

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

June 13, 2002

A meeting of the Audit Committee of the Board of Regents was held on Thursday, June 13, 2002 at 9:15 a.m. in the West Committee Room, 600 McNamara Alumni Center.

Regents present: Dallas Bohnsack, presiding; Anthony Baraga, Frank Berman, Richard McNamara, David Metzen, H. Bryan Neel III, Michael O'Keefe, and Lakeesha Ransom.

Staff present: President Mark Yudof; Executive Vice President and Provost Robert Bruininks; Interim Vice President Gregory Fox; General Counsel Mark Rotenberg; Executive Director Ann Cieslak; Associate Vice Presidents Steve Cawley, Gail Klatt, Robert Kvavik, Richard Pfitzenreuter, Laurie Scheich, Steve Spehn, and Michael Volna; Associate General Counsel William Donohue.

Student Representatives present: Jacob Elo and Allison Rhody.

Regent Bohnsack welcomed the members of the Facilities Committee.

**LEGAL/AUDIT DEPARTMENTS' FINDINGS REGARDING DESIGN/CONSTRUCTION PROCESS**

General Counsel Rotenberg and University Auditor Klatt presented a report on the results of reviews of design and construction processes and practices employed at the University of Minnesota, which was a cooperative effort between the Department of Audits, the Office of the General Counsel, and Facilities Management.

Rotenberg stated the report contains 75 recommendations to improve the control and oversight of these activities. He indicated the report notes critical control issues which must be addressed, especially in the Design-Build area, but there is no evidence of criminal or civil wrongdoing by any University employees. Rotenberg noted that many of the recommendations have already been addressed and implemented by Facilities Management and Interim Vice President Fox will present a report in July.

Klatt and Rotenberg discussed the audit process. Overall findings include that the design and construction contracting practices can be improved in the areas of selection of architects and engineers (A&Es) and providers of other professional services. Rotenberg reviewed recommendations to improve those practices, including discontinuation of the pre-qualification process for A&Es, which has created the impression of unfairness and favoritism.

Klatt discussed recommended improvements to the University's construction administration practices, project delivery processes, oversight of Design-Build projects, inspections, contract administration, and change order management. She stated that risks currently present can be appropriately mitigated by implementation of these recommendations. Klatt agreed with President Yudof's assessment that there are risks associated with the Design-Build and Design-Bid-Build processes, and inspections, change orders, and contract administration must be monitored for both.

Regent Berman expressed concern regarding the audit findings and the Design-Build process. He complimented the Department of Audits and the Office of the General Counsel for their thorough work, and asked a number of questions

relating to cooperation from Facilities Management employees and possible conflicts of interest. Rotenberg noted that a number of concerns were addressed by an attorney-client privileged report that could not be discussed in this meeting.

Klatt discussed actions taken by Facilities Management in response to the audit recommendations. She noted there is agreement on all of the recommendations and action plans have been developed for timely implementation.

In response to Regent O'Keefe, Yudof stated he approved the implementation of the audit recommendations, subject to review of the Board. He indicated he does not necessarily agree with Regent Berman's concerns about Design-Build, and stressed that systems must be put in place to reduce the risk factors related to both methods. He suggested giving Facilities Management time to implement some recommendations and present a report at the September meeting.

Regent Reed stated that the recommendations will be assigned to the appropriate Board committee for follow-up. Regent Metzen asked that this be on the agenda of the Facilities Committee every month for next year after the Audit Committee has finished its work.

Regent O'Keefe stated that a discussion should be scheduled for the full Board on the risks and check and balances associated with Design-Build and traditional construction method. Regent Baraga suggested change orders should also be discussed.

Following the discussion, Regent Bohnsack stated this item will be the subject of on-going discussion by the Board.

The meeting adjourned at 10:15 a.m.

**ANN D. CIESLAK**  
**Executive Director and**  
**Corporate Secretary**

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