

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Wednesday, July 9, 2008

8:15 - 9:00 a.m.

600 McNamara Alumni Center, East Committee Room

Committee Members

Linda Cohen, Chair
Clyde Allen, Vice Chair
Dallas Bohnsack
John Frobenius
Venora Hung
Dean Johnson

Student Representatives

Jordan Bronston
Dustin Norman

A G E N D A

1. Office of Internal Audit Charter - Review/Action - G. Klatt (p. 2-5)
2. Internal Audit Plan - G. Klatt (pp. 6-21)
3. Committee 2008-09 Workplan Discussion - L. Cohen/G. Klatt (pp. 22-25)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

July 9, 2008

Agenda Item: Office of Internal Audit Charter

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To reaffirm the Charter governing the activities of the internal audit function. According to its Charter, the Audit Committee is responsible for providing oversight of the internal audit function, including reviewing and recommending for Board approval any changes to the function's charter.

Outline of Key Points/Policy Issues:

The only change being recommended in the proposed Charter is the change of the function's name from the Department of Audits to the Office of Internal Audit.

Background Information:

The internal audit charter was last reviewed by the Audit Committee in May 2006.

OFFICE OF INTERNAL AUDIT CHARTER

MISSION AND SCOPE OF WORK

The mission of the Office of Internal Audit is to provide independent, objective assurance and advisory services designed to add value and improve the operations of the University of Minnesota. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the Office of Internal Audit is to determine whether the University of Minnesota's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction between governance groups occurs as needed
- Important financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the University's control process.
- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

The Office of Internal Audit considers risks broadly and includes within its scope all activity posing financial, operational, technological, regulatory or reputational risk to the University. Opportunities for improving management control, efficiency and the University's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The Director of the Office of Internal Audit, in the discharge of his/her duties, is accountable to the Board of Regents Audit Committee and the President to:

- Provide assessments on the adequacy and effectiveness of the University's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues relating to the processes for controlling University activities including potential improvements to those processes.
- Provide information concerning outstanding issues through their resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate efforts with other control and monitoring functions (e.g., compliance, security, legal environmental, external auditors, etc.).

INDEPENDENCE

To provide for the independence of the Office of Internal Audit, the Board of Regents delegates directly to the Director of the Office of Internal Audit the authorities necessary to perform the duties set forth in the mission and scope of work. Additionally, the Director of the Office of Internal Audit is delegated administrative and operational authorities by the President of the University.

RESPONSIBILITY

The Director and staff of the Office of Internal Audit are responsible for:

- Developing a flexible annual audit plan using an appropriate risk based methodology, including any risks or control concerns identified by management, and submitting that plan to the audit committee for review and concurrence, as well as providing periodic updates as to the status of the plan.
- Implementing the annual audit plan, as approved, including any special tasks or projects requested by management and the audit committee.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Issuing periodic reports to the audit committee and management summarizing results of audit activities.
- Keeping the audit committee informed of emerging trends and successful practices in internal auditing.
- Conducting investigations of allegations of financial and operational misconduct

AUTHORITY

The Director and staff of the Office of Internal Audit are authorized to:

- Have unrestricted access to all University functions, records, property, and personnel, subject to state and federal law.
- Have full and free access to the audit committee.
- Allocate departmental resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the institution.

The Director and staff of the Office of Internal Audit are not authorized to:

- Perform any operational duties for the University.
- Initiate or approve accounting transactions external to the Office of Internal Audit.
- Direct activities of any University employee not employed by the Office of Internal Audit, except to the extent such employees have been appropriately assigned to audit teams or to otherwise assist the internal auditors.

STANDARDS OF AUDIT PRACTICE

The Office of Internal Audit will carry out its responsibilities in accordance with University policy, state and federal law, and the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors.

Associate Vice President and
Director of Internal Audit

President

Audit Committee Chair

Dated _____



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

July 9, 2008

Agenda Item: Internal Audit Plan

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

The Audit Committee is delegated the responsibility, via its Charter, to review the annual Internal Audit plan on behalf of the Board of Regents.

Outline of Key Points:

The recommended 2008-2009 Internal Audit plan is a two-tiered plan. The first tier includes coverage of 27 audits of University units, processes, and information systems and focuses on high-risk activities and areas of strategic focus. The second tier is reserved for use in responding to the need for audit services related to emerging risks. The plan also includes a notably higher amount of administrative time than historically included in the audit plan. Audit resources have also been reserved for administrative/special requests and investigative audit needs.

Background Information:

The Audit Committee charter states the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.

OFFICE OF INTERNAL AUDIT
2008-2009
INTERNAL AUDIT ANNUAL PLAN

PURPOSE OF THE ANNUAL PLAN

The annual internal audit plan is intended to demonstrate:

- the breadth and depth of audit activities addressing financial, operational and compliance risks of the University;
- accountability for our resources; and
- the progress in our efforts to continually improve the University's Internal Audit program.

It is our intent to convey a current sense of the University's internal control environment and the extent to which controls are being assessed by regular audit activities, addressed proactively through advisory services, or investigated as a result of issues raised.

DEVELOPMENT OF THE ANNUAL PLAN

The development of the annual audit plan is based on information gathered through broad consultation across the University and a formal assessment of existing and emerging risks.

External Risk Assessment

To aid in our planning efforts we participate in annual risk assessment surveys with Big 10 institutions and large research universities (See Appendix B). Of the current identified risks, we assessed the following to be specifically relevant to our institution:

- Information technology, specifically data security, PCI compliance, strategic planning/governance and controls over removable media and wireless devices
- Sponsored account management, particularly the federal regulatory areas of concern regarding effort certification, cost transfers, and sub-award contracting
- Conflicts of interest (both personal and institutional), and conflict of commitment
- Expansion of international activities and export controls

In addition to the above we also identified the following to be relevant to our institution. Although these are important and merit monitoring, we do not believe they currently pose a significant or specific threat at the University.

- Declining sponsored funding at a national level
- Ethics, corporate/non-profit /Sarbanes-Oxley
- Capital Projects/construction
- Student health and safety
- Emergency/business continuity planning campus wide

Internal Risk Assessment

As part of the planning process, discussions were held with 71 institutional officials from 40 units to solicit input on our institutional risks and any specific areas of concern. We also used these meetings as an opportunity to obtain feedback on the quality of audit services we provide. Risks identified through this process are:

- Implementation of the Enterprise Financial System (EFS) on 7/1/08 and whether the system works as intended
- The impact of new organizational models being implemented in tandem
- Potential for significant turnover of long-term/hearing retirement employees
- Changes in key leadership positions and succession planning of our most senior leaders
- An increasing interest in expanding international activities
- Metro LRT plans which will significantly (and potentially negatively) affect the campus
- Accuracy and credibility of newly implemented institutional metrics
- Emerging plans associated with the development of UMORE Park

Operational Risk Assessment

Our annual planning process also includes reconsideration of the audit universe as new activities and programs are identified, together with changes in the existing organization. In addition to the changes within the operating units, we also consider changes in the overall environment within which the University exists. These environmental changes include such circumstances as new regulatory developments, new business processes, and new institutional priorities and strategic initiatives. For FY 2009, the audit universe was redefined as 160 auditable units to reflect the organizational redesign in units to accommodate the new EFS as well as changes necessitated by strategic positioning organizational re-alignments.

The Office of Internal Audit continues to utilize a formalized risk assessment methodology in selecting units/processes/activities for inclusion in the annual audit plan. Relative risk assessment is necessary to provide a basis for the rational deployment of our limited resources across the institution. The risk factors considered in our assessment include:

- Known or perceived control concerns
- Impact of unit on UM mission
- Impact of information technology
- Regulatory compliance issues
- Organizational change/turnover in key personnel
- Complexity/diversity of operations
- Audit history

Based on the outcome of this assessment, the 160 individual auditable units are categorized as high, above average, or moderate/low risk. A rating as a "high-risk unit" does not mean that the unit is perceived to have control problems, but rather reflects the criticality or centrality of the unit to the University's mission.

We have a commitment to the Board of Regents Audit Committee to provide audit coverage of high-risk activities on at least a three-year cycle, and we align our audit plans with the Audit Committee's Institutional Risk Profile. (See Appendix A)

OVERALL RISK ASSESSMENT

Taking into account the information we obtained in our risk assessment process, we believe the University is currently in a unusual risk position. While there are no specific areas of operation which cause us concern from an audit assurance perspective, there are a number of internal and external circumstances which pose the potential for significant risks to directly or indirectly manifest themselves in the next fiscal year. These include:

- The operational performance of the EFS
- Impact of LRT on the Twin Cities campus
- Decisions made regarding UMORE Park
- Strategic initiatives to globalize the University
- Expansion plans within the AHC
- Congressional inquiries on Conflict of Interest policies and practices

In light of these significant areas of uncertainty we believe a higher than usual degree of flexibility in our audit plan is prudent, to enable us to monitor these areas and be responsive if the need for audit involvement arises.

We therefore have constructed a two-tier audit plan. The first tier includes a smaller number of units/processes/activities (27) which will have audits completed in FY 2009. This part of the plan will include coverage of high risk units and risks associated with:

- Information technology
- AHC activities
- Research conducted offshore
- Energy costs and related sustainability efforts
- External regulatory concerns associated with sub-award contracting and effort reporting

As we carry out this portion of the audit plan we will be assessing the operational performance of EFS and will complete audits in three high risk central units which are significantly impacted by EFS.

Finally, the audit plan incorporates coverage of activities specifically aligned with the University's strategic positioning goals including a process review of student advising and coverage of institutional and operational metrics during each of the audits.

The second tier of the audit plan is proposed to be held as a reserve for use in responding to the need for audit services emerging from the circumstances noted above. We have identified 10 additional units/processes/activities that could be audited if our resources are not otherwise called upon. These units are, in general, smaller and lower risk units.

APPROACH TO THE 2009 AUDIT PLAN

In addition to the University being in an unusual risk position, the audit plan we are proposing also includes an unusual approach to the deployment of our resources. Because of the imminent implementation of EFS and the impact this will have throughout the University, we have made a conscious decision to limit our audit work during the first two months of its operation. We will be devoting our resources during this time to the completion of necessary internal administrative activities. These include: the completion of our internal self-study in preparation for our external peer review, retooling our internal processes for, and the training of our staff on, the EFS system, completing a longitudinal analysis of trends in audit findings, and working with appropriate institutional officials on reducing the number of outstanding audit recommendations related to information system technology and proactively addressing the frequently encountered control issues.

This results in a notably higher amount of administrative time than we have historically included in our audit plans.

ALLOCATION OF AUDIT RESOURCES

The audit plan is based on a planned staffing complement of 16.6 FTE professionals.

Approximately 51% of the Office of Internal Audit's resources are committed to the completion of the first-tier audit plan, with 6% reserved for the second tier to be used for emerging issues. This tiered audit plan continues to be designed to provide appropriate coverage utilizing a variety of audit methodologies: audits of individual units, functional and process audits, University-wide reviews, and information system projects.

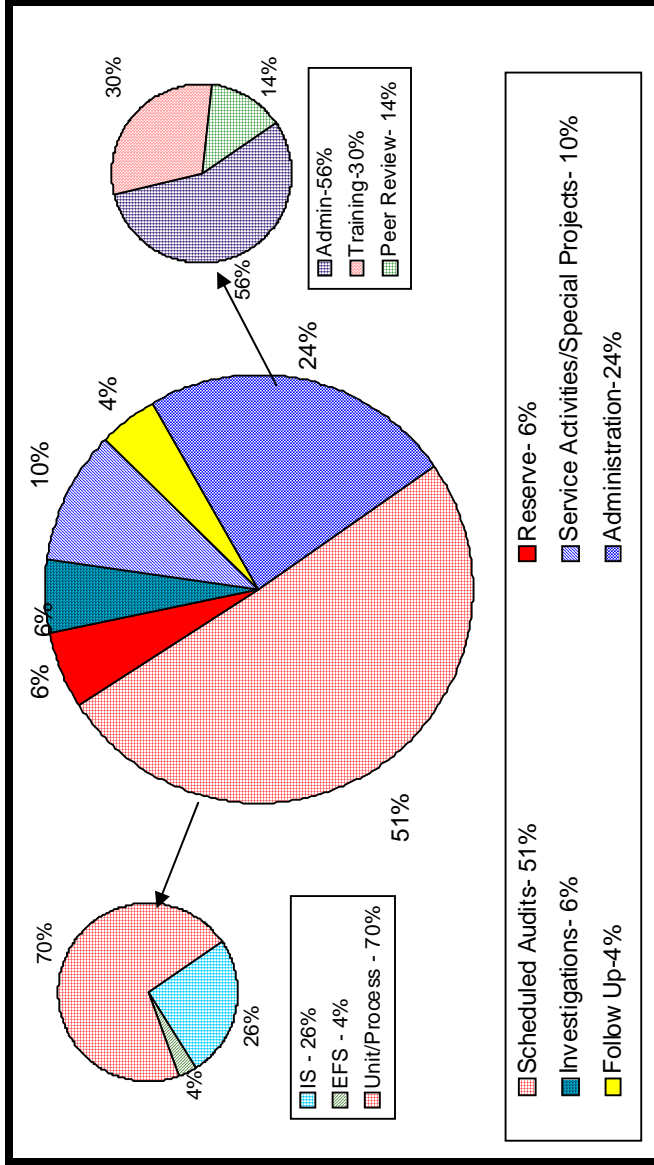
In selecting specific units/functions for inclusion in the first-tier audit plan we placed priority on providing coverage of high-risk units/processes, and areas of interest to University leadership. In the selection process we also aligned our audit plan with our overall risk assessment as well as with the major organizational components of the University.

In addition to risk-based audits we have also included University-wide reviews of selected business processes, which are an effective and efficient means for extending audit coverage to a broad spectrum of units, including those of moderate/low risk units.

The remainder of our FY 2009 audit resources is reserved as follows:

- 10% has been reserved to accommodate requests from the President, the Board, or executive committee members. This has been supported by the Audit Committee.
- 6% has been reserved for investigations. This is based on recent experience.
- 4% has been reserved for follow-up procedures performed on behalf of the Audit Committee.
- 24% has been set aside for administrative functions. This reflects a 10% increase from FY 2008 for one-time investment in activities such as staff training for the EFS system, preparing for our peer review and the updating of internal audit and administrative tools.

FY 2009 PLANNED ALLOCATION OF AUDIT RESOURCES



FY 2008- 2009 AUDIT PLAN

Taking into consideration the risks identified externally as well as internally, and balancing all of the above, the audit plan recommended for FY 2009 includes 27 audits which will provide audit coverage of:

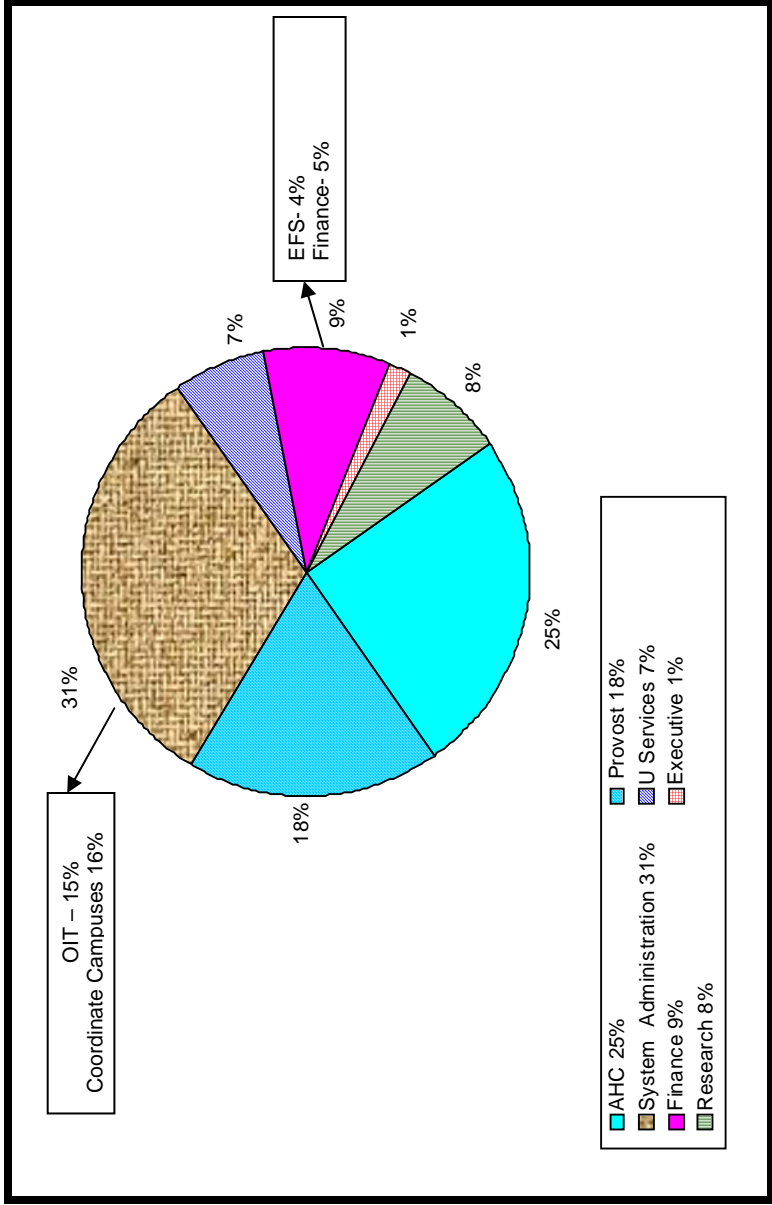
- Three high-risk system implementations
- One high-risk information system upgrade
- Three high-risk University-wide process reviews
- Four high-risk information system infrastructure reviews
- One review of a central cost pool
- Seven high-risk functional units
- Two above-average risk information system infrastructure reviews
- Five above-average risk functional units
- Four moderate/low-risk functional units, including the first audit of the University of Minnesota Rochester campus

The audits selected for inclusion in the FY 2009 audit plan also provide significant coverage of critical activities:

- 30% of the plan is devoted to information technology risks.
- Thirteen departmental audits will include a technology component.
- Nine audits will include evaluations of service quality and productivity.
- Eleven audits will include evaluations of central services.
- Eleven audits will include evaluations of research activities.
- Eight audits will include a component on gift activities in accordance with the Memorandum of Understanding between the University and the university foundations.

By the end of FY 2009, we will have provided audit coverage of 22 of the 23 high risk units. The one out-of-cycle unit did receive some coverage during FY 2008 as a result of a request to review departmental expenses. The FY 2009 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2009.

FY 2009 AUDIT COVERAGE BY UNIVERSITY COMPONENTS



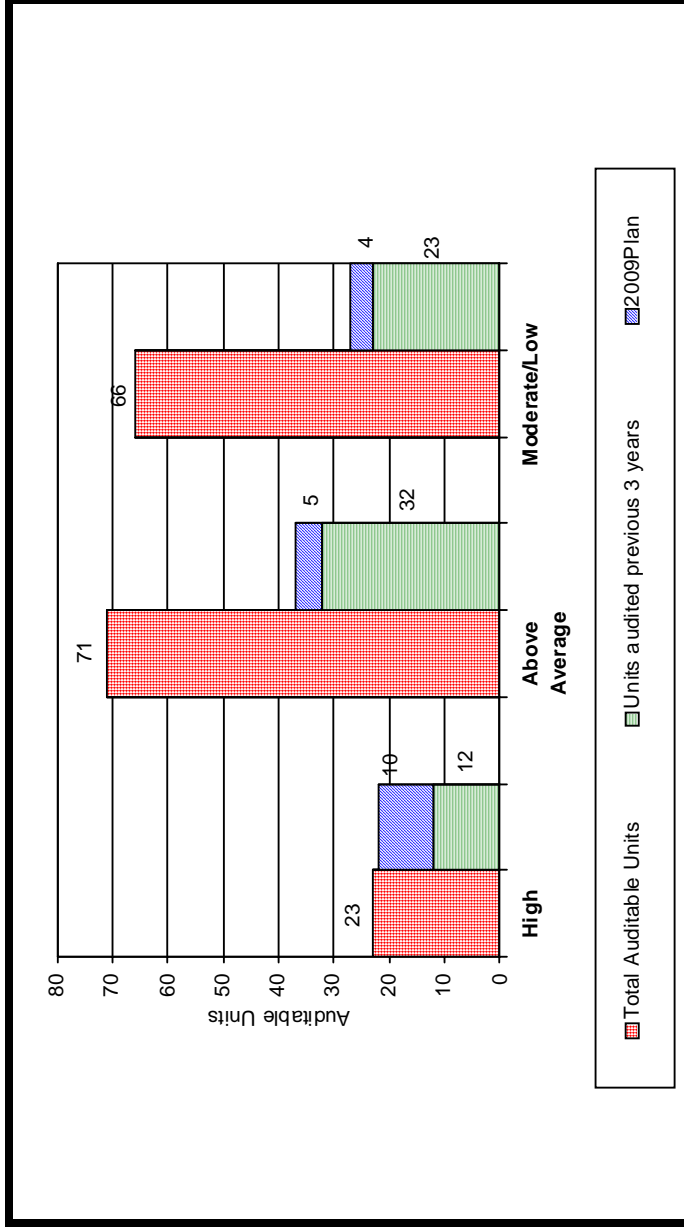
ANALYSIS OF AUDIT COVERAGE

By the end of the four-year period through FY 2009, we will have completed audits of:

- 22 of the 23 high-risk units on a three-year cycle. Nine of these high-risk units have been reviewed more than once in these four years.
- 37 of the 71 above-average risk units, as well as 27 of the 66 moderate/low risk units. Of those, 14 units in the above-average risk category and 6 of the moderate/low risk units have also had some review through a University-wide audit.
- University-wide processes in the areas of executive expenses, top travelers' expenses, and federally sponsored "K awards."

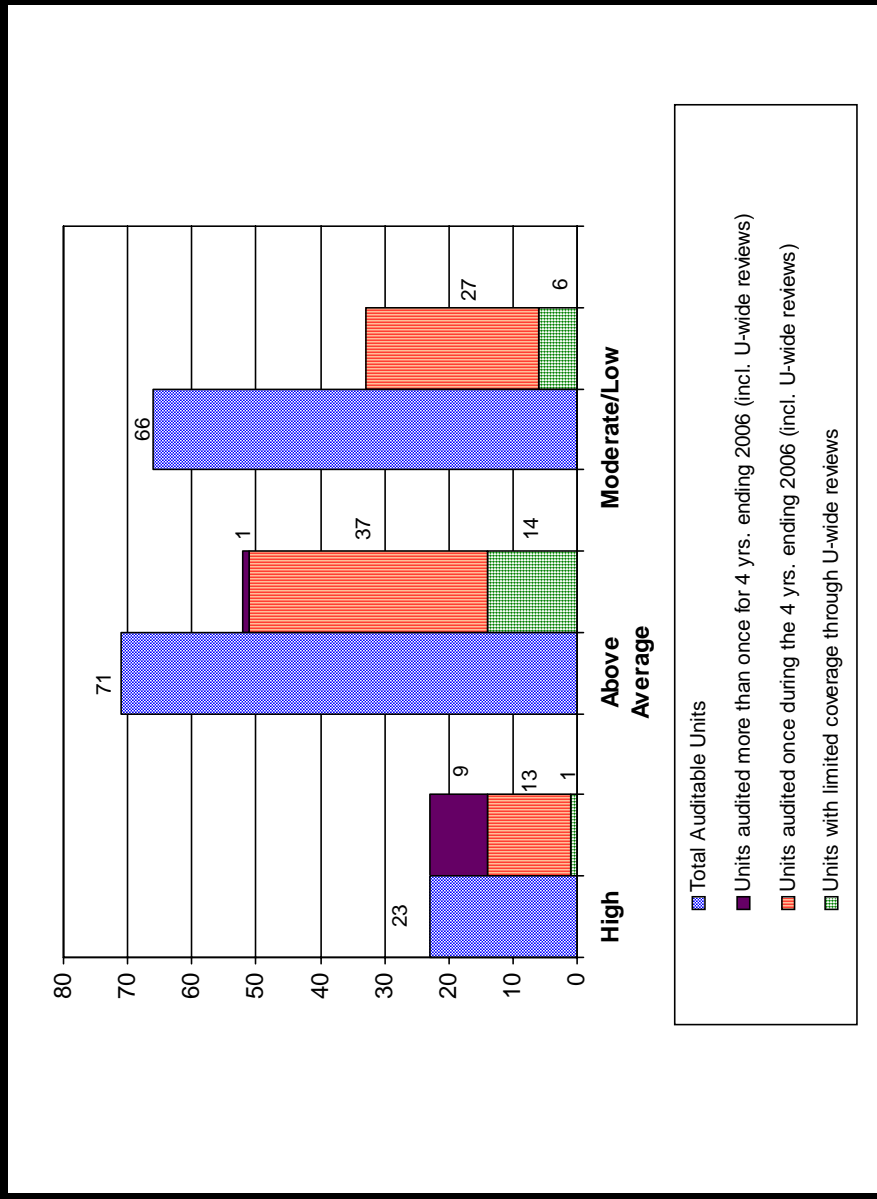
The following charts illustrate our coverage of University activities based on risk levels, as well as the coverage we have provided through University-wide reviews.

AUDIT COVERAGE THROUGH RISK BASED AUDITS



Of the 160 auditable units, 15 units have not had audit coverage since prior to FY 2000. Six of the 15 units are in the above-average risk category, while the remaining units are considered moderate/low risk units.

AUDIT COVERAGE THROUGH RISK BASED AND U-WIDE REVIEWS



Of the 15 units which have not had audit coverage since prior to FY 2000, eleven did receive some coverage as part of University-wide process reviews.

FY 2007-2008 RESULTS

To date for FY 2008, we issued 27 audit reports and one issue paper, which were the result of planned reviews and requests from management (See Appendix C).

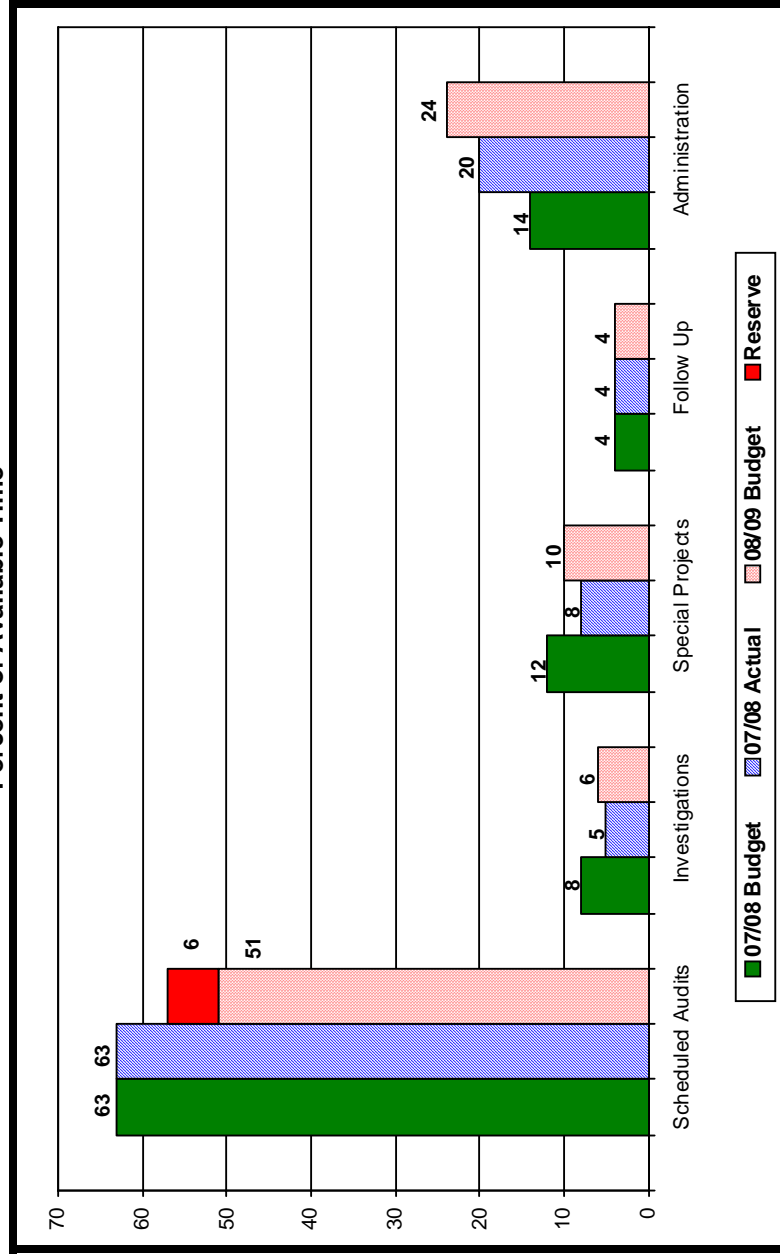
- In addition,
- Eleven audits are in the final stages of completion and reports will be issued in the next two months.
 - One audit is currently in the planning stages and will be completed in FY 2009.

- Six audits were either deferred to FY 2009 or not completed.

During the past fiscal year we completed and closed out 11 investigations from FY 2007 and also conducted 22 new investigations in response to allegations of financial or operational misconduct. Where appropriate, we have partnered with the University Police or the Office of the General Counsel to complete these reviews.

In the FY 2008 Audit Plan, approximately 14% of our resources had been earmarked for administrative functions. However, the actual time spent was approximately 20%, of which 4% was devoted to updating audit programs and processes to accommodate the EFS system and investigating opportunities to further automate our audit tools.

COMPARISON OF AUDIT RESOURCES FOR FY 2008 AND FY 2009
Percent of Available Time



FY 2008 NOTABLE SPECIAL PROJECTS

During FY 2008, we also completed a number of notable special projects namely:

- A financial review of the Technology Marketing Office to assist its new director in understanding the financial viability of several of its activities.
- Assisting in the design of a risk assessment methodology for use by the newly established OSHA office to monitor animal and lab safety activities.
- Clarified and dimensioned the impact of a non-compliant internal service organization, bringing together a number of University units which had a role in the establishment and oversight of these activities.
- Participated in the design and structure of a new position to provide oversight of research compliance activities, at the request of the Vice President for Research.
- Played an instrumental role in a working group to identify risks associated with the University's international activities and the assessment of how well the University is managing the risks. The group took advantage of a methodology we use in the Office of Internal Audit and produced a very comprehensive inventory of risks.

COORDINATION WITH EXTERNAL AUDITORS

The Office of Internal Audit continues to coordinate its audit plan with LarsonAllen, LLP to ensure appropriate coverage is achieved through the internal and external audit plans and to leverage the collective efforts of both organizations. The Office of Internal Audit meets the professional standards required by LarsonAllen to place reliance on internal audit work.

COORDINATION WITH OTHER INTERNAL RESOURCES

The Office of Internal Audit coordinates its work with other internal units to maximize the quality of audit coverage provided as well as to promote prompt attention when University-wide trends are identified. We have established strong working relationships with the University's Compliance Officer, the Office of Oversight, Analysis and Reporting, the Office of Regulatory Affairs, the Institutional Review Board, and the Department of Environmental Health and Safety, each of which work closely with us during audits involving complex regulatory issues.

The Office of Internal Audit interfaces regularly with the Institutional Compliance Officer and we serve on the Executive Compliance Oversight Committee and the Research Compliance Committee. Input from the Compliance Officer is solicited during our annual audit planning. In addition, throughout the year we report to and collaborate with the Compliance Officer on issues identified during our audits. We also share the results of employee surveys with the Compliance Officer. During fiscal year 2008, a total of 3047 surveys were sent out as part of our audit process, with a 58% response rate. Along with the Institutional Compliance Office, we serve as a triage office for managing U Report, the University's confidential reporting line.

Audit results are also shared with central support units such as Office of Information Technology, Sponsored Project Administration, Payroll, Purchasing, Training Services, and Human Resources, when policy non-compliance or when the need for process enhancements are identified. Best practices identified in local unit audits are also shared with these central unit process owners for consideration of broader adoption.

STAFF DEVELOPMENT AND QUALIFICATIONS

The Office of Internal Audit is committed to providing educational opportunities to our staff in order to enhance our audit knowledge and abilities and to achieve our professional best. Ever-changing government regulations, new technologies, and new developments in auditing principles and methods dramatically affect not only what we audit, but also how we audit. We constantly strive to stay abreast of new developments and improve our audit proficiency in order to enhance the overall quality of our audits. To accomplish this, we pursued a variety of methods to continue our staff's professional education.

Our departmental memberships with the Institute of Internal Auditors (IIA), the Association of College and University Auditors (ACUA), the Association of Certified Fraud Examiners (ACFE), the American Institute of Certified Public Accountants (AICPA), and the Information Systems Audit and Control Association (ISACA) provided staff members the opportunity to attend seminars and conferences that specifically address current issues and techniques in internal auditing. The interaction of our staff members with their peers through these professional organizations helps to keep us up-to-date on the latest auditing trends and issues affecting higher education.

Of the current seventeen professional staff:

- eleven have professional certifications of Certified Internal Auditors, Certified Public Accountants, Certified Information Systems Auditors, and Certified Fraud Examiners;
- one holds four certifications
- four have Master of Business Administration degrees;
- one has a Master of Arts- Economics degree;
- one is pursuing a Master of Business Administration degree; and
- three are pursuing professional certifications.

In FY 2008, the Office of Internal Audit provided 911 hours of training (an average of 54 hours for each employee). This does not include the time associated with completing evening MBA coursework funded by the University's Regents Scholarship Program. We also continue to hold monthly Brown Bag lunch meetings at which University leaders are invited to speak with audit staff.

For FY 2009, 1,931 hours have been budgeted for staff training, an average of 113 hours per employee. This time includes 680 hours needed to train our staff on the new financial system.

During FY 2008, members of the staff participated on quality assurance reviews of the internal audit functions at the University of Florida, the University of Michigan and a large financial services organization.

AUDIT RESOURCES

The FY 2009 audit plan is based on a FTE staff complement of 16.6 professional staff, which is consistent with prior years. Currently, we are at full staff. However, during FY 2009 we will experience the retirement of two managers under the Retirement Incentive Option. We plan to fill the positions as soon as possible.

We continue to receive excellent financial and organizational support from the administration.

BENCHMARKING/METRICS

The Office of Internal Audit formally benchmarks its activities against 1) Big 10 universities, 2) public universities, 3) all higher educational institutions, and 4) internal audit functions across all industry sectors. These studies focus on efficiency and effectiveness measures, quality of audit services and use of best practices. Our performance metric process is also guided by our professional standards. The Office of Internal Audit uses both office-wide metrics as well as employee metrics to monitor and measure our performance as described below:

Office –wide Metrics

- Completion of our audit plan
- Client Satisfaction surveys
- Employee satisfactions (as measured by the PULSE survey)
- Percentage of resources directed specifically at completion of audit work
- Cost per audit hour
- A “performance index” computed as part of the external benchmarking survey we participate in.

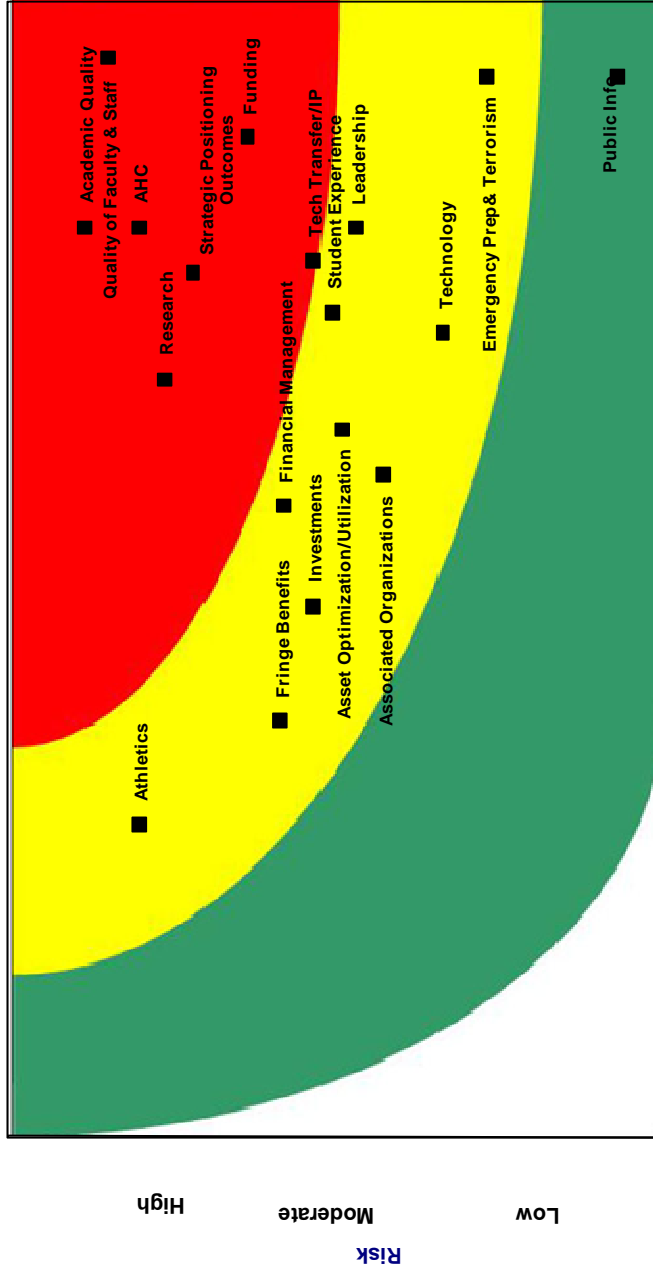
Employee Metrics:

- Billable hour productivity
- Timeliness of completion of audit work-cycle time
- Client satisfaction survey results.

Service Quality: At the conclusion of each audit we request that unit leadership complete a service quality questionnaire. The survey asks 16 questions related to professional proficiency, scope of work, performance of audit work, and the audit report. Respondents are asked to rate each attribute based on a four-point scale ranging from “poor” to “excellent”. On a scale of “1” to “4”, with 4 being “excellent” and 3 being “good”, the average score received was a 3.7 for FY 2008, a slight improvement of 3.6 from FY 2007.

APPENDIX A

Audit Committee's Institutional Risk Profile Heat Map



Low Moderate High Impact

Unit	FY 09	FY 08	FY 07	FY 06	Unit	FY 09	FY 08	FY 07	FY 06
Research- Infrastructure	x		x	x	Investments				x
Individual Sponsored Projects	x	x	x	x	Fringe Benefits			x	x
AHC	x	x	x	x	Student Experience	x	x	x	x
Athletics	x	x	x	x	Associated Organizations	x	x	x	x
Financial Management	x	x	x	x	Tech Transfer		x	x	
Technology	x	x	x	x	Emergency Preparedness	x	x	x	
Academic Quality	x				Strategic positioning outcomes	x			

Participants of Research Universities Risk Assessment

University of Arizona
University of California- Berkeley
University of California- San Diego
University of California System
Colorado State University System
Cornell University
University of Florida
University of Georgia
Georgia Institute of Technology
University of Georgia System
University of Illinois- Urbana-Champaign
John Hopkins University
Massachusetts Institute of Technology

University of Michigan
University of New Mexico
University of North Carolina- Chapel Hill
The Ohio State University
Oregon University System
University of Pennsylvania
Purdue University
Stanford University
Texas A&M University System
University of Texas System
University of Utah
University of Wisconsin- Madison
University of Washington

STATUS OF FY 2008 AUDIT PLAN

APPENDIX C

Audits Completed

High Risk

Enterprise Financial System Project Management
Central Computing Operations System Administration
CPPM
EFS Review
Active Directory
Two Factors Authentication- M Key

Moderate Risk

Department of Psychology
University of Minnesota- Morris
School of Mathematics
University Purchasing Card Program
UMD Intercollegiate Athletics
Veterinary Medical Center
Department of Central Security
Department of Computer Science and Engineering
Weisman Art Museum
College of Biological Sciences
NRR1
U of M Bookstore
UMD-Swenson College of Science and Engineering
Minnesota Cancer Center
Athletics Facilities

Low Risk

University Press
Department of Recreational Sports
Office of Equity and Diversity
General Clinical Research Center
UMD- Police
UMD- Kirby Student Center

Audits in Final Stage of Completion

High Risk

College of Education
Department of Ob Gyn
CFANS
Purchasing

Moderate Risk

Molecular and Cellular Therapeutics
Minnesota Population Center
Department of Mechanical Engineering
Plant Funds
UMD Facilities Management
Audience View- Athletics

Low Risk

UMD Housing

Audits Started in FY08 but will be completed in FY09

Bio Med Engineering & Inst. for Engineering in Medicine

Audits Deferred or Not Completed

Office of Student Financials
Data Center Expansion
Treasury Retooling System
CUHCC
Health and Safety Management
Fleet Services



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

July 9, 2008

Agenda Item: Committee 2008-2009 Workplan Discussion

review review/action action discussion

Presenters: Regent Linda Cohen
Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

The purpose of this discussion is to reach agreement on the committee workplan for the upcoming year.

Outline of Key Points/Policy Issues:

The workplan should focus on the oversight and monitoring of risks the Committee feels could impede the University from achieving its goal to become one of the top three research universities in the world. Topical discussion items should be selected based on their relevancy to the Audit Committee's institutional risk assessment and their import to strategic positioning outcomes.

The workplan should also ensure the Committee receives the information necessary to carry out the governance responsibilities assigned to it in its Charter, including the supervision of the external auditor and oversight of the internal audit program.

In addition to identifying appropriate topics for inclusion in the workplan, the Committee members are requested to consider:

- If the time typically allocated to individual agenda items is appropriate.
- If the materials provided to the Committee are at the appropriate level of detail.

Background Information:

Each standing committee of the Board of Regents establishes an annual workplan. The workplan is a means to assist the Committee in discharging its responsibilities under its Charter and provides a structure to ensure the topics of highest priority receive the Committee's attention.

A brief synopsis of the Committee workplans from previous years is included for the Committee's benefit.

**Board of Regents Audit Committee
FY2009 Committee Workplan Discussion
Draft Workplan**

- September: Audit Committee Workplan (L. Cohen)
 External Audit Update (LarsonAllen)
 Compliance Officer Report (L. Zentner)
 Internal Audit Update (G. Klatt)
- October: Even though the committee is not expected to meet in October, it will need to review the annual financial statements prior to their finalization. In previous years this has been handled by the Chair via a conference call.
- November: External Auditor Report (LarsonAllen)
 Information Item: Semi Annual Controller’s report
- February: External Auditor’s Review of Completed Audit Work and Letters to Management (LarsonAllen)
 Internal Audit Update (G. Klatt)
 Peer Review Report for the Office of Internal Audit (tentative)
- March: External Auditor Review (Fees and 2010 Engagement) (M. Volna)
 Compliance Officer Report (L. Zentner)
 Information Item:
 ▪ External Auditor Relationships and Services Provided
NOTE: The external audit contract will be in the fourth of its five year term. The committee may want to begin discussion on rebidding the contract.
- May External Audit Plan (LarsonAllen)
 Internal Audit Update (G. Klatt)
 Information Item: Semi-Annual Controller’s Report
- July Internal Audit Plan (G. Klatt)

Topical Items Offered for Committee Consideration:

- Evolving the University’s Research Infrastructure to Support Emerging Trends in Federal Funding Opportunities (carry forward from FY2008 workplan)
- Conflict of Interest Programs and their effectiveness
- Risk Management in the International Arena (M. McQuaid)
- Governance Considerations for Working With Related Organizations
- Audit Committee Best Practices
- Highest Risk Financial Activities and Transactions

Board of Regents Audit Committee

FY2009 Committee Workplan Discussion
Prior Workplan Approaches/Themes and Topical Agenda Items

FY03 The Committee's workplan focused on a number of new regulatory changes and their effect on the University. Topical agenda items included:

- Sarbanes-Oxley Act of 2002 Briefing and Discussion of Policy Implications
- Sarbanes-Oxley Act of 2002 Policy Discussion – Part II
- Assessment of the Sponsored Project Management model
- Discussion of the University's Highest Risk Financial Activities/Transactions
- University Implementation of the Patriot Act
- University Implementation of the Health Insurance Portability and Accountability Act (HIPAA)

FY04 The Committee's workplan focused primarily on policy reviews and discussions. Topical agenda items included:

- Briefing on the COSO Integrated Framework of Internal Control
- Policy Discussion on Institutional Conflict of Interest
- Policy Discussion on Changes to the Board of Regents Policy – Audit Committee Charter
- Policy Discussion on Changes to the Board of Regents Policy – Internal Control
- Policy Discussion on the University's Relationships with Affiliated Organizations

FY05 The Committee wanted to develop a more thorough understanding of the myriad of risks the University must manage, with particular attention to those the Audit Committee must consider to fulfill its oversight and fiduciary responsibilities. The Committee was also interested in learning more about the best practices and evolving trends in governance expectations for audit committees of higher education institutions. To accomplish these goals, the workplan was structured around the organizational activities addressed in the COSO *Integrated Framework of Internal Control*: financial reporting, compliance, and operations. Each Committee meeting focused on University-specific risks in each of these areas. Topical agenda items included:

- Longitudinal Analysis of Internal Audit Results
- Financial Reporting Risk Profile and Best Practices from the External Auditor's Perspective
- Compliance Risk Profile
- Operations Risk Profile
- Strategic Risk Profile
- Committee Discussion on an Institutional Risk Profile
- Financial Oversight: Key Indicators
- Employee Hot Lines

FY06 : The workplan theme was the study of fiduciary responsibilities and related best practices. The Committee discussed institutional risks from a governance perspective, culminating in the assessment of the adequacy of the measures in place to manage these risks, and monitor them at the Board level. Topical agenda items included:

- Committee Discussions on Sources of Information for Risk Oversight

- Analysis of Internal and External Audit Coverage
- Compliance Reporting
- Employee Hotline
- Information Provided to other Board committees
- Presentations on fiduciary responsibilities (2)

FY07 The workplan theme was to “connect the dots” between the University’s stated objective of being one of the top three research universities in the world within the next decade and the mitigation of the risks which could impede its achievement. The following topical discussion items were selected based on the Audit Committee’s institutional risk assessment, coupled with areas of import to strategic positioning outcomes.

- The University’s Code of Conduct and Confidential Hotline Experience
- Data Security/Privacy Risk Mitigation
- NCAA Compliance Program
- Longitudinal Analysis of Research Infrastructure Audit Results and their Strategic Implications
- The University’s Preparedness for All-Hazard Emergencies

FY08 The workplan incorporated the Board’s desire to 1) receive more information from the University’s Compliance Officer and 2) continue the discussion on the changes in the landscape of federal research funding as discussed at the Board’s retreat in July 2007.

Topical agenda items included:

- Results of University-Wide Research Compliance Study
- Impact of the EFS Implementation and New Accounting Pronouncements on the University’s Internal Control Environment

Two additional topics were included in the workplan, but did not occur: 1) an overview of the University-Fairview relationship and its governance structure and 2) a presentation on the changes to the University’s research infrastructure in response to the emerging trends in federal funding. An ad hoc group of the Board was subsequently established to study the University-Fairview relationship and the related governance issues. Changes in the Board calendar caused a scheduling conflict on the second topic.