equipment, and facilities issues. By late fall 2009, the inspections were completed and reports of findings prepared. Deficiencies were prioritized based on an assessment of the significance of the risks identified. It was anticipated that the process of resolving all of the identified deficiencies would take approximately one year. The inspections and related follow-up were conducted by the Office of Occupational Health and Safety (OHS) and the Department of Environmental Health and Safety (DEHS).

An update on compliance related activities at the ROCs was provided at a meeting of the Occupational Health and Safety Committee in late February of this year. At that time, OHS Director Ross Janssen reported that a significant training effort was then underway at all ROC locations. Tool boxes for supervisors and binders of training materials have been created and disseminated to ROC supervisors for use in training ROC employees. Systems for tracking those who had completed the training were also created. This effort reflects the continued efforts and coordination of OHS and DEHS and brings closure to a multi-year compliance effort.

### **III. UREPORT**

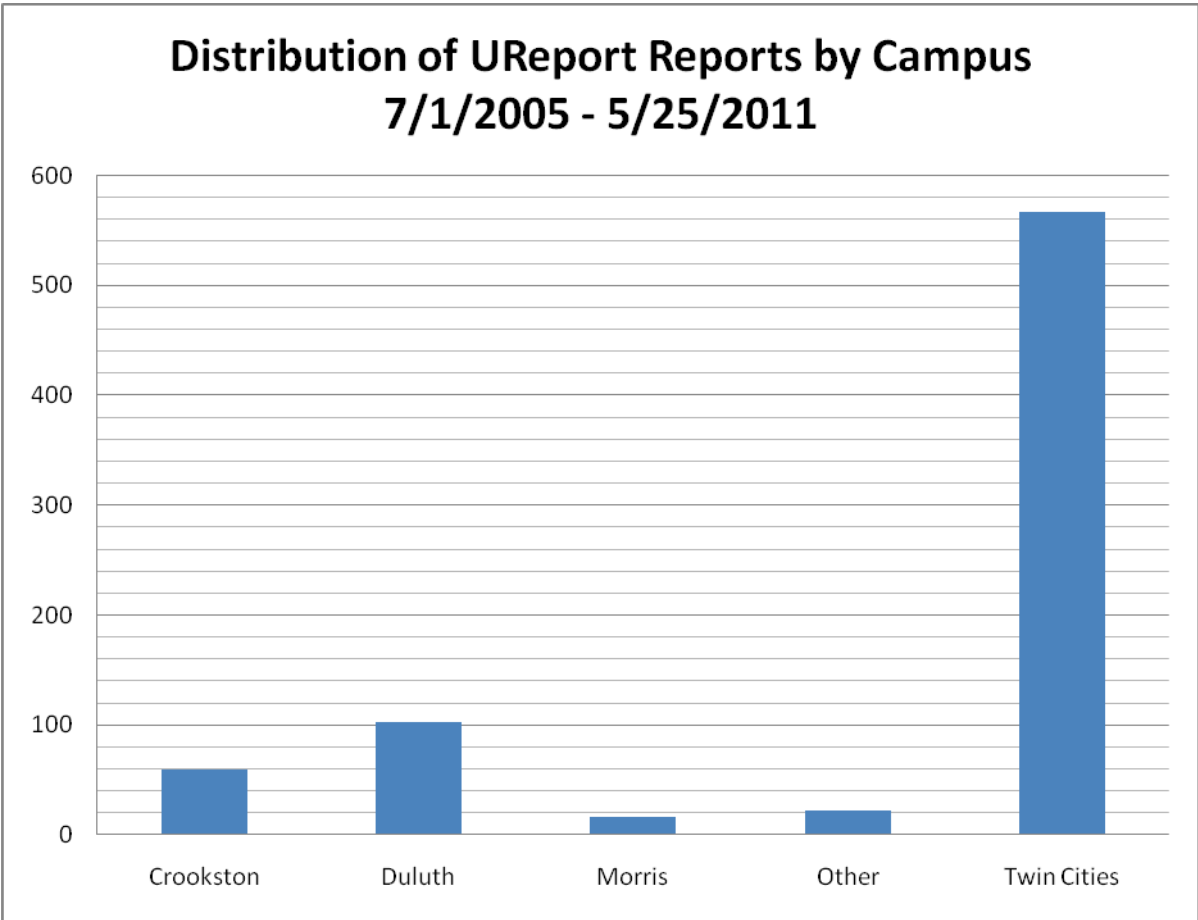
UReport is the University's confidential web-based reporting service. This reporting service is provided by EthicsPoint, an independent company that provides similar services for hundreds of companies and universities. UReport is intended to be used to report violations of local, state and federal law 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 745 reports have been submitted, averaging approximately 100 per year. To date, in 2011, 55 reports have been submitted. Eighty-two percent of the reports submitted during this calendar year have been anonymous. As might be expected given the differing sizes of campuses, over three-quarters of the reports submitted related to the Twin Cities campus. This summer, UReport will be rolled out to the Rochester campus as well.

Eighty-six percent of the reports are received via the internet. Only 51% of anonymous reporters checked back to determine the status of the follow up conducted regarding the concerns they have described. The graphs below illustrate these figures.



Issue	Running Total	Year to date (5/25/2011)
Total Reports	745	55
Report Sources:		
Internet	86%	96%
Call Center	13%	4%
Other	1%	0%
% Anonymous	73%	82%
Reporter "check back rate" for anonymous reports	51%	48%





**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**June 9, 2011**

**Agenda Item:** Internal Audit Update

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations.

**Outline of Key Points/Policy Issues:**

- Since our last follow-up for the February 2011 meeting, 28% of the outstanding recommendations rated as “essential” were implemented by University departments. This percentage is less than our expected implementation rate of 40%. An updated control evaluation chart is included for each audit to show progress made on the “essential” items. Three units fully implemented all their remaining “essential” recommendations.
- Ten audit reports containing 37 recommendations rated as “essential” were issued in the last four months.
- We are proposing a change in the approach used to allocate internal audit resources.

**Background Information:**

This report is prepared on a quarterly basis and is presented to the Audit Committee in conformance with Board Operations and Agenda Guidelines.

## **Internal Audit Update**

University of Minnesota Regents Audit Committee  
June 9, 2011

This report includes:

- Audit Observations/Information/Status of Critical Measures/Other Items
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since February 8, 2011

Details for any of the items in this report are available on request. Individual reports were sent to the President, Provost, Vice Presidents, and Chancellors about these internal audit issues.

### **Audit Observations/Information**

#### **Status of Critical Measures**

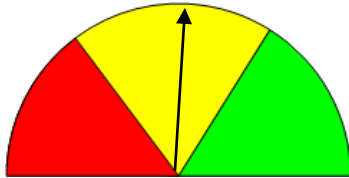
As part of our on-going efforts to provide the Audit Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snapshot” status report on work performed by the Office of Internal Audit.

The first chart, “Essential Recommendation Implementation”, provides our overall assessment of the success University departments had during the last quarter in implementing our essential recommendations. Readings in the yellow or red indicate implementation percentages less than, or significantly less than, our expected University-wide rate of 40%. Detailed information on this topic, both institution-wide and for each individual unit, is contained in the next section of this Update Report.

The second chart, entitled “Progress Towards Annual Audit Plan Completion”, is our assessment of how we are progressing towards completion of the FY 2011 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

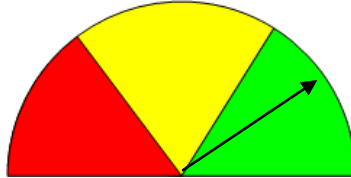
The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings in the yellow or red may result in seeking Audit Committee approval for modifying the Annual Audit Plan.

### Essential Recommendation Implementation



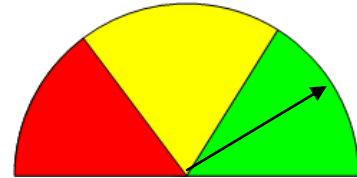
Implementation rates were 28% for the period, which is less than our expected rate of 40%.

### Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2011 audit plan is about what was expected and budgeted.

### Time Spent on Investigative Activities



Time spent on investigative activities and special projects is slightly less than what was expected and budgeted for the year to date.

The Office of Investments and Banking (OIB) receives extensive audit coverage by Deloitte and Touche during the annual financial statement audit. The coverage provided includes all the material risks associated with the University investments and banking activities, and requires specific expertise in areas such as alternative investments which is not resident on the internal; audit staff. Because of the very substantive attention provided to this area, we seek the Audit Committee's concurrence to forgo the audit of OIB that is included in our FY 2011 Audit Plan.

### Other Items

#### **Proposal to Change the Approach for the Allocation of Audit Resources**

We are seeking the Audit Committee's direction on whether we should pursue an intentional and strategic evolution in our approach to deploying audit resources. We conduct our audit practice in compliance with the Institute of Internal Auditors' **Standards for the Professional Practice of Internal Auditing** and adapt our practice as these Standards change. There is a very high likelihood that within the next 3-5 years these Standards will require an overall opinion on the effectiveness of internal control and risk management practices be rendered annually at the institutional level. Given the size and complexity of the University, our current methodology for providing audit coverage would not enable us to obtain sufficient audit evidence to support such an opinion annually. We would like to propose an alternative methodology that would better position us to comply with such a Standard, as well as significantly improve our ability to further the administration's initiative regarding risk tolerance. The proposed methodology also would offer significant opportunities to further utilize technology to broaden our audit coverage over key institutional processes. There are, however, trade-offs, and it is important that the Audit Committee understands the implications if such a change in undertaken

#### *Current Methodology*

Our current annual plans are built primarily around audit coverage of operating units (colleges, departments, etc.). A small number of process audits are included each year. Audit coverage is constructed to be "a mile wide and a mile deep" so that all significant activities carried out at

the local level are audited thoroughly. Audit work is premised on the assumption that existing University policies are appropriately calibrated and the audit objective is primarily to determine local compliance.

This approach has, admittedly, served the University well. The University community values the coverage and accountability that is derived from these efforts. Unit leadership and personnel find the unit based audits to be very educational and senior leadership appreciates the accountability that is established.

It has, however, become increasingly difficult to maintain our established audit cycles as the University and its individual components become larger. Institutional trends in audit results can be determined but take a longer time to develop. This is exacerbated as audit cycles become longer. Trends also are not readily apparent to recipients of audit information (such as the Audit Committee and senior leadership) and require analysis by the audit staff to produce trending information. This approach is also not especially conducive to responding to emerging areas of concern, topics of interest at the Board and executive level. It is also not especially conducive to identifying systemic issues such as policy ineffectiveness, cost savings opportunities, best practices, etc. because of its focus on local operations.

#### *Proposed Methodology*

An alternative methodology would be to base the annual audit plan primarily on process audits. These audits could be conducted on either a campus-wide or system-wide basis. The focus of the audits would be at the business process/policy level with the primary audit objective being to evaluate the efficiency and effectiveness of the specific process and related policies. Testing would be conducted in a sample of University units to obtain the evidence needed to formulate the audit conclusions. Audit coverage would be determined using a statistically valid methodology which would allow for extrapolation of the audit findings across the entire University.

This approach would be more effective at providing the Board of Regents assurance as to the University's overall risk and control effectiveness. Indicators of systemic problems would be more immediately identifiable, and recipients of audit information would be able to quickly gauge institutional compliance with policies and procedures. Our audits would include the identification by process/policy owners of the performance expectations (level of compliance) expected, which would further the risk tolerance discussion at a very practical level. This methodology also will be more effective in identifying when policy changes might be warranted based on a risk/cost/burden assessment. Best practices would also be more apparent as information from multiple units would be available to assess differences in audit results.

Some unit audits would still be included in the annual plan, but these would constitute a far smaller percentage than has been our practice. Unit audits would be included based on risk and/or specific requests from the administration; however, formal audit cycles would most likely be eliminated. There would also be selected units which would continue to be audited individually because of their unique activities and risks such as Intercollegiate Athletics, Student Finance, etc. We would also intend to continue to provide audit coverage at the coordinate campuses as we do currently, at least until this approach has been more fully integrated into our practice.

In implementing this type of methodology we would develop a system to track audit coverage provided within the process audits by college/department/unit. This would help us identify units that have a pattern of operational problems. We would also continue our historical practice of

engaging in discussions with institutional leaders during our planning process, by which we are alerted to units which may warrant specific audit attention.

The hierarchy of the audit plan would be: 1) process audits, 2) special requests of areas that warrant reviews and 3) unit audits, with priority given to those with the highest risk assessment. The current methodology results in an audit plan that is approximately 85% unit audits and 15% process. We would expect the proposed methodology to result in approximately 70% process audits and 30% unit audits.

Based on our experience with conducting process audits, we expect this approach may initially be met with some resistance from process/policy owners who have no control over the individuals within the local units who are responsible for adherence to the process/policies. This approach also would not result in the granularity that our current audits do. It is likely that localized problems would not be identified, nor would risks that could be significant at the unit level but which are not institutionally significant. The approach would provide coverage over most of the activities that are engaged in at the local level, but through the view of the process versus the unit, with the exception of local resource management.

*Policy Questions:*

1. Should we pursue an intentional evolution of our approach to deploying internal audit resources and focus these resources primarily on process audits?
2. If so, is the percentage of 70% process audits and 30% unit audits appropriate?
3. If a change in methodology is deemed appropriate, should we continue to complete the unit audits remaining (with one exception all are classified as medium or low risk) in the FY 2011 audit plan, or begin to move to process based audits once audits currently in process are completed?

**Status of "Essential" Recommendations as of May 26, 2011**

Report Date	Audit	# of Essential Recommendations in the Report	# of Essential Recommendations Remaining From Prior Quarter	Current Quarter Results			Overall Progress Towards Implementation*	Any Individual Issues With < Satisfactory Progress?
				Implemented	Partially Implemented	Not Implemented		
Aug-07	UM - Morris Campus	12	3	2	1		Satisfactory	
Aug-08	AudienceView Ticketing System	7	2		2		Satisfactory	
Sep-08	Department of Mechanical Engineering	9	1		1		Satisfactory	
Mar-09	Department of Concerts & Lectures	7	3	2	1		Satisfactory	
Jun-09	Sponsored Project Sub-Awards	1	1		1		Satisfactory	
<b>Jul-09</b>	<b>OIT Database Administration</b>	<b>4</b>	<b>1</b>	<b>1</b>			<b>Completed</b>	
Jul-09	Effort Certification	5	3	1	2		Satisfactory	
Aug-09	School of Dentistry	11	3		2	1	Satisfactory	
<b>Oct-09</b>	<b>Academic Health Center Information Systems</b>	<b>6</b>	<b>1</b>	<b>1</b>			<b>Completed</b>	
Dec-09	Payment Card Industry Compliance	3	2		2		Satisfactory	
Jan-10	Google Applications for UMN	3	1		1		Satisfactory	
Jan-10	UM - Crookston Campus	14	4	1	3		Satisfactory	
Jan-10	Non-Sponsored Accounts Receivable	10	5		4	1	Satisfactory	
Apr-10	Job Scheduling - EFS	6	5	1	4		Satisfactory	
Jun-10	University Services IT	2	2	1	1		Satisfactory	
Sep-10	Upward Bound	16	4	3	1		Satisfactory	
Sep-10	OIT Change Control	2	2		1	1	Satisfactory	
Sep-10	CFANS Research & Outreach Centers & Cloquet Forestry Center	8	4		2	2	Satisfactory	
Dec-10	Veterinary Diagnostic Laboratory	6	6	2	3	1	Satisfactory	
<b>Dec-10</b>	<b>UMD - University Relations</b>	<b>1</b>	<b>1</b>	<b>1</b>			<b>Completed</b>	
Jan-11	OIT Networking & Telecommunications Services	2	2			2	Satisfactory	
Feb-11	University Purchasing Card Program	1	1			1	Satisfactory	

**Total: 136 57 16 32 9**

\* The following bar charts provide details on progress made towards implementation

**"Essential" Recommendation Implementation Trends**

**Month / Year of Follow-up Report**

	June 2011	Feb. 2011	Sept. 2010	May 2010	Feb. 2010	Sept. 2009	May 2009	Feb. 2009	Nov. 2008	Average
# of Essential Recommendations Receiving Follow-up	57	82	80	103	101	108	132	179	144	110
# of Recommendations Considered Fully Implemented	16	35	27	30	47	39	44	53	57	39
Implementation Percentage	28%	43%	34%	29%	47%	36%	33%	30%	40%	35%

*Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented*

<i>Audit/ Report Date</i>	<i>Status-Partially Implemented (P) or Not Implemented (N)</i>	<i>Senior Management Contact</i>	<i>Summary of the Issue/Risk Involved</i>	<i>Current Comments From Management</i>
University of Minnesota - Morris Aug-07	P	Lowell Rasmussen Jacqueline Johnson	The network design of UMM should be reconfigured to ensure that no single point of failure exists for any critical business processes. Management should continue developing procedures for enforcing consistency in device settings and should consider deploying an automated tool to manage network device configurations. Any variances in configuration settings should be documented (i.e., the need for the variance should be explained).	Computing Services is working with OIT to assist with a network upgrade. Plans are being developed that will transition Morris network management activities to OIT, and re-position Computing Services staff to an on-site hardware support role (installation, replacement, etc).
# of Items	1			
Enterprise Ticketing System (AudienceView) Aug-08	P	Jason Lafrenz Elizabeth Eull	<p>Access to the AudienceView application should be granted through Central Authentication Services using x.500 usernames and passwords. Privileged user access to the AudienceView application, database or server should require M Key token and pin authentication.</p> <p>No account username or password should ever be shared by more than one individual in the application, database or on the server. This is especially true for privileged accounts and service accounts used for process automation.</p> <p>Audit trails at the AudienceView application; database and server level should be secured and monitored. As OIT has identified a product for performing this function at the server level, they should move quickly toward implementing the solution.</p> <p>Access rights assignments should be reviewed on a periodic basis by appropriate managers. Records of rights assignment authorization should be retained for the life of the access authorization. Records of the periodic review should be maintained for a reasonable period (e.g., one year).</p> <p>Documentation of access assignment processes and security methodologies should be maintained at each level of the AudienceView system.</p> <p>System interfaces and design should be documented and tested for assurance that all interfaces to and from the system are secure. An automated interface to the general ledger system, EFS, should be considered for greater control of this process.</p> <p>Reconciliation processes should be immediately redesigned to comply with University policies and procedures and thoroughly documented. The goal should be that the process should ensure that transactions are not being lost, duplicated or corrupted.</p> <p>Key edits and controls, (like pricing limits and duplicate customer elimination), should be identified by OIT and Athletics management and implemented to mitigate the risk of inaccurate data in the AudienceView system. The additional edits should include supplemental edits preventing future duplicate customer entries. Current duplicate customers in the system should be identified and removed from the system.</p> <p>Athletics and OIT support staff should work together to prioritize a list of defects and desired enhancements to the system. Athletics should document all of their business processes around and through the</p>	<p>Athletics and Concerts and Lectures management believe recent changes to access management processes have significantly reduced some of the control concerns in this finding. Those changes include things like: all employees now having their own login so passwords are not shared, and terminated employees having their login credentials deleted immediately when jobs changes occur.</p> <p>Athletics switched to a hosted version of AudienceView last Summer. Athletics and Audit agree that some of the original concerns are no longer applicable now that Athletics is using a hosted solution. This strategic change has resulted in some additional questions that need to be clarified especially as it relates to security and PCI compliance.</p> <p>Athletics is in discussions with the PCI compliance area in the Controller's office and the personnel from the CIO's office regarding remaining open issues.</p> <p>Athletics and Concerts and Lecture management believe significant improvements have been made over the last quarter. Steps have been taken to improve the accuracy of data in the system and the functionality of the ticketing system. The Ticketing team has developed the reconciliation process and financial "settlement" processes in a manner that meets their accounting needs. The ticketing team believe the upgrade to version 5.0.2 has greatly improved system functionality.</p> <p>Athletics and Concerts and Lecture management believe current system limitations like interfacing with other campus units (such as the donor management system and PeopleSoft EFS system) are an internal concern at the University and not a problem with the AV software. The University and the AV ticketing team are working on decisions about which departments need to share data, create an automated process to share the data and determine how that process should fit with the current business needs.</p>



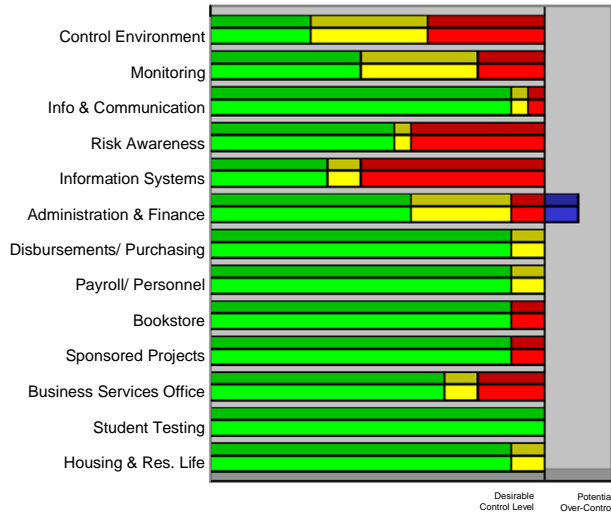
<i>Audit/ Report Date</i>	<i>Status-Partially Implemented (P) or Not Implemented (N)</i>	<i>Senior Management Contact</i>	<i>Summary of the Issue/Risk Involved</i>	<i>Current Comments From Management</i>
			AudienceView system with the assistance of OIT staff. Clear expectations should be established by both OIT and Athletics to ensure effective progress towards University goals, and to ensure that the University can reap the most benefits from the AudienceView system while providing University customers a professional, reliable, and easy to use ticketing system.	
# of Items	2			
Department of Mechanical Engineering Sep-08	P	Sue Mantell Uwe Kortshagen	<p>An efficient and effective process should be implemented to verify that all workstations used by department staff are configured to satisfy the security standards established by OIT (i.e., the equipment should be configured to pass the quick start tests).</p> <p>Management should develop a formal inventory of all computer equipment owned/used by its personnel. Once that inventory is developed, management should develop a plan to transition system support for all computers used by ME to its central IS staff or implement a process to ensure that security risks are formally evaluated and properly managed.</p> <p>A process should be established to communicate security standards and expected behavior by ME staff, including quick involvement by management when security standards are circumvented by individual staff actions.</p>	<p>As described in the January 2011 update, the ME department will be transitioning all University owned computers to the University's Active Directory system by the July 31 deadline. ME has transitioned small groups of computers (primarily in our teaching labs and in our shop) to the University's Active Directory System. The subsequent steps in ME's plan are as follows:</p> <ol style="list-style-type: none"> <li>1. Move workstations that are currently managed by ENET (the ME department IT staff) to University's Active Directory system. As part of this step, ME has sent an email (May 6, 2011) to all of our users indicating that user names on the me.umn.edu system must match their x500 user name.</li> <li>2. Move nonmanaged workstations to ENET managed systems.</li> <li>3. As groups of workstations are moved to the "ENET managed" category, these workstations will be transitioned to the University's Active Directory system.</li> <li>4. ME will follow a formalized process to request exemptions for workstations that are running specialized software. This category of workstations was addressed in ME's January 2011 updated plan.</li> </ol>
# of Items	1			
Concerts & Lectures Mar-09	P	Holly Radis-McCluskey Ben Johnson	C&L should work with the University AudienceView owner and the AudienceView representatives to develop improved system reports including daily sales by event, and detailed refund reporting.	AudienceView has been given the requirements of the customer report and C&L is following-up with AV to get an estimate of the cost for the development of the report.
# of Items	1			
<b>Total:</b>	5			

The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and the current status of the "essential" recommendations only (those bars that have red segments). The chart in the center column displays the status as of February 2011, while the chart on the right represents the current status. Charts are not presented for investigations. Charts for those units having implemented all "essential" recommendations during the current quarter are shown at the end of this report.

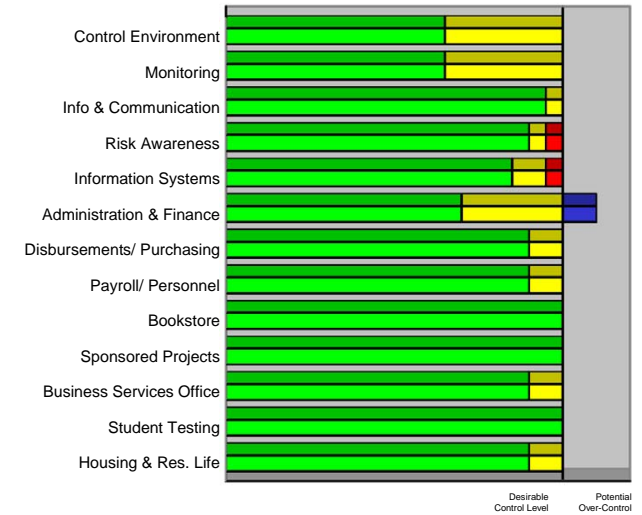
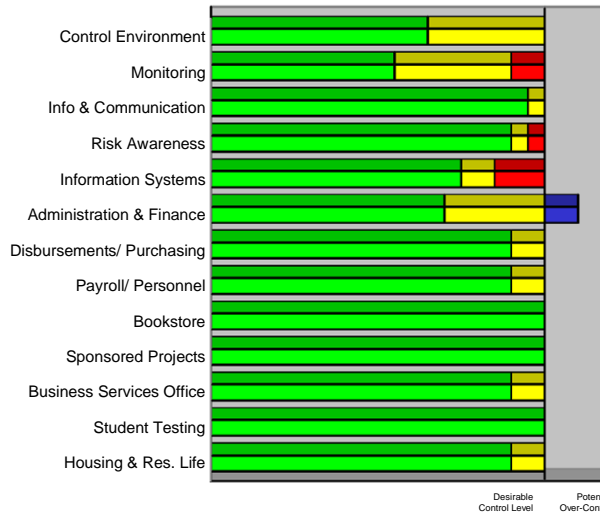
### Original Report Evaluation

### Previous Quarter Evaluation

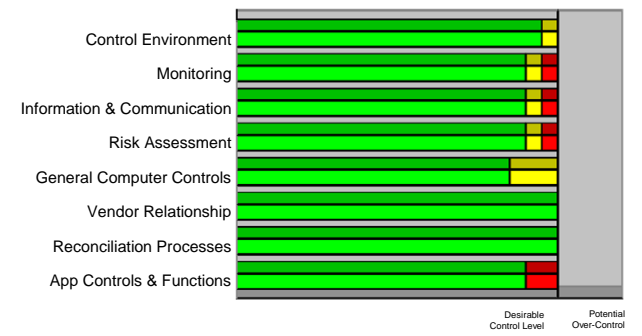
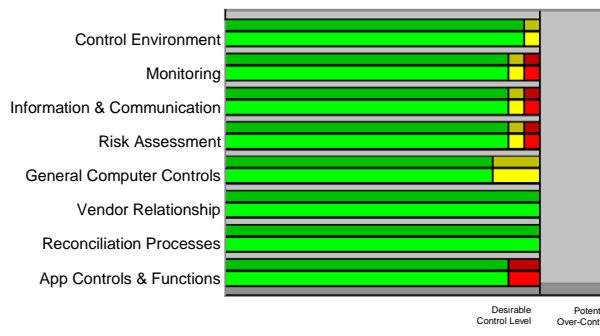
### Current Quarter Evaluation



### University of Minnesota Morris (August 2007)



### AudienceView - Ticketing System (August 2008)



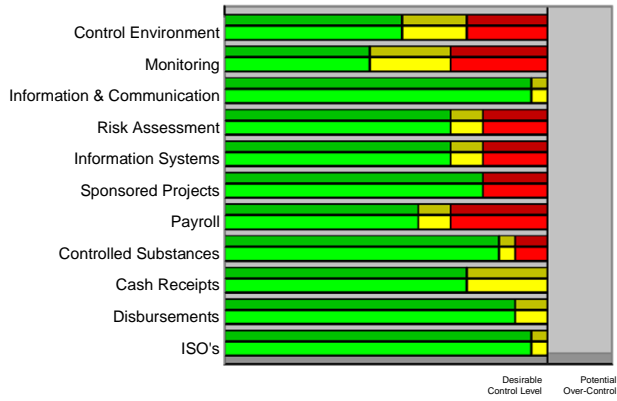
■ Adequate Control

■ Significant Control Level

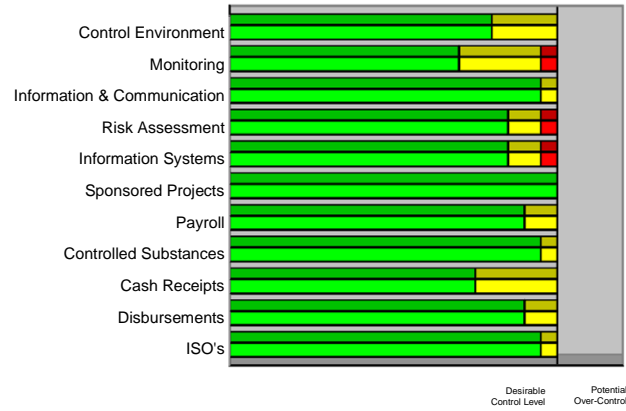
■ Critical Control Level

■ Potential Over-Control

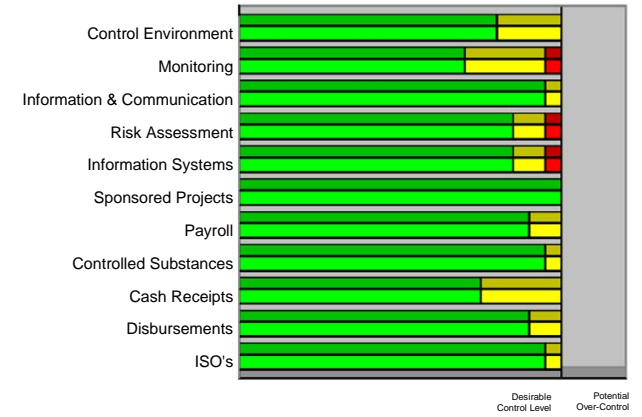
### Original Report Evaluation



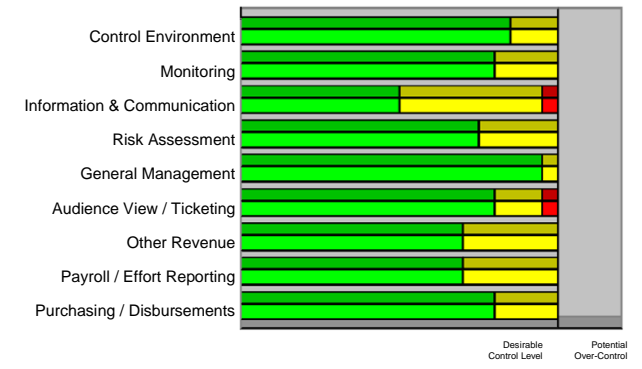
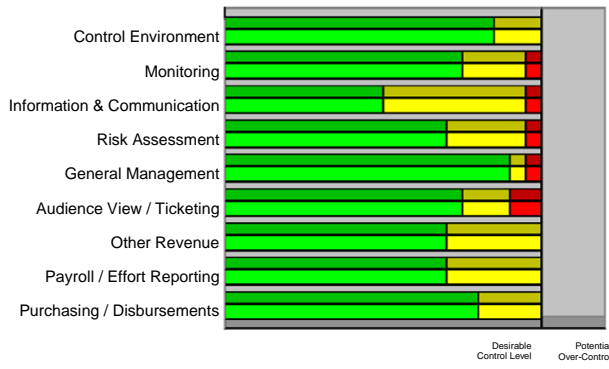
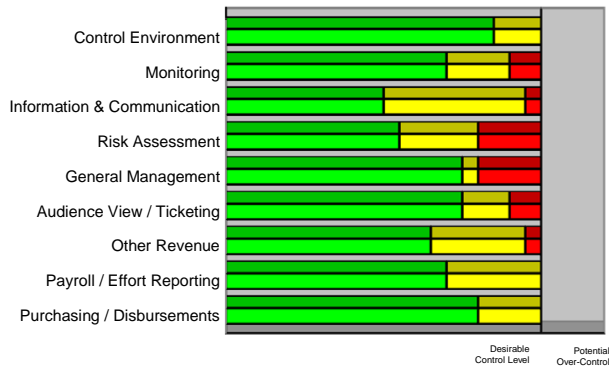
### Previous Quarter Evaluation Department of Mechanical Engineering (September 2008)



### Current Quarter Evaluation



### Department of Concerts & Lectures (March 2009)



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

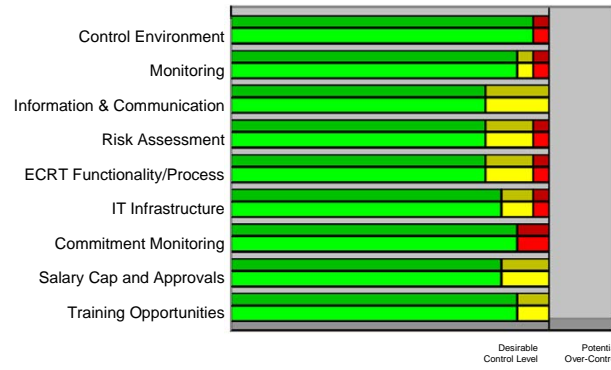
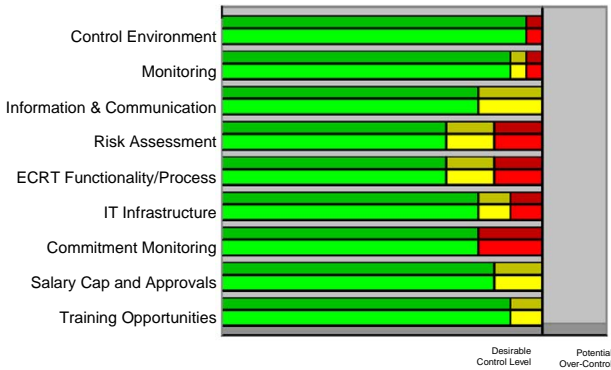
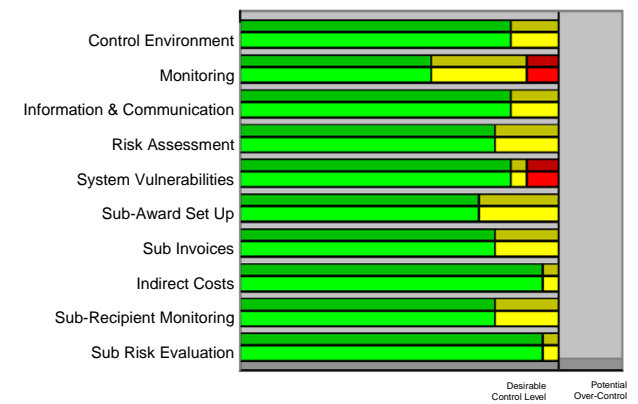
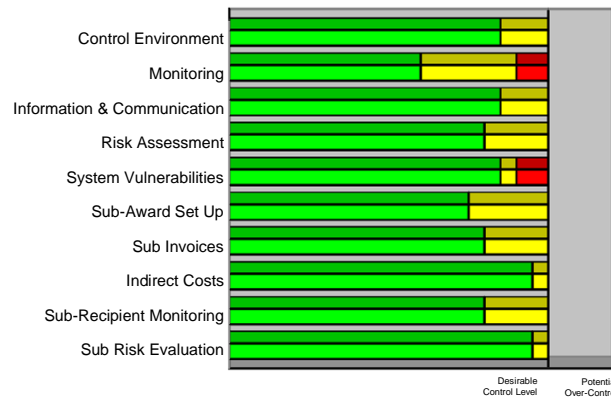
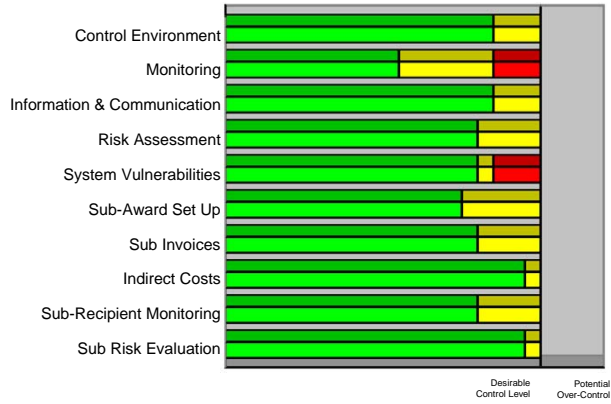
### Original Report Evaluation

### Previous Quarter Evaluation

### Current Quarter Evaluation

### Sponsored Project Sub-Awards (June 2009)

### Effort Certification (July 2009)



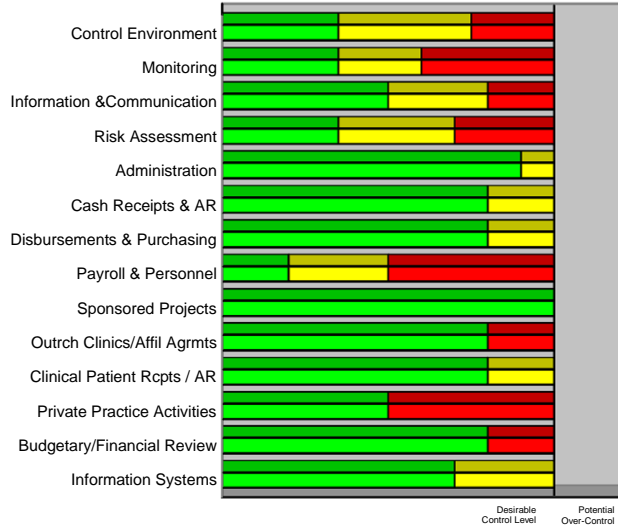
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

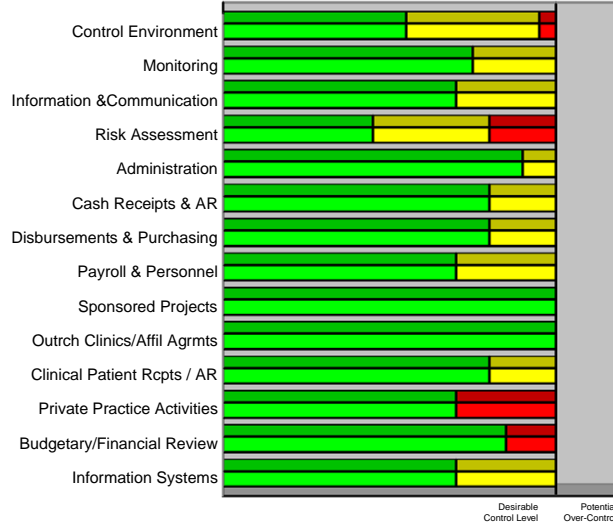
■ Potential Over-Control

### Original Report Evaluation

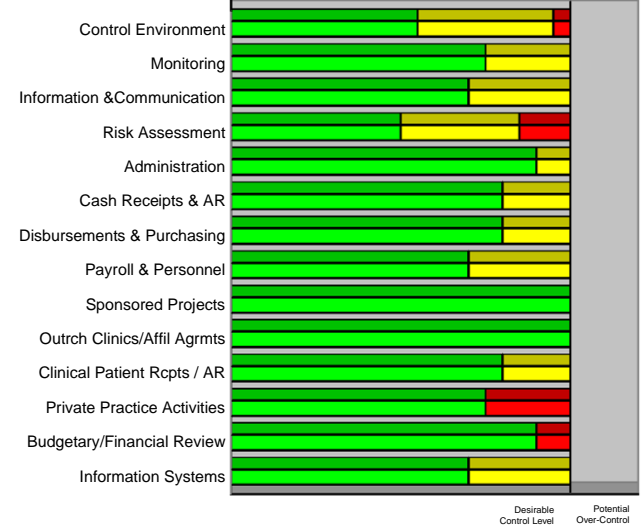


### Previous Quarter Evaluation

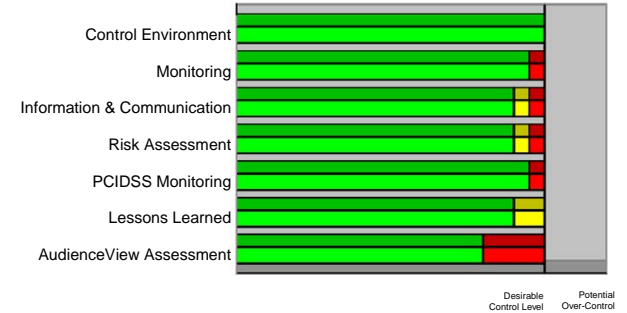
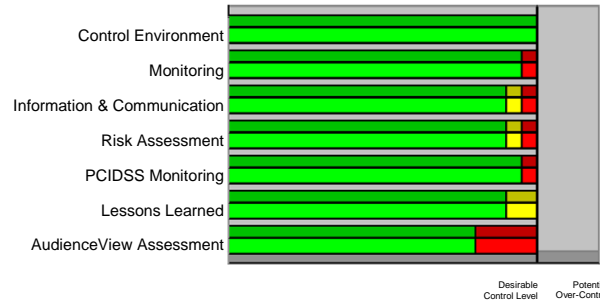
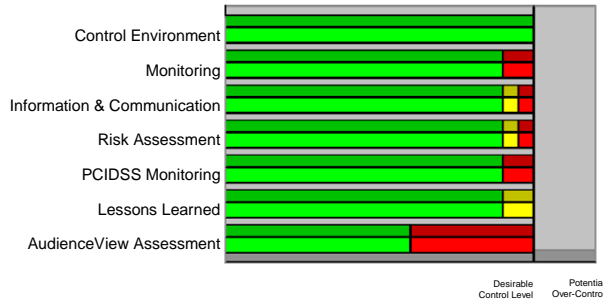
#### School of Dentistry (August 2009)



### Current Quarter Evaluation



#### PCI Compliance (December 2009)



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

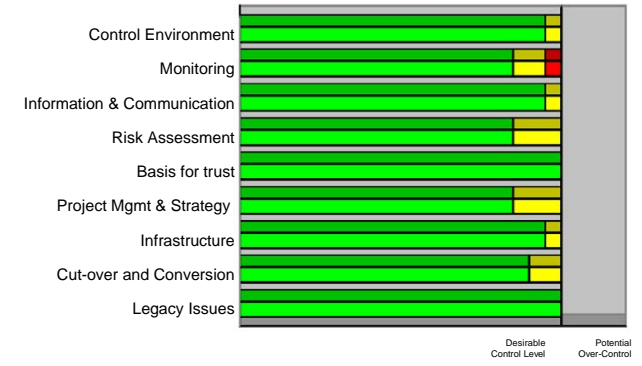
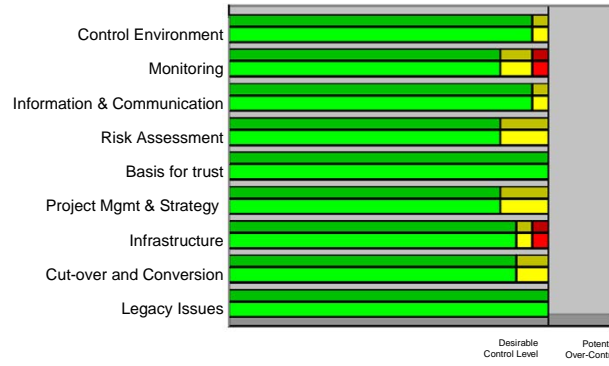
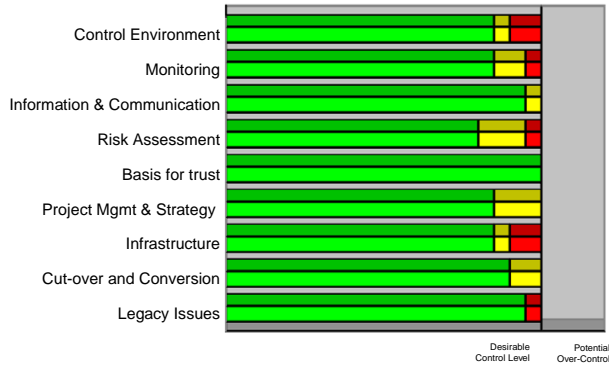
■ Potential Over-Control

### Original Report Evaluation

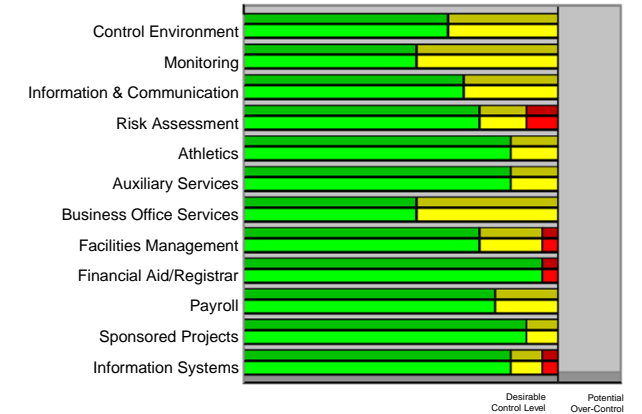
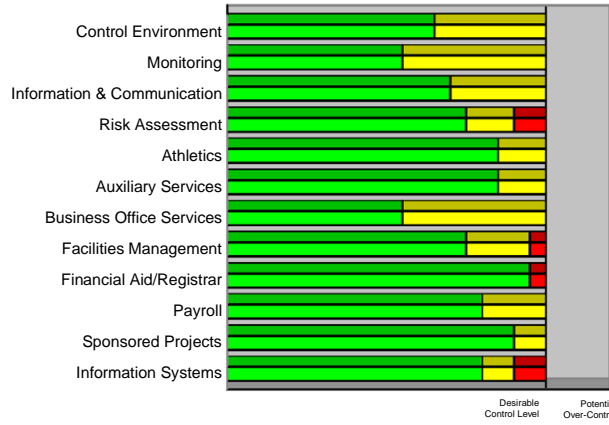
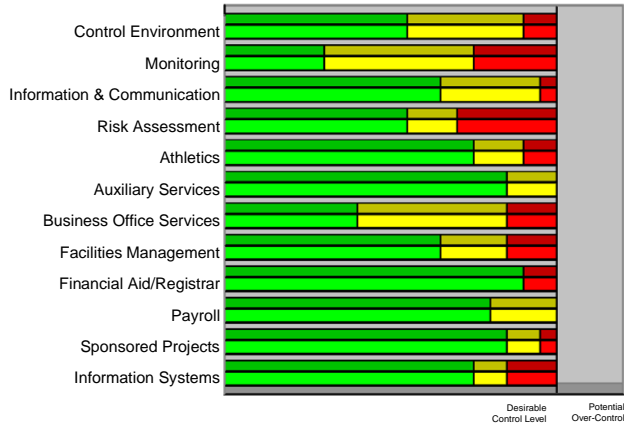
### Previous Quarter Evaluation

### Current Quarter Evaluation

#### Google Apps for UMN (January 2010)



#### University of Minnesota - Crookston (January 2010)



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

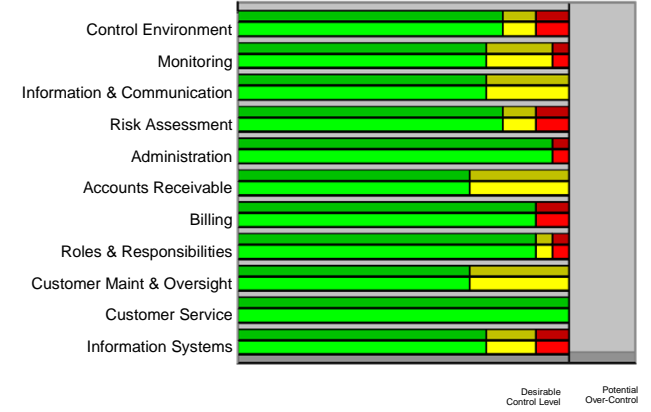
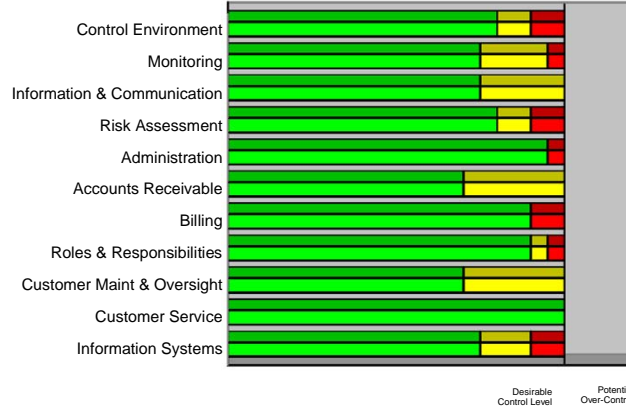
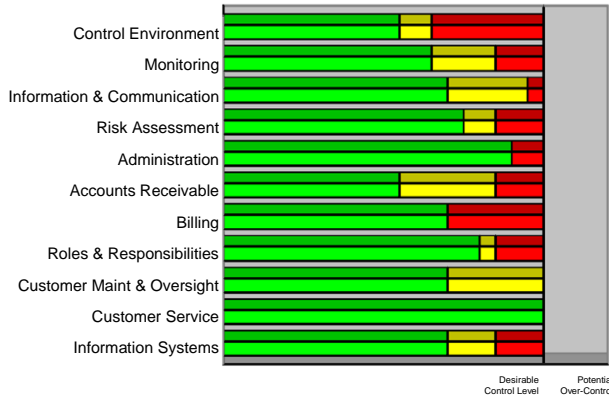
■ Potential Over-Control

### Original Report Evaluation

### Previous Quarter Evaluation

### Current Quarter Evaluation

### Non-Sponsored Accounts Receivable (January 2010)



### Job Scheduling - EFS (April 2010)



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

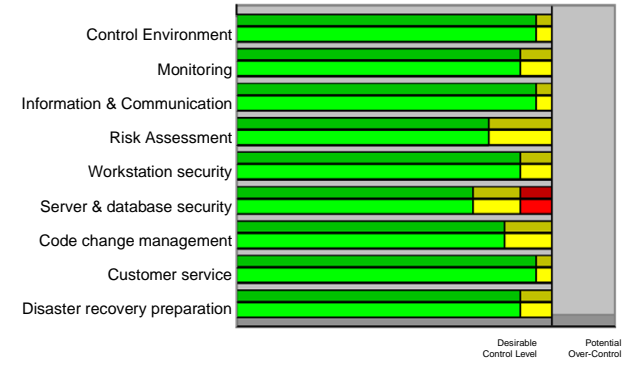
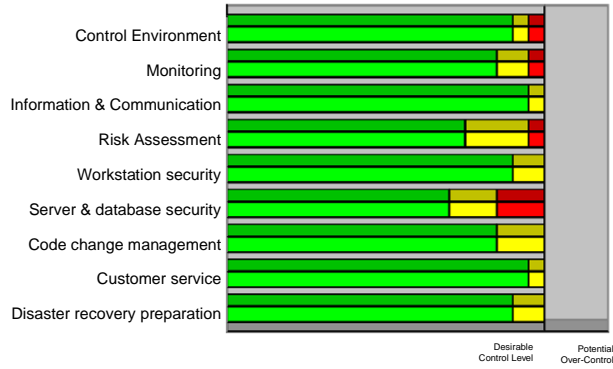
■ Potential Over-Control

### Original Report Evaluation

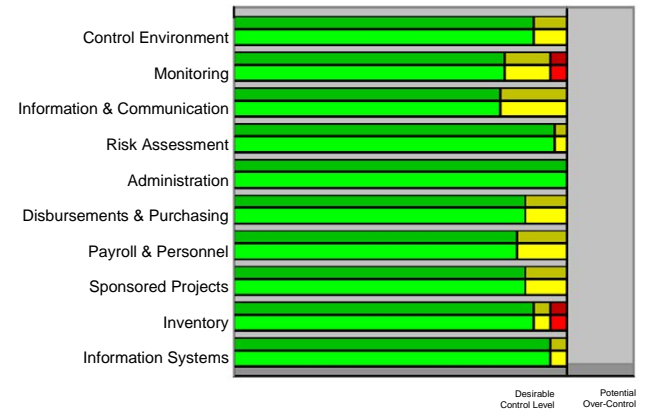
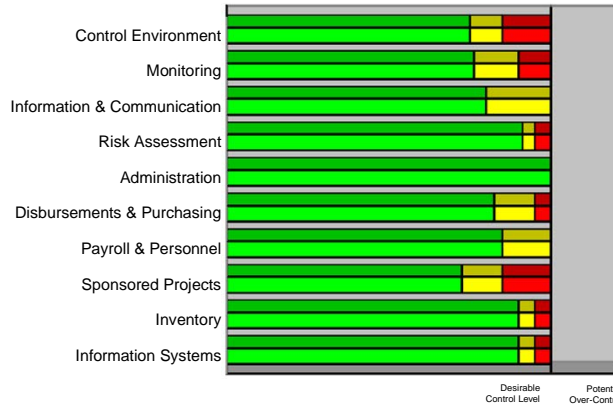
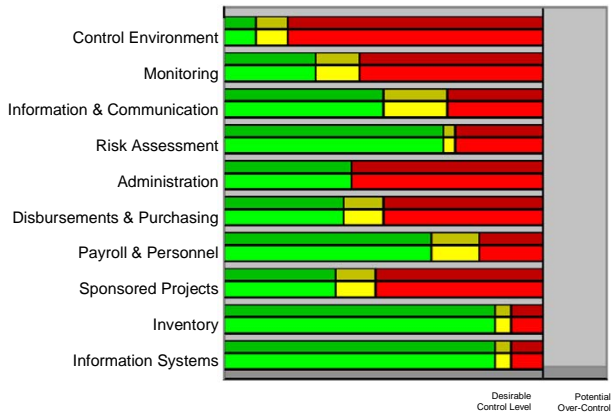
### Previous Quarter Evaluation

### Current Quarter Evaluation

#### University Services IT (June 2010)



#### Upward Bound (September 2010)



■ Adequate Control

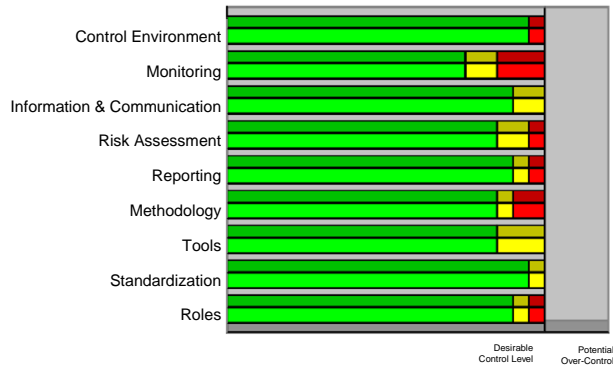
■ Significant Control Level

■ Critical Control Level

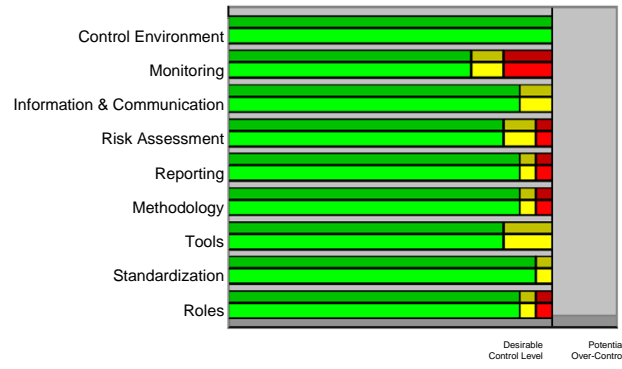
■ Potential Over-Control



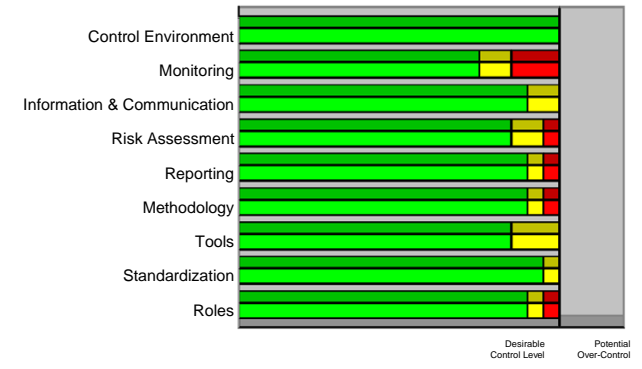
### Original Report Evaluation



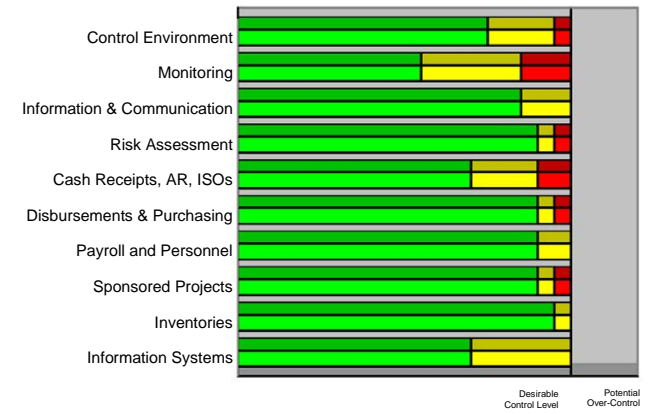
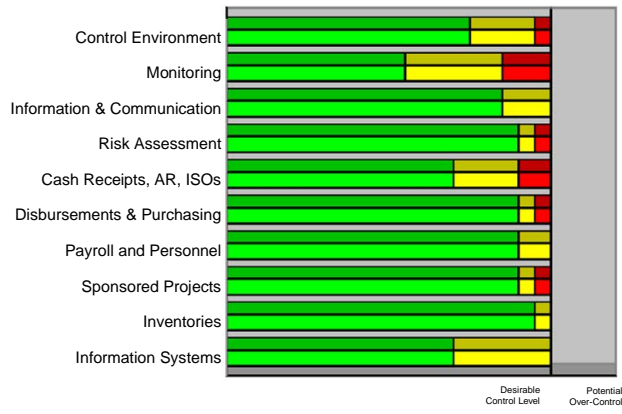
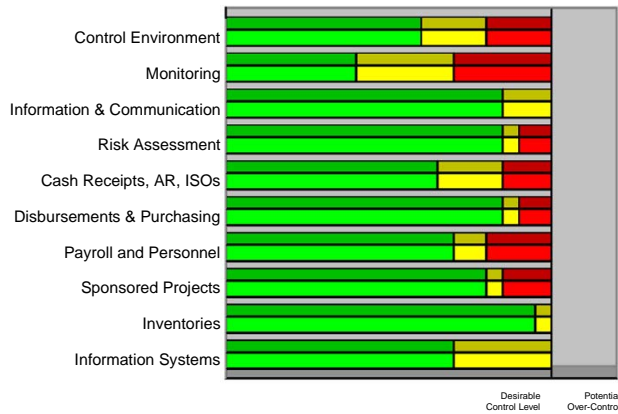
### Previous Quarter Evaluation OIT Change Control (October 2010)



### Current Quarter Evaluation



### CFANS Research and Outreach Centers and the Cloquet Forestry Center (October 2010)



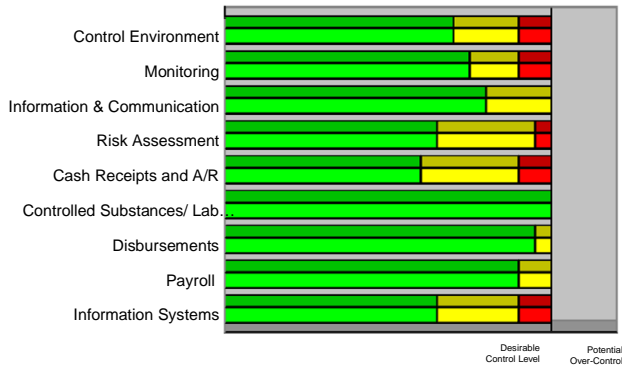
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

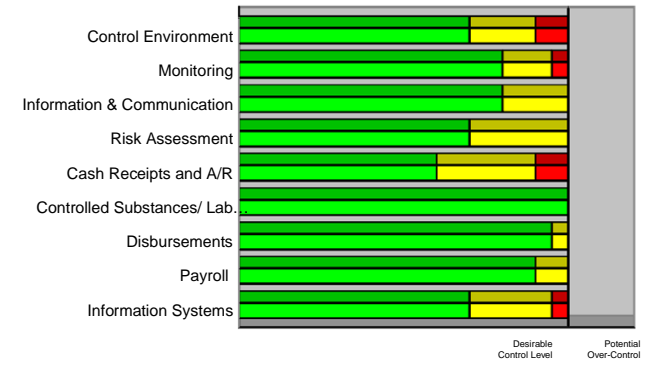
### Original Report Evaluation



### Previous Quarter Evaluation Veterinary Diagnostic Laboratory (December 2010)

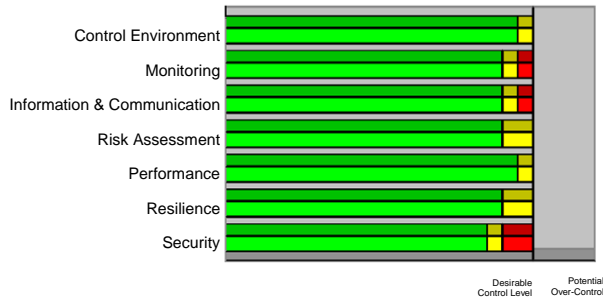
NO PREVIOUS  
CONTROL EVALUATION  
CHART

### Current Quarter Evaluation



### OIT Networking & Telecommunications Services (NTS) (January 2011)

NO PREVIOUS  
CONTROL EVALUATION  
CHART



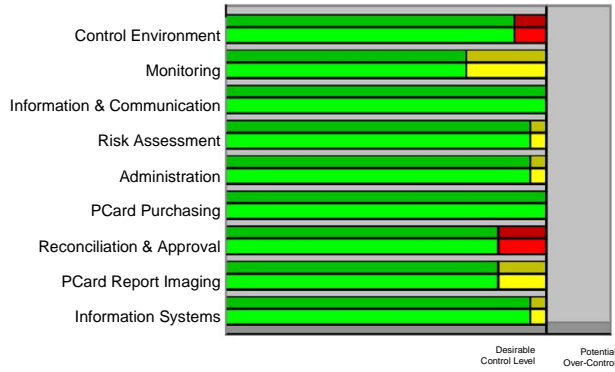
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

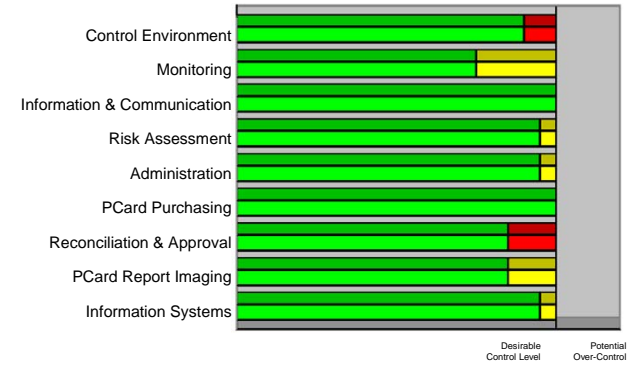
### Original Report Evaluation



### Previous Quarter Evaluation Purchasing Card Program (February 2011)

NO PREVIOUS  
CONTROL EVALUATION  
CHART

### Current Quarter Evaluation



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

# Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

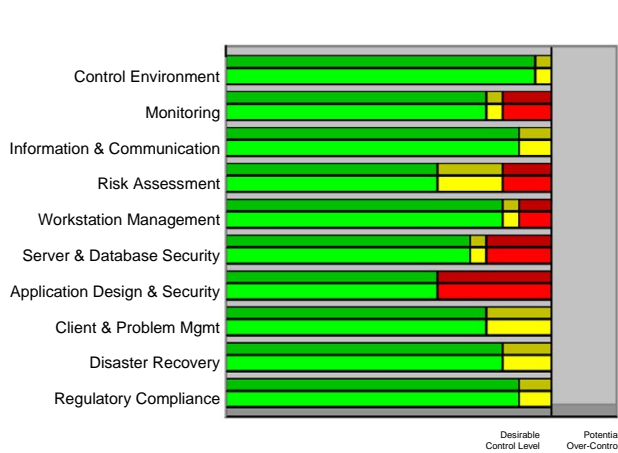
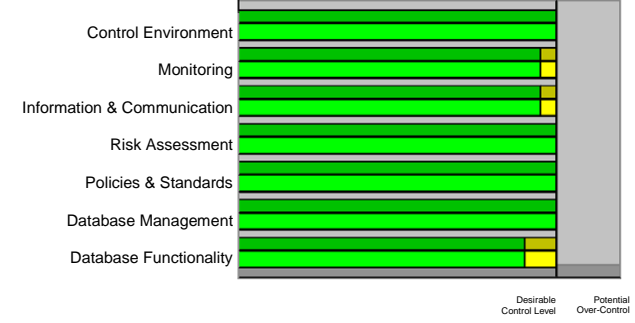


Previous Quarter Evaluation

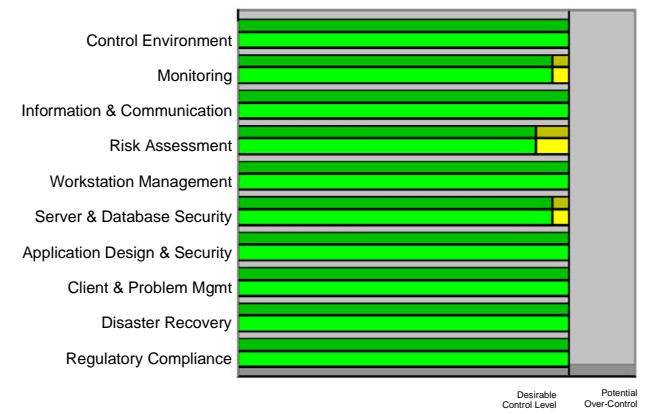
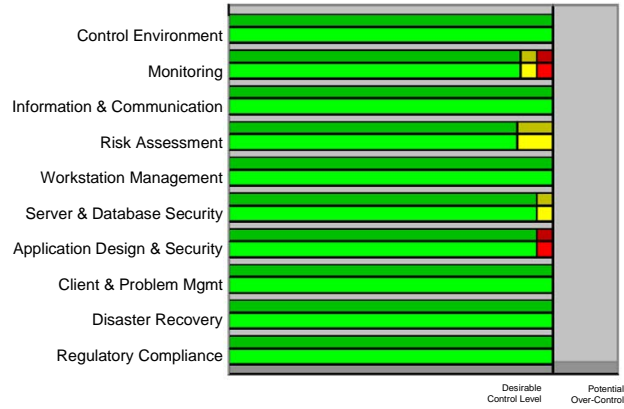
## OIT Database Administration (July 2009)



Current Quarter Evaluation



## AHC IS (October 2009)



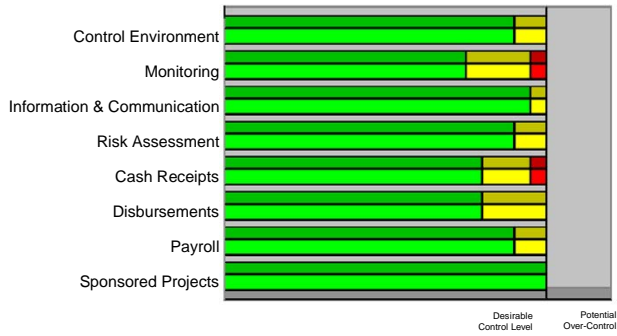
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

Original Report Evaluation

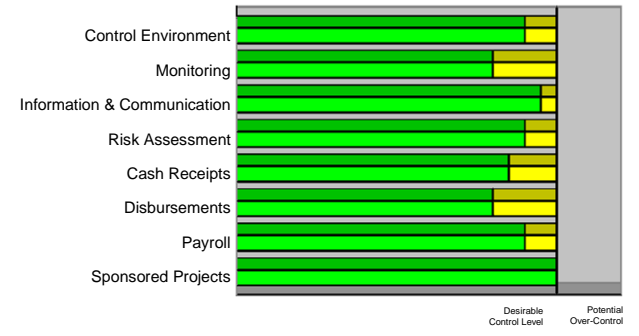


Previous Quarter Evaluation

UMD University Relations (December 2010)

NO PREVIOUS  
CONTROL EVALUATION  
CHART

Current Quarter Evaluation



■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

## **Audit Activity Report**

### **Scheduled Audits**

- Completed audits of: CLA-IT management, Sponsored Financial Reporting, OIT Data Center, Boynton Health Service, OIT Virtualized Server Service, UMD Athletics, the Real Estate Office, Intercollegiate Athletics NCAA Compliance, a review of Executive Officer expenses, and Eastcliff. Details are shown on the following charts.
- Began/continued audits of: Energy Services-Building Access Monitoring operations, the School of Dentistry clinical system (AxiUm), the Department of Civil Engineering, University Payroll, Intercollegiate Athletics, University Contract Management, UMD School of Fine Arts, Admissions, and Treasury Accounting & Internal/External Sales.

### **Investigations**

- Performed investigative work on eight issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

### **Special Projects**

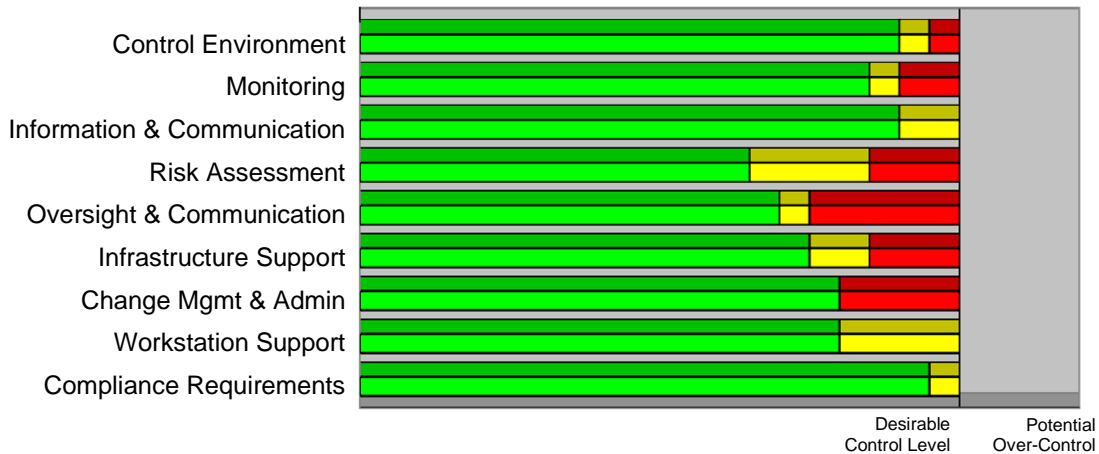
- Provided consulting services related to: data security, equipment disposal, controls associated with the AudienceView ticketing system, HIPAA compliance, CIC Identity Management summit, the In Common Silver federation project, mobile computing, IT at the Rochester Campus, and University payroll exception testing.

### **Other Audit Activities**

- Participated in the following:
  - HRMS PeopleSoft Steering Committee
  - Fairview Health Systems Audit Committee
  - University of Minnesota Foundation Audit Committee
  - Executive Compliance Oversight Committee
  - Institutional Conflict of Interest Committee
  - IT Leadership Alliance
  - OSH Steering Committee
  - President's Policy Committee
  - Board of Regents Policy Committee
  - President's Advancing Excellence Committee
  - Risk Tolerance Work Group
  - Office of Human Resources Cost of Selection Committee
  - Institutional Conflict of Interest Policy Review Committee

# Audit Reports Issued Since February 2011

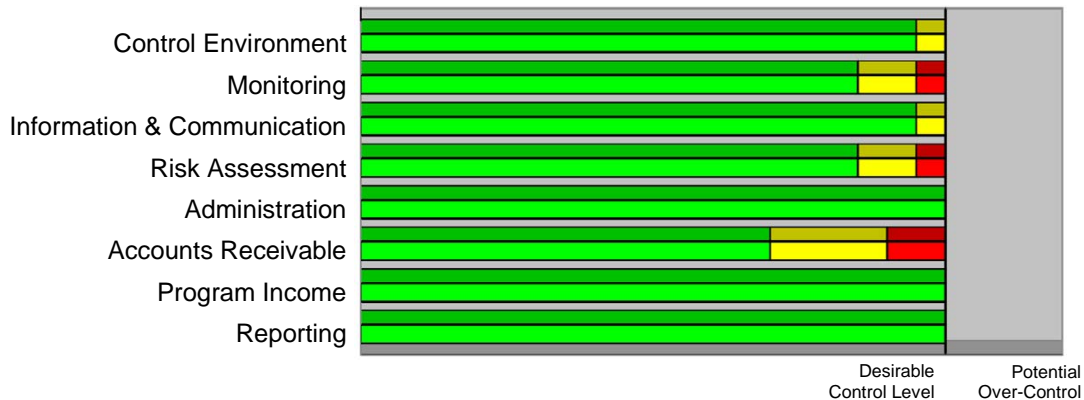
## College of Liberal Arts Information Technology



Report #	1114	Issue Date	Apr-11
# of Essential Recs.	6	Total # of Recs.	14
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The majority of CLA IT support needs are well managed by the CLA central IT unit. The most problematic issue is the lack of a comprehensive strategy for the oversight and coordination of IT activities that includes non-central CLA IT units. Many key controls have been implemented for supported servers, databases and applications to ensure proper security. Most workstations are consistently configured and secured. The security and code change processes for some systems need enhancement.

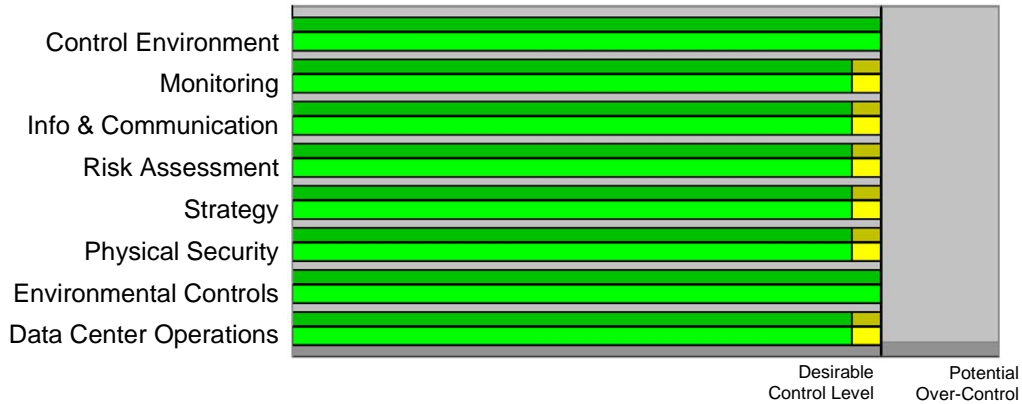
## Sponsored Financial Reporting



Report #	1115	Issue Date	Mar-11
# of Essential Recs.	1	Total # of Recs.	5
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The audit of SFR included five PeopleSoft modules (grants, project costing, contracts, billing, and accounts receivable) and the associated business processes that were part of the Enterprise Financial System implementation. We believe SFR has developed a control environment and a system of internal control that addresses most major business and compliance risks. We were also impressed with the commitment of SFR management and staff toward continual process improvement. SFR has complete desk procedures, oversight reports and queries, and job aids developed for most SFR processes to promote consistent and efficient internal operations. SFR needs to continue their efforts to ensure sponsored accounts in deficit are rectified in a timely manner.

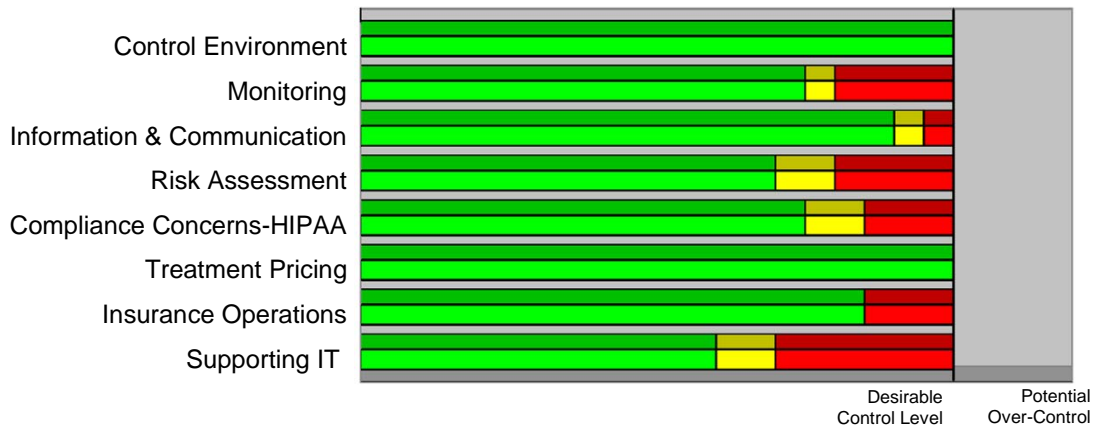
## University Data Center



Report #	1116	Issue Date	Apr-11
# of Essential Recs.	0	Total # of Recs.	2
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The strong controls in place in the data center should ensure that systems housed within OIT's primary data center are physically secured and stable. The data center is well designed and the controls align with industry standards. OIT's primary data center is the most secure space the University has in which to operate servers. This is the best and most appropriate location for running mission critical applications and storing our most sensitive data.

## Boynton Health Services

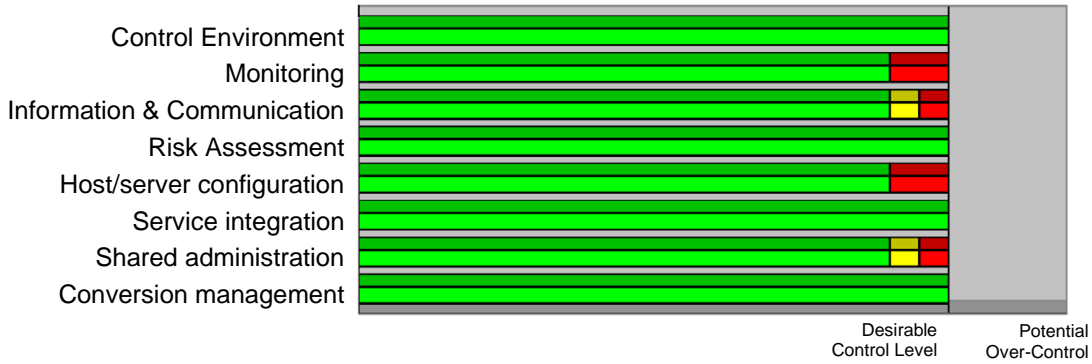


Report #	1117	Issue Date	May-11
# of Essential Recs.	10	Total # of Recs.	13
Overall Assessment	Adequate	Adequacy of MAP	Satisfactory

This audit reviewed control processes associated with: (1) treatment/service pricing, (2) administration of the Student Health Benefit Plan, and (3) IT infrastructure/applications supporting BHS's clinical care and insurance operations. BHS treatment pricing showed proper controls over the pricing process. The cost of the Student Health Benefit Plan is borne by the students enrolled in the plan but processes for evaluating the accuracy of claims and administrative charges submitted by Blue Cross/Blue Shield of MN to BHS are incomplete. BHS currently is using few of the "common good" services provided by OIT. There are a number of material concerns associated with IT infrastructure and applications used by BHS that involve HIPAA compliance and IT security and operations.



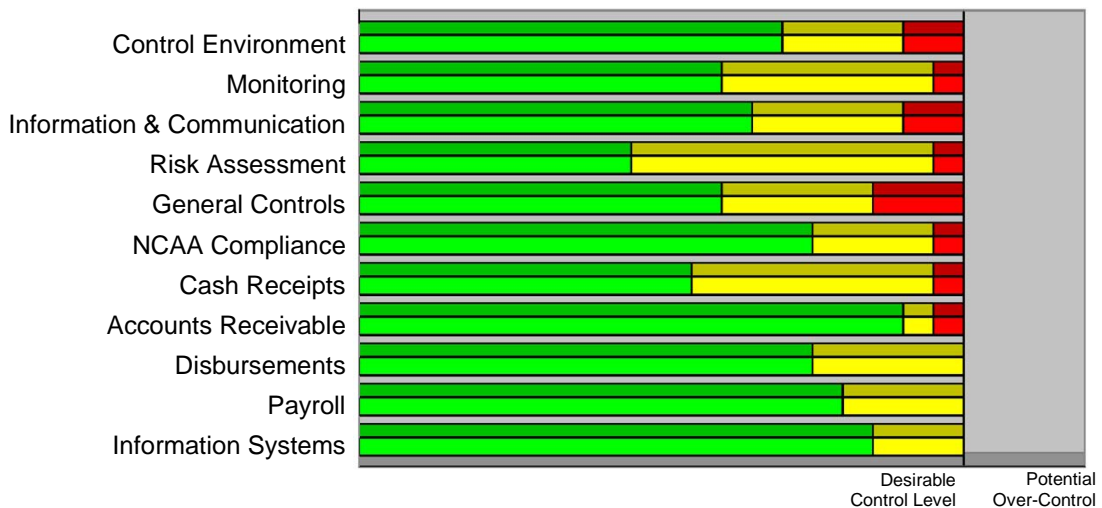
## OIT Server Virtualization



Report #	1118	Issue Date	May-11
# of Essential Recs.	3	Total # of Recs.	4
Overall Assessment	Good	Adequacy of MAP	Satisfactory

OIT's Virtual Server Hosting service is providing significant benefit to the University and aligning with University goals. The systems are located in the University's most secure spaces. Good management practices secure the applications and data associated with these services from outside threats. Good monitoring processes are in place. However, management of the service does not fully match the goals for the service. A few University security standards are not fully complied with.

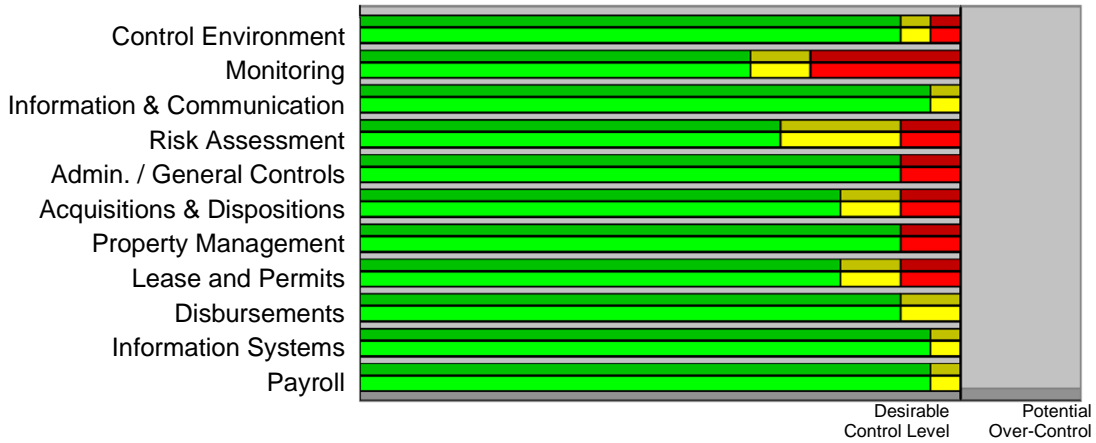
## UMD Intercollegiate Athletics



Report #	1119	Issue Date	May-11
# of Essential Recs.	6	Total # of Recs.	45
Overall Assessment	Needs Improvement	Adequacy of MAP	Satisfactory

The results of our audit lead us to the conclusion that, despite notable successes, UMD Athletics faces significant challenges in its efforts to improve its control environment. In addition to work environment concerns, we found numerous deficiencies in financial controls, especially in relation to separation of duties and staffing concerns. On the positive side, Athletics has developed programs enabling student-athletes to be highly successful, in both the athletic and the academic arenas.

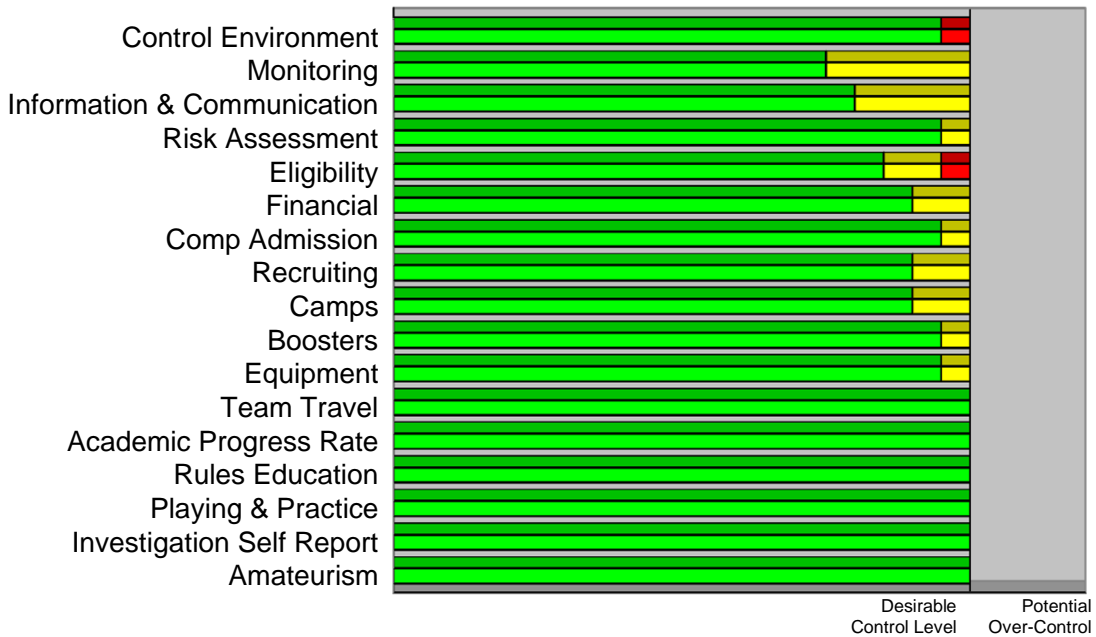
## Real Estate Office



Report #	1120	Issue Date	May-11
# of Essential Recs.	8	Total # of Recs.	14
Overall Assessment	Good	Adequacy of MAP	Satisfactory

In our opinion, the operational, financial, and compliance controls in place within the Real Estate Office (REO) itself are generally effective. Our review indicated REO maintains a strong control environment, and REO staff demonstrated a sincere interest in complying with all required policies and procedures. Mechanisms, however, are not in place to ensure academic and administrative units do not / cannot enter into real estate transactions which are not compliant with real estate policies and/or the President's delegation of authority.

## Intercollegiate Athletics - NCAA Compliance



Report #	1121	Issue Date	May-11
# of Essential Recs.	1	Total # of Recs.	13
Overall Assessment	Good	Adequacy of MAP	Satisfactory

In our opinion, the operational and compliance controls in place in the Athletic Compliance Office are generally effective. Our review indicated the Athletic Compliance Office maintains a strong control environment and the Athletic Compliance staff and Intercollegiate Athletic staff demonstrate a commitment to complying with all required NCAA regulations.

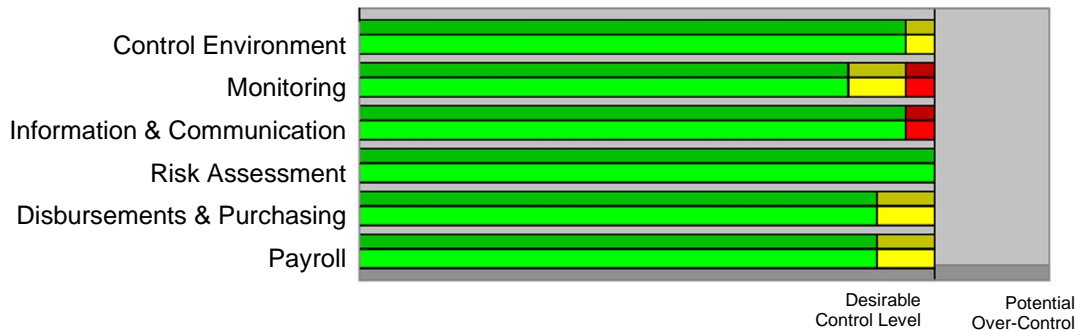
# A Review of Executive Officer Expenses

Due to the limited scope and system-wide nature of this audit a control evaluation chart was not developed for this report.

Report #	1122	Issue Date	May-11
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Good	Adequacy of MAP	NA

Our audit included testing the travel, personal reimbursements, and procurement card (PCard) expenses of the president and his respective vice presidents and also the expenses of several employees who report(ed) directly to them (e.g. chief of staff and direct administrative support staff). Based on the results of the audit work performed, we believe the senior executive officers of the University of Minnesota Twin Cities operate in well-controlled environments and demonstrate appropriate use of University resources in compliance with University policies and procedures.

## Eastcliff



Report #	1123	Issue Date	Jun-11
# of Essential Recs.	2	Total # of Recs.	5
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe the President's Office, along with support received from the Board of Regents Office, the Provost's Office, and Facilities Management, have developed a control environment and a system of internal controls that addresses many of the major business and compliance risks regarding Eastcliff. Recommendations addressed the need for a review of the reporting lines for Eastcliff employees and operations, and developing a comprehensive annual report for Eastcliff.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**June 9, 2011**

**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 in the areas of financial accounting and reporting, internal controls, reducing financial or compliance risks to the University, and improving 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  
JUNE, 2011**

This report presents a summary of significant activities from the last six months that have improved financial reporting, enhanced internal controls, helped manage financial risks, improved services to the University community, or created efficiencies in financial operations.

**I. Accounting and Financial Reporting Matters**

A. Adoption of New Accounting Standards

Effective this fiscal year ending June 30, 2011, the University will adopt one new accounting and reporting standard issued by the Governmental Accounting Standards Board (GASB).

Statement No. 59, *Financial Instruments Omnibus* –

This statement provides clarification on existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Based on preliminary review, there is no expected impact to the University.

B. New Accounting Standards Issued & To Be Adopted

The GASB has issued the following standards with the provisions being effective for the fiscal year ending June 30, 2013.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* –

This statement addresses the recognition, measurement, and disclosure requirements for services concession arrangements (SCA), which are a type of public-private or public-public partnership. An SCA would apply to the University in instances where it conveyed to another entity (operator) the right and related obligation to provide services through the use of infrastructure or another asset in exchange for significant consideration and the operator collects and is compensated by fees from a third party.

Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* –

This statement modifies and improves existing guidance regarding the inclusion, presentation, and disclosure requirements for component units and equity interest transactions of a financial reporting entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* –

This statement brings authoritative accounting and financial reporting literature of the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) issued on or before November 30, 1989, and whereby does not conflict or contradict GASB pronouncements, together in one place.

The impact of these new standards on the University's financial statements is being evaluated.

## **II. Initiatives to Enhance Service, Productivity, Efficiency and Internal Controls**

### Property Insurance

The University of Minnesota has historically purchased property insurance through the Midwest Higher Education Compact (MHEC) Master Property Program. This is a consortium of 47 institutions, with total insured value of over \$60 billion. While the program has been cost effective, the Office of Risk Management and Insurance felt it was in the University's best interest to evaluate the cost and coverage of the program against the commercial insurance marketplace. In the spring of 2010, the University issued a Request for Proposal for property insurance. Upon completion of the process, the University was able to remain with the MHEC property program, while negotiating more favorable rates and coverage layers.

The following summarizes the results of the RFP evaluation and the cost savings to the University:

For FY 2012, as compared to FY 2011:

- The University's total insurable values are up 1.4%
- The rate of coverage per \$100 of insurable value is down 20%, and is the second lowest of the 47 schools in the program
- Total annual premium is down \$486,000

For the two year period FY 2011-2012 (the time period since the RFP evaluation was conducted):

- Total insurable values are up 29%
- The rate of coverage per \$100 of insurable value is down 53%
- The annual premiums have decreased by \$1.85 million over the two-year period.
- Total accumulated premium cost savings over the two year period is \$3.2 million.