AGENDA

1. Board of Regents Policy: Audit Committee Charter - G. Klatt (pp. 2-4)
2. External Auditor Report - M. Volna/K. Vosen/J. Dockendorf (pp. 5-23)
3. Intercollegiate Athletics Risk Profile - N. Teague (pp. 24-25)
4. Institutional Compliance Officer Semi-Annual Report - L. Zentner (pp. 26-35)
5. Information Items - G. Klatt (pp. 36-39)
Audit Committee

December 12, 2013

Agenda Item:  Board of Regents Policy: Audit Committee Charter

☑ review  ☐ review/action  ☐ action  ☐ discussion

Presenters:  Associate Vice President Gail Klatt

Purpose:

☑ policy  ☐ background/context  ☐ oversight  ☐ strategic positioning

To review proposed amendments to Board of Regents Policy: Audit Committee Charter.

Outline of Key Points/Policy Issues:

The policy draft contains amendments intended to align the policy with new language in Board of Regents Policy: Board Operations and Agenda Guidelines.

Changes include:

• Incorporate language to address the committee’s oversight responsibility for compliance;
• Update language to reflect the change of name of the Audit Department to the Office of Internal Audit; and
• Increase the threshold for the committee’s review of audit contracts from $25,000 to $100,000 in response to recommendations to revisit existing thresholds.

Background Information:

Board of Regents Policy: Audit Committee Charter was adopted on October 14, 1988 and last amended on February 13, 2009.
AUDIT COMMITTEE CHARTER

Subd. 1. Organization. The Audit Committee of the Board of Regents (Board) shall be a permanent committee consisting of at least four members of the Board. Audit Committee members shall be appointed by the Board chair, recognizing the need for financial expertise and continuity of membership from year to year.

Subd. 2. Reservation of Authority. Consistent with Board of Regents Policy: Reservation and Delegation of Authority, the Board reserves to itself authority to adopt policies regulating the audit function; approve selection of external public accountants and the Director of Internal Audit; review audit plans; and evaluate the performance of the independent auditor and, jointly with the president, the performance of the internal audit function.

Subd. 3. Purpose. The Audit Committee oversees the University’s system of risk assessment and internal controls, audits, financial reporting practices, and the institutional compliance program. The Audit Committee is to assist the Board in discharging its oversight responsibilities related to the audit and compliance functions by:

(a) promoting the development of an effective, efficient, and continuously improving control environment, in concert with the administration, to achieve the institution’s objectives through an appropriate system of risk assessment and internal control;

(b) overseeing the University’s integrated framework of internal control, and risk management assessment practices, and institutional compliance program to ensure that the administration executes the provisions of Board of Regents Policy: Internal Control;

(c) serving as an informed voice on the Board by relaying the audit and compliance perspective when related issues are brought before the Board and its standing committees; and

(d) providing a direct channel of communication to the Board for the internal auditor and the independent public auditor.

Subd. 4. Duties. Specific duties of the Audit Committee include the following:

(a) Oversight of the Independent Auditor. The independent auditor reports directly to the Board through the Audit Committee. The Audit Committee shall recommend for Board approval the engagement and related fees of the independent auditor to perform the annual financial statement and federal compliance audits. The Audit Committee shall approve in advance all audit and non-audit services provided by the independent auditor with a value greater than $100,000 or that may impair the audit firm’s independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in the United States General Accounting Office Government Auditing Standards. Engagements not requiring approval by the Board shall be reported to the Audit Committee at the next scheduled meeting of the committee. The Audit Committee shall annually review and evaluate the independent auditor’s performance, independence, and effectiveness of coordination with other assessment activities, including internal audit.
(b) **Oversight of the Internal Audit Function.** The Audit Committee shall recommend for Board approval (1) the appointment or removal of the director of audits, (2) changes to the [Office of Internal Audit's Audit Department charter](#), and (3) any material revisions to internal audit plans or budgets. In consultation with management and the internal auditor, the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.

(c) **Review of Financial Statements.** The Audit Committee shall review, in advance of final issuance, the proposed formats and wordings of the annual financial report, including the management’s discussion and analysis, financial statements, footnotes, statistics, and disclosures.

(d) **Review of Audit Results.** The Audit Committee shall review the internal and external audit results and discuss significant issues of internal control and compliance with the independent auditor, internal auditor, and management. The Audit Committee shall monitor management’s progress in addressing audit recommendations.

(e) **Investigation of Reported Concerns Regarding Accounting or Auditing Matters.** The Audit Committee shall be apprised of investigations conducted under administrative policy.

(f) **Requests for Audits.** The Audit Committee is authorized to request supplemental reviews or other audit procedures by the internal auditor, the independent auditor, or other advisors.

(g) **Approval of Engagements of Audit Firms Other Than the University's Principal External Auditors.** The Audit Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than $100,000 or that may impair the audit firm’s independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in subd. 4 (a) of this policy. Engagements not requiring approval by the Board shall be reported to the Audit Committee at the next scheduled meeting of the committee.
Audit Committee

December 12, 2013

Agenda Item: External Auditor Report

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Associate Vice President Michael Volna
Kirsten Vosen, Audit Partner, Deloitte & Touche
Judith Dockendorf, Audit Manager, Deloitte & Touche

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

To present the External Auditor’s opinion on the University of Minnesota’s FY 2013 financial statements and other required audit communications.

Outline of Key Points/Policy Issues:

Discussion of the audit results for the FY 2013 audited financial statements, including:

- Auditor’s opinion;
- Significant accounting policies;
- Accounting estimates;
- Audit adjustments; and
- Other required communications.

Background Information:

The Audit Committee oversees external audit engagements on behalf of the Board of Regents. A copy of the FY 2013 financial statements is available in the Board Office.
University of Minnesota
Presentation to the Audit Committee of the Board of Regents
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Our professional standards require that we communicate with you concerning financial, accounting, and auditing matters that may be of interest to you in fulfilling your oversight fiduciary responsibilities. We have prepared the following comments to assist you in that regard.
# Summary financial information

## Consolidated Statements of Net Position

(In thousands)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$629,376</td>
<td>$585,161</td>
<td>$590,555</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>$2,040,048</td>
<td>$1,971,938</td>
<td>$1,830,151</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>$2,876,914</td>
<td>$2,696,951</td>
<td>$2,605,072</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows of resources</strong></td>
<td>$5,546,338</td>
<td>$5,254,050</td>
<td>$5,025,778</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$443,100</td>
<td>$432,135</td>
<td>$428,407</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>$184,726</td>
<td>$167,583</td>
<td>$148,710</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$1,300,730</td>
<td>$1,226,389</td>
<td>$1,145,419</td>
</tr>
<tr>
<td><strong>Total liabilities and deferred inflows of resources</strong></td>
<td>$1,928,556</td>
<td>$1,826,107</td>
<td>$1,722,536</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$820,146</td>
<td>$727,348</td>
<td>$607,364</td>
</tr>
<tr>
<td>Restricted-expendable</td>
<td>$865,819</td>
<td>$784,443</td>
<td>$802,858</td>
</tr>
<tr>
<td>Restricted-nonexpendable</td>
<td>$277,601</td>
<td>$265,156</td>
<td>$253,609</td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>$1,654,216</td>
<td>$1,650,996</td>
<td>$1,639,411</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$3,617,782</td>
<td>$3,427,943</td>
<td>$3,303,242</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$5,546,338</td>
<td>$5,254,050</td>
<td>$5,025,778</td>
</tr>
</tbody>
</table>
Consolidated Statements of Operations and Changes in Net Position
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$ 2,080,367</td>
<td>$ 2,068,917</td>
<td>$ 1,919,060</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3,064,216</td>
<td>2,948,366</td>
<td>2,886,024</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(983,849)</td>
<td>(879,449)</td>
<td>(966,964)</td>
</tr>
<tr>
<td>State and federal appropriation</td>
<td>597,530</td>
<td>587,220</td>
<td>692,716</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>122,797</td>
<td>36,895</td>
<td>180,865</td>
</tr>
<tr>
<td>Capital appropriations</td>
<td>60,570</td>
<td>60,570</td>
<td>75,801</td>
</tr>
<tr>
<td><strong>INCREASE IN NET ASSETS</strong></td>
<td><strong>$ 189,839</strong></td>
<td><strong>$ 124,701</strong></td>
<td><strong>$ 312,512</strong></td>
</tr>
</tbody>
</table>

Consolidated Statements of Cash Flows
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used by operating activities</td>
<td>$(781,600)</td>
<td>$(659,788)</td>
<td>$(847,949)</td>
</tr>
<tr>
<td>Net cash provided by non-capital financing activities</td>
<td>925,488</td>
<td>913,558</td>
<td>1,027,484</td>
</tr>
<tr>
<td>Net cash (used) provided by capital and related financing activities</td>
<td>(223,374)</td>
<td>(140,030)</td>
<td>45,972</td>
</tr>
<tr>
<td>Net cash provided (used) by investing activities</td>
<td>4,977</td>
<td>(177,252)</td>
<td>(97,055)</td>
</tr>
<tr>
<td>Net (decrease) increase in cash</td>
<td>(74,509)</td>
<td>(63,512)</td>
<td>128,452</td>
</tr>
<tr>
<td>CASH — beginning of the year</td>
<td>355,520</td>
<td>419,032</td>
<td>290,580</td>
</tr>
<tr>
<td>CASH — end of the year</td>
<td><strong>$ 281,011</strong></td>
<td><strong>$ 355,520</strong></td>
<td><strong>$ 419,032</strong></td>
</tr>
</tbody>
</table>

Enrollment Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate student enrollment</td>
<td>68,400</td>
<td>68,400</td>
<td>69,000</td>
</tr>
</tbody>
</table>
Total revenues

June 30, 2013

Grants, gifts, and other nonoperating, net, 11%
Federal and state appropriations, 19%
Education activities, 4%
Auxiliary enterprises, net, 12%

Grants and contracts, 27%
Student tuition and fees, net, 23%

Net investment gain (loss), 4%
Grants, gifts, and other nonoperating, net, 11%

June 30, 2012

Grants, gifts, and other net, 14%
Federal and state appropriations, 19%
Education activities, 5%
Auxiliary enterprises, net, 11%

Grants and contracts, 28%
Student tuition and fees, net, 22%

Investment income, net, 1%
June 30, 2011

- Grants and contracts, 25%
- Student tuition and fees, net, 20%
- Auxiliary enterprises, net, 11%
- Federal and state appropriations, 21%
- Education activities, 4%
- Investment income, net, 5%
- Grants, gifts, and other, net, 14%

Summary financial information
Strengths, challenges and accomplishments of the University

Strengths of the University

- Ability and commitment to respond to changes, including new accounting pronouncements
- Strong accounting and finance functions
- Strong internal audit function with experienced professionals
- Research spending of $506 million benefits the entire state of Minnesota
- Diverse revenue base from tuition, state appropriations, federal grants, private gifts, grants, and contracts
- Strong net asset position
- Continued strong bond ratings (ability to generate additional funding)
  - Aa1 rating (Moody’s-October 2013)
  - Strong market position for student demand and research, growing balance sheet resources and positive operations (per Moody’s report)
- Short and long term planning
- Long range capital planning
- Quality – ability to raise tuition and still have enrollment growth

Challenges faced by the University

- Erosion of public funding, particularly state appropriations, modest increase for FY 2014-2015 biennium
- Rising costs
- Need to continue to support infrastructure (annual depreciation of $193.1 million)
- Need for continued recruitment and retention of high-quality individuals within the finance and accounting departments
- Decentralization
- System upgrade
- Challenges per Moody’s report (October 2013)
  - Additional anticipated debt issuances, demographic challenges, growth in research funding is challenged due to the federal funding environment and heightened competition and constrained state operating funding
Accomplishments of the University

- Ability to respond to state funding shortfall while increasing graduation rates, increasing retention rates and affecting first year students with increased ACT scores
- Limited litigation exposure
- Minimal unrecorded audit adjustments
- Accounting Services met all significant audit deadlines and appears to have a strong desire to do what is right
- Successful bonding activity, solid bond ratings in the very strong category
- Risk Tolerance working group, including the Audit Committee’s response
Required communications with the Audit Committee

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

Our engagement letter dated May 9, 2013, described our responsibility under generally accepted auditing standards (GAAS) and Government Auditing Standards (GAS) including:

- To report whether, in our opinion, financial statements are fairly stated in accordance with accounting principles generally accepted in United States of America (GAAP) in all material respects
- Our procedures are not designed specifically to detect fraud
- To consider internal controls and assess control risk to the extent necessary to plan and perform audit procedures rather than to provide assurance on internal controls

We have completed our audit of the consolidated financial statements of the University of Minnesota (the “University”) as of and for the year ended June 30, 2013. We have issued an unmodified opinion on the consolidated financial statements of the University.

We believe our audit fulfilled the objectives set forth in our engagement letter.

Internal controls and the management letter

As described in our engagement letter, GAAS requires, among other things, that we obtain a sufficient understanding of the University’s internal controls to enable us to properly plan our audit and to determine the nature, timing, and extent of our audit procedures to be performed.

- We will issue a separate report to management containing our comments on internal controls and certain observations and recommendations on other accounting, administrative, and operating matters. No observations or recommendations represent significant deficiencies or material weaknesses in internal controls.

Significant accounting policies

The University’s significant accounting policies are set forth in Note 1 to the 2013 consolidated financial statements.

The University adopted Government Accounting Standards Board Statement (GASB) No. 61, The Financial Reporting Entity: Omnibus – an amendment to GASB Statements No. 14 and No. 34 as of and for the year ended June 30, 2013 and changed its method of accounting for discretely presented component units. The adoption of this guidance did not have a significant impact on the consolidated financial statements.

During the year ended June 30, 2013, there were no other significant changes in previously adopted accounting policies or their application.
Accounting estimates and key audit risks

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management’s judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and assumptions about future events.

Our conclusions as to the reasonableness of estimates, as expressed in our independent auditors’ report, are based upon the testing of management’s estimates and/or the development of an independent expectation of the estimates to corroborate management’s estimates. Significant accounting estimates and key audit risks reflected in the 2013 consolidated financial statements include the following areas:

Summary of Accounting Estimates and Key Risks

- Valuation of investments and cash and cash equivalents
- Interest rate swaps and compliance with debt covenants
- Recognition of revenue in the appropriate period
- Information management and communication
- Federal grant compliance

<table>
<thead>
<tr>
<th>Financial Statement Account and 2013 $’s</th>
<th>Audit Procedures</th>
<th>Management’s Assertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of investments and cash and cash equivalents (Investments of $1.98 billion ($718 million considered alternative investments) and cash and cash equivalents of $281 million)</td>
<td>• Read the valuations provided by external investment managers and management’s year-end analysis to evaluate how positions are marked to market for a selected sample. Assessed the underlying assumptions used to determine fair value for alternative investment vehicles. • Updated our understanding of the University’s investment portfolio and considered investment strategies or products that pose control or financial reporting risks. • Understood and documented the oversight and monitoring procedures performed by management when investing in new funds, quarterly and annually. • Obtained an understanding of the internal controls over the monitoring of and reporting on on-going invested funds. • Reviewed transactions at or near the balance sheet date which support the valuation of the investment. • Independently tested pricing of readily marketable investments. • Confirmed directly with external investment managers and requested related audited financial statements as required by American Institute of Certified Public Accountants guidance to verify underlying value of alternative investments for a selected sample. Performed rollforward procedures from audited financial statement date to June 30, 2013 for a selected sample. • Compared investment fund returns to standard industry benchmark for a selected sample.</td>
<td>Management has represented that the assumptions used are reflective of management’s intent and ability to carry out specific courses of action and are consistent with the University’s plan and past experiences. Also, these assumptions and methods used result in a fair value measure appropriate for financial statement disclosure purposes in accordance with GAAP.</td>
</tr>
</tbody>
</table>
## Financial Statement Account and 2013 $’s

<table>
<thead>
<tr>
<th>Interest rate swaps and long-term debt (Interest rate swaps notional amounts of $70 million and fair value of $(11.9) million) (Long-term debt of $1.30 billion)</th>
<th>Audit Procedures</th>
<th>Management’s Assertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Obtained an understanding of all interest rate swap agreements.</td>
<td>Management has represented they have properly accounted for interest rate swap agreements, and that there are no negative financial conditions with any of the interest rate swap counterparties. Further, management has represented that the University is in compliance with all debt covenants as of June 30, 2013.</td>
<td></td>
</tr>
<tr>
<td>• Reviewed management’s analysis and conclusion on accounting for interest rate swap agreements.</td>
<td></td>
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<tr>
<td>• Utilized specialists to review the fair value balances of the interest rate swap agreements.</td>
<td></td>
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<tr>
<td>• Assessed the financial condition of the interest rate swap counterparties.</td>
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<td></td>
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<tr>
<td>• Confirmed long-term debt.</td>
<td></td>
<td></td>
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<tr>
<td>• Assessed the University’s compliance with debt covenants.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Recognition of revenue in the appropriate period (Student tuition and fees revenue of $720.5 million, net of allowance of $239.1 million) (Grant and contract revenue of $836.4 million) (Other operating revenue of $523.4 million, net of allowance of $7.8 million)</th>
<th>Audit Procedures</th>
<th>Management’s Assertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reviewed student tuition and fees and other revenue recognition accounting policies and procedures through our testing of internal controls</td>
<td>Management has represented that revenues have been recorded at the appropriate amounts and within the appropriate periods. Management has also represented that amounts recorded as federal grant and contracts revenue reconciles to revenues recorded within the federal grant compliance audit.</td>
<td></td>
</tr>
<tr>
<td>• Audited student tuition and fees and other revenues recorded through substantive analytical procedures as well as testing completed within the federal grant compliance audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reconciled federal grant and contracts revenue with the federal grant compliance audit.</td>
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</table>

<table>
<thead>
<tr>
<th>Information management and communication</th>
<th>Audit Procedures</th>
<th>Management’s Assertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Utilized internal IT specialists to test and evaluate the computer-related controls within the business cycles, including revenue, expenditures, and payroll and personnel.</td>
<td>Management has represented that they have appropriate IT controls in place to produce accurate and reliable information to generate the consolidated financial statements.</td>
<td></td>
</tr>
<tr>
<td>• Performed internal control procedures around the University’s ability to accumulate accurate and reliable information.</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Federal grant compliance (Federal and state grants of $1.089 billion)</th>
<th>Audit Procedures</th>
<th>Management’s Assertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Understood compliance regulations applicable to the University’s major federal programs as described in the U.S. Office of Management and Budget Circular A-133.</td>
<td>Management has represented that they have identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2013. Also, management has represented that they have made available all information related to federal financial reports and claims for advances and reimbursements, which are supported by the books and records from which the consolidated financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards.</td>
<td></td>
</tr>
<tr>
<td>• Held discussions with management, research leaders, and principal investigators and updated our understanding of procedures in place to comply with federal regulations.</td>
<td></td>
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<tr>
<td>• Evaluated effort reporting costs charged to government grants in accordance with federal regulations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Coordinated our tests for financial reporting purposes with our tests of compliance with government regulations.</td>
<td></td>
<td></td>
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<tr>
<td>• Reviewed methodology and calculation used to determine indirect cost rate used by the University during the current fiscal year.</td>
<td></td>
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</tbody>
</table>

During the year ended June 30, 2013, we are not aware of any significant changes in accounting estimates or in management’s judgment’s relating to such estimates.

### Audit adjustments

Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In addition, we are obligated by GAAS to inform you of any adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the University’s financial
reporting process. There were no uncorrected misstatements or disclosure items passed that were identified during our audit.

**Disagreements with management**

We have not had any disagreements with management related to matters that are material to the University’s 2013 financial statements.

**Our views about significant matters that were the subject of correspondence with other accountants**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

**Significant findings or issues discussed, or subject of correspondence, with management prior to our retention**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transitions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

**Significant difficulties encountered in performing the audit**

In our judgment, we received the full cooperation of the University’s management and staff and had unrestricted access to the University’s senior management in the performance of our audit.

**Management representations**

We have made specific inquiries of the University’s management about the representations embodied in the consolidated financial statements. Additionally, we have requested that management provide to us the written representations the University is required to provide to its independent auditors under generally accepted accounting standards.

**Emphasis of Matter Paragraph**

Our opinion on the consolidated financial statements includes an emphasis of matter paragraph specific to the new accounting guidance, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No.14 and No. 34*, adopted by the University for the year ended June 30, 2013 related to the method of accounting for discretely presented component units. Our opinion was not modified in respect to this matter.

**Other Matter Paragraph**

Our opinion on the consolidated financial statements includes an other matter paragraph specific to the required supplementary information that is included in the consolidated financial statements. Our opinion was not modified with respect to this matter.

**Other matters**

There are no additional matters encountered in performing the 2013 audit.
Other information in the Annual Report

The audited financial statements are included in the University’s 2013 Annual Report. We read the other information in the University’s 2013 Annual Report and inquired as to the methods and presentation of such information. We did not note any material inconsistencies or obtain knowledge of a material misstatement of fact in the other information.
Communication of peer review results

Peer Review

Deloitte participates in the American Institute of Certified Public Accountants (AICPA) Peer Review Program. The AICPA Peer Review Program requires independent evaluation every three years of those portions of a firm’s accounting and auditing practice that are not inspected by the PCAOB (i.e., the non-SEC issuer practice) so firms can meet their state licensing, federal regulatory, and AICPA membership requirements.

In 2012, Ernst & Young LLP (E&Y) completed its most-recent triennial peer review of Deloitte & Touche LLP’s system of quality control for our accounting and auditing practice applicable to non-SEC issuers for the year ended March 31, 2011. E&Y issued a report with a peer review rating of pass with deficiency, and included in its report a recommendation that D&T review the specificity of certain policies and procedures, implemented in connection with the adoption of a new audit methodology, to improve the consistency of audit execution and documentation.

We use all observations from our internal and external inspections to continuously improve audit performance, and have implemented enhancements to our audit policies and procedures that are responsive to the recommendation. The peer review report and our related response can be found at https://peerreview.aicpa.org/publicfile/Popup.aspx?f=10016352&r=320244&t=REV&s=1&e=.pdf.
Information technology control procedures

- We deployed information technology controls specialists as part of our financial statement audit procedures to test general information technology controls related to the following critical financial reporting systems:
  - PeopleSoft Campus Solutions
  - PeopleSoft Human Resource Management System
  - PeopleSoft Enterprise Financial Systems

- We performed procedures to gain a detailed understanding of Information Technology (IT) controls related to core areas considered part of the financial audit framework of controls over financial reporting. The areas reviewed were Information Security, Data Center Operations, and System Change Control.

As a result of these procedures:

- We have communicated opportunities for improvement to IT management and will include formal observations and recommendations within those observations and recommendations from the financial statement audit. No observations or recommendations represent significant deficiencies or material weaknesses in internal controls.
Summary of other 2013 audit services

Single audit reports on federal funds
- Testing is focused on Research and Development and Student Financial Assistant, the major federal programs at the University.
- Six additional programs were tested as major programs for the year ended June 30, 2013.
  - To date, no findings noted.
- Federal expenditures for the year ended June 30, 2013 (in thousands):

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Development programs</td>
<td>$506,000</td>
</tr>
<tr>
<td>Student Financial Assistance programs</td>
<td>465,000</td>
</tr>
<tr>
<td>Other programs</td>
<td>118,000</td>
</tr>
<tr>
<td><strong>Total Federal Expenditures</strong></td>
<td><strong>$1,089,000</strong></td>
</tr>
</tbody>
</table>

Minnesota Office of Higher Education Financial Aid Programs examination
In connection with our procedures around the student financial assistance programs within the federal compliance audit, we performed procedures around the examination of the University’s compliance with the Minnesota Office of Higher Education Financial Aid Programs requirements. We anticipate issuing our examination report in November 2013.

Student fees agreed-upon procedures
Agreed-upon procedures for twenty-three student organizations, as outlined by the Fees Committee and Office of Student Affairs, to assist in review of financial affairs and accounting records of student organizations. Anticipated issuance of agreed-upon procedures reports for each student organization in January 2014.

NCAA agreed-upon procedures
Agreed-upon procedures of the accounting records of the University of Minnesota Athletic Department in accordance with the NCAA Constitution. Procedures were performed in August and September 2013, with anticipated issuance of agreed-upon procedures report in December 2013.
Other material written communications

- Written communications that we believe constitute other material written communications between management and us related to the audit for the year ended June 30, 2013, include:
  - Audit engagement letter — previously provided
  - Management representation letter (available upon request)
  - Management letter of recommendation (to be provided to management at a later date).
Audit Committee  December 12, 2013

Agenda Item:  Intercollegiate Athletics Risk Profile

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters:  Norwood Teague, Athletic Director

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

The Audit Committee work plan is structured around a series of discussions of risks associated with each of the major operational components of the University. These discussions provide the Audit Committee with the administration leadership’s views on the risks facing the University and those risks deemed by the administration to be significant to the achievement of the University's strategic goals. This is the seventh discussion in the series.

Outline of Key Points/Policy Issues:

In 2009 the Association of Governing Boards issued its Statement on Board Responsibilities for Intercollegiate Athletics. This statement emphasizes the Board’s obligation to understand the risks associated with the institution's athletic program.

This discussion will focus on the strategic risks associated with intercollegiate athletics at the University of Minnesota’s Twin Cities campus.

Background Information:

At its February 11, 2011 meeting, the Board expressed support for the Strategic Risk Management Work Group's operational strategy and risk principles provided a framework to guide the University community toward a more strategic risk management approach across all aspects of its operations.

Throughout FY 2013 the Audit Committee has reviewed and discussed the risks associated with each of the major operational components of the University. Previous risk discussions by the Board of Regents Audit Committee include:

- Research (December 2012)
- Human Resources (February 2013)
- Information Technology (May 2013)
- University Operations (June 2013)
- Finance (September 2013)
Intercollegiate Athletics Risk Profile

- **High Likelihood, High Impact:**
  - *Student-athlete injury*
  - *Arms Race due to facilities*
  - *Visibility of student-athletes in Twin Cities*
  - *Managing inaccurate/inconsistent media messages - communicating OUR messages*
  - *Financial sustainability*
  - *Compensating student-athletes*

- **High Likelihood, Moderate Impact:**
  - *Donor Management*

- **High Likelihood, Low Impact:**
  - *Gender equity concerns or the “perception” of gender equity issues*

- **Moderate Likelihood, High Impact:**
  - *Eligibility/graduation issues*

- **Moderate Likelihood, Moderate Impact:**
  - *Major NCAA compliance infractions*
  - *Student-athlete/coach negative behaviors*
Audit Committee

December 12, 2013

Agenda Item: Institutional Compliance Officer Semi-Annual 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 current compliance-related matters, focusing on the following issues:

- continued monitoring of the Research Outreach Centers by the Office of Occupational Health and Safety;
- coordinated initiative by Disability Services and the Office of Information Technology to increase access to educational materials for students with disabilities;
- impact of the Campus SaVE Act on institutions of higher education;
- hiring staff for academic programs in China;
- the Health Insurance Portability and Accountability Act’s revised regulations;
- Payment Card Industry Data Security Standards increased requirements;
- Lab Safety Process Review;
- update on the status of the University-wide regulatory risk assessment process;
- Conflict of Interest Program process and statistics for calendar year 2013; and
- UReport.

Background Information:

The Institutional Compliance officer reports on the institutional compliance program at least once each year.
INTRODUCTION

This report addresses the following: (1) ongoing monitoring of the University’s Research Outreach Centers by the Office of Occupational Health and Safety; (2) the coordinated initiative by Disability Services and the Office of Information Technology to ensure that students with disabilities have full access to the University’s educational hardware and software; (3) the impact of the Campus SaVE Act on institutions of higher education; (4) hiring staff for academic programs in China (5) the Health Insurance Portability and Accountability Act’s revised regulations; (6) increased requirements under the Payment Card Industry Data Security Standards; (7) the lab safety process review; (8) an update on the University-wide regulatory risk assessment process; (9) Conflict of Interest Program statistics for calendar year 2013; and (10) UReport statistics for calendar year 2013.

Additional information regarding the University’s Office of Institutional Compliance is available on the Office’s website. Links to relevant resources are also provided. http://www.compliance.umn.edu/complianceHome.htm.

I. ONGOING MONITORING OF THE UNIVERSITY’S RESEARCH OUTREACH CENTERS BY THE OFFICE OF OCCUPATIONAL HEALTH AND SAFETY

The University has ten Research Outreach Centers (ROCs), housed within the College of Food, Agriculture and Natural Resource Sciences (CFANS). They are the Northwest Research and Outreach Center, the North Central Research and Outreach Center, the West Central Research and Outreach Center, the Southwest Research and Outreach Center, the Southern Research and Outreach Center, UMore Park, the Cloquet Forestry Center, the Horticultural Research Center and Arboretum, the Sand Plains Research Farm, and the Minnesota Agricultural Experiment Station. The University’s ROCs address a broad range of issues, including how to feed an ever-increasing population, ensuring water quality and supply, renewable fuels and products, and protecting our natural resources. Researchers at ROCs address these issues through practical research and the development of field-tested best practices.

The Office of Occupational Health and Safety (OHS) has determined that ROCs present a significant health and safety risk simply due to the fact that farming and agriculture are inherently hazardous occupations. OHS periodically conducts compliance-related reviews at each of the ROCs. That effort was initiated again in 2013. The results reflect significant improvement when compared to the reviews conducted in 2009/2010. Overall, the number of
deficiencies was reduced by 29% and, in some areas, the reduction was substantially greater. Efforts continue to be focused on strengthening the training programs at each of the ROCs.

Going forward, OHS staff will conduct an “on site” evaluation of the circumstances at each ROC every three years. In addition, on an annual basis, each ROC will be required to conduct self-audits.

II. WORKING TO ACHIEVE FOR STUDENTS WITH DISABILITIES INCREASED ACCESS TO THE UNIVERSITY’S EDUCATIONAL HARDWARE AND SOFTWARE

For some students with disabilities, technology can provide great resources but challenges arise when certain forms of technology are not created with accessibility in mind. The following are some examples:

• PDFs may not be accessible.
• Videos and Podcasts must be captioned for deaf students.
• Images in a document, presentation, or on a webpage should be created with blind students in mind.
• Navigation on a computer among multiple folders may create challenges for students with physical disabilities which affect the use of their hands.

The University is addressing these issues in a variety of ways to include a website developed by Disability Services (DS) which provides content regarding accessibility in seven categories: (1) Documents; (2) Presentations; (3) Multimedia; (4) Learning Technologies at the U; (5) Web Content; (6) Laws, Policies and Guidelines; and (7) Adaptive Technologies. The website also provides links to additional articles and resources that are available both internally and externally to the University.

In addition, DS is coordinating its efforts with the Office of Information Technology and others to ensure that the Enterprise Systems Update Project (ESUP) is fully responsive to accessibility issues. As part of this work, the University is reviewing the administrative policy: Accessibility of Information Technology to consider ways in which that policy might be enhanced, consistently applied, and increased compliance achieved.

Two recent legal settlements involving other universities underscore the importance of complying with the Americans with Disabilities Act with regard to technology accommodations. One lawsuit involved access to text books, course readers and library materials for students with disabilities and the other involved an inaccessible online learning product. In both cases, the universities had to devote significant new resources to provide better access.
III. THE IMPACT OF THE CAMPUS SAVE ACT ON INSTITUTIONS OF HIGHER EDUCATION

In March, President Obama signed a bill that strengthened and reauthorized the Violence Against Women Act (VAWA). Included in the bill is the Campus Sexual Violence Elimination Act (Campus SaVE Act), which amends the Jeanne Clery Act and gives additional rights to victims of sexual violence, dating violence, domestic violence, and stalking that occurs on campus. All postsecondary institutions participating in Title IV financial aid programs will now be required to:

- Compile statistics of incidents of domestic violence, dating violence, and stalking that occur within Clery geography and are reported to campus security authorities; and

- Include within its Annual Security Report a statement of policy regarding:
  - the institution’s programs to prevent domestic violence, dating violence, sexual assault, and stalking;
  - the procedures to be followed when a crime has been reported;
  - educational programs available to promote awareness of rape, domestic violence, dating violence, sexual assault, and stalking;
  - possible sanctions or protective measures the institution may impose following a determination that rape, domestic violence, dating violence, sexual assault or stalking has occurred;
  - procedures victims should use/follow;
  - procedures for institutional disciplinary action in cases of alleged domestic violence, dating violence, sexual assault and stalking;
  - information about how the institution will protect the confidentiality of victims;
  - written notification to students about resources available to them;
  - written notification to victims about available accommodations; and
  - written explanation of the student’s or employee’s rights and options.

The rule-making process is currently underway and it is anticipated that the new requirements will be reflected in the 2014 annual Security Report.

IV. HIRING STAFF FOR ACADEMIC PROGRAMS IN CHINA

To facilitate the University’s academic initiatives in China and hire the staff needed to implement these initiatives, Global Programs and Strategy Alliance entered into a contractual relationship with a Professional Employment Organization (PEO) to assume responsibility for employee management tasks. This includes employee benefits, payroll and workers' compensation, recruiting, risk/safety management, and training and development. Under this arrangement, the PEO hires the client company's employees, thus becoming their employer of record for tax and insurance purposes. This is an approach the University can use on a
temporary basis for up to 18 months. Other alternatives to address these issues are currently under consideration.

V. THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT’S REVISED REGULATIONS

On January 25, 2013, the Secretary of Health and Human Services issued a final rule to modify the Health Insurance Portability and Accountability Act’s (HIPAA) Privacy, Security and Enforcements Rules to strengthen the privacy and security protections for individual health information, modify the breach notification process, and strengthen the privacy protections for genetic information. The effective date for the revised regulations was March 26, 2013. The date on which entities subject to the new rule were required to comply was September 23, 2013. Below is a description of the most significant changes.

Breach Notification
The “significant risk of harm” threshold has been eliminated. As a result, any use or disclosure of protected health information (PHI) that is not permitted by the Privacy Rule will be presumed to be a reportable breach (reportable to the individual and to HHS). Under the prior rules, one needed to establish both the breach and harm resulting from that breach before it needed to be reported. Under the revised rules, “harm” is presumed unless the covered entity or business associate demonstrates that there is a low probability that the protected health information has been compromised.

Business Associates
The Final Rule makes the obligations of the HIPAA Security Rule directly applicable to business associates and their subcontractors. These new obligations must be documented in an agreement between the Covered Entity and the Business Associate in a “Business Associate Agreement.” Covered Entities have until September 2015 to make these changes to their Business Associate Agreement. The term business associate includes persons or entities that, on behalf of a covered entity, perform a function or activity that involves the use or disclosure of individually identifiable health information, such as consulting, technology services, data analysis, claims processing or administration, utilization reviews and quality assurance. The term covered entities includes health plans as well as hospitals, academic medical centers, physicians, and other health care providers who electronically transmit claims transaction information directly or through an intermediary to a health plan. Covered entities can be institutions, organizations, or persons.

Marketing, Fundraising, and the Sale of Protected Health Information
The Final Rule strengthens the limitations on the use and disclosure of protected health information for marketing purposes, clarifies the type of information that can be used for fundraising, and further strengthens provisions prohibiting the sale of protected health information without the individual’s authorization.
Notice of Privacy Practices
The Final Rule requires modifications to, and redistribution of, a covered entity’s notice of privacy practices.

Disclosure of Genetic Information
The Final Rule prohibits most health plans from using or disclosing genetic information for underwriting purposes.

Enforcement and Penalties
Penalties can range from $100 to $50,000 per violation depending on the culpability of the circumstances, up to an annual maximum cap of $1.5 million on a per provision basis. Business associates and subcontractors are directly liable for their violations but covered entities can also be penalized for their violations.

VI. PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS IMPOSE INCREASED REQUIREMENTS

The Payment Card Industry Data Security Standards (PCI DSS) address security issues from the point of entry of credit card data into a system of records, to the processing of the data, through the payment process. American Express, Discover Financial Services, JCB International, Master Card World Wide, and Visa have all adopted the PCI DSS standards which are enforced primarily through contract rather than government regulation. The contract the University has with its acquiring bank, Wells Fargo Merchant Services (Wells Fargo), to accept credit/debit cards includes the responsibility to comply with PCI DSS. While merchants are required to comply with all PCI DSS requirements at all times, the method of validating compliance varies by card brand and number of transactions processed.

In late 2012, Wells Fargo clarified that for purposes of PCI DSS validation, the University is one entity, and based on the number of transactions processed annually (between 1 to 6 million), is now considered a “Level 2” merchant. Prior to the reclassification, each University department with a merchant account self-assessed compliance with PCI DSS as either a “Level 3” or “Level 4” merchant. With the change in classification, the University is now required to validate compliance as one entity using a security assessor qualified by the PCI Security Standards Council. In response to this requirement, the University has contracted with a Qualified Security Assessor to complete an onsite assessment and assist with any findings that require remediation.

On November 7, 2013, the PCI Security Standards Council released a revision to PCI DSS. Version 3.0 becomes effective January 1, 2014; however, Version 2.0 remains available for use until December 31, 2014. The University is reviewing the change and determining the specific plan and timing for implementation.
VII.  **THE LAB SAFETY PROCESS REVIEW**

In June of this year, the Office of Internal Audit issued a report of its Lab Safety Process Review. The Director of the Office of Institutional Compliance (the Director) is aware that this report is available to the Committee. The Director has reviewed the report and the management response and action plan and will follow up with Associate Vice President Gail Klatt and/or Vice President Pamela Wheelock as appropriate.

VIII. **UPDATE ON THE STATUS OF THE UNIVERSITY-WIDE REGULATORY RISK ASSESSMENT PROCESS**

The Director, in her report to the Audit Committee in December 2012, provided a detailed summary of the regulatory risk assessment process the University intended to implement in 2013. Since then, the Office of Institutional Compliance (OIC) and the Compliance Partners have devoted substantial effort to this initiative. All but three Compliance Partners have submitted their assessments. OIC is reviewing those results and a detailed report, coupled with a heat map, will be presented to this Committee at its February 2014 meeting. In her December 2012 report, the Director indicated that, at the conclusion of the process, the University would be in a position to re-evaluate its appetite for risk in each of the regulatory risk areas and make decisions regarding the allocation of resources. Those issues will also be addressed at the February meeting.

IX.  **CONFLICT OF INTEREST PROGRAM PROCESS AND STATISTICS FOR CALENDAR YEAR 2013**

Historically, information about the University’s Conflict of Interest Program has been presented to this Committee annually as part of this report. Given the change in the membership of this Committee since the Director last reported on this issue, we have included background information on the program as well as year to date statistics for this year.

*Background*

The University has two individual conflict of interest policies. One has University-wide application and one applies only to those involved in clinical health care. In addition, the University has an institutional conflict of interest policy.

The Office of Institutional Compliance has responsibility for the University-wide Conflict of Interest (COI) Program. The primary method used to identify conflicts of interest is through the University’s disclosure process that uses two forms: the Report of External Professional Activities (REPA), and the Financial Disclosure for University Officials (FDUO). The Program implements an annual disclosure process. Once filed, the REPA is reviewed for completeness and accuracy by designated individuals within a campus, college, or administrative unit. A REPA that discloses no financial or business interests can be approved by the campus/college/administrative unit reviewer. When an individual reports a financial or business interest in a business entity that overlaps with the individual’s University responsibilities or expertise, the REPA requires further review by the COI Program and may also require further
review by a conflict of interest panel. Similarly, when a University official reports investments or affiliations and that individual is, by virtue of their leadership role, in a position to impact those investments or benefit the entities with which they have an affiliation, further review is required.

Faculty and professional and administrative staff, with some exceptions, and those individuals serving as investigators or key personnel on a sponsored research project are required to complete a REPA annually. The on-line reporting system includes a convenient "batch approve" function that enables reviewers to approve with one mouse click all pending REPAs that reflect no reported outside professional activities, financial interests, or business interests. If an individual acquires a financial or business interest that did not exist at the time the individual completed the annual disclosure process, the individual is required to complete a “change in circumstances” REPA. Individuals who fall within the definition of “University Official” under University policy are also required to annually file a FDUO.

The vast majority of the REPAs and FDUOs reviewed by COI Program staff are found to pose no conflict and are administratively approved. The University has two individual conflict review panels and an institutional conflict review panel. Each of the three panels has an executive panel which conducts the initial review. The executive panel either determines that no conflict of interest exists or refers the matter to the full panel for further review. The full panel either determines that no conflict of interest exists or makes a conflict of interest finding and approves a conflict management plan. COI Program staff draft all conflict management plans.

Statistics
The following statistics reflect COI review activity for the period January 1 through November 19, 2013:

- 10,929 REPAs were filed. Of this number 104, were “change in circumstances” REPAs. Of those filing REPAs, 232 also filed FDUOs.
- 9,487 REPAs were approved in an individual’s campus, college or administrative unit.
- 1,107 REPAs and 238 FDUOs were resolved administratively by COI Program staff. Executive committees resolved 33 matters and 60 were resolved following review by a full panel.
- 52 matters required conflict management plans; 48 involved individual conflicts of interest and four involved institutional conflicts of interest.
- 16 matters were resolved informally by either guidance correspondence, which either means that no conflict of interest existed at the time the matter was reviewed but the likelihood existed that a potential conflict of interest would arise in the near future, or the information disclosed reflected a policy-related concern but not a conflict of interest.
- The University has 171 active conflict management plans. All but nine are associated with individual conflicts of interest. The remainder are associated with institutional conflicts of interest.

X. UREPORT

UReport is the University’s confidential web-based reporting service that OIC has operated since 2005. This reporting service is provided by Navex Global, 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. Reporters may submit reports either via a phone hotline or the web. Reports may 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. All reports are followed up on by the University and investigated, or closed, as the facts warrant.

Since its inception, a total of 1,066 reports have been submitted, averaging approximately 130 per year. In the last 12 months, (11/19/2012 - 11/19/2013) 138 reports have been submitted. Seventy percent of those reports have been anonymous and 80% alleged wrongdoing on the Twin Cities campus. Approximately 50% involve claims on four topics:

- Hiring, advancement, discipline or termination
- Discrimination, harassment and/or equal opportunity
- Abuses in wage, benefits, vacation, overtime, and leaves
- Other employment concerns

Ninety percent of the reports are received via the internet, and 10% by phone. Only 50% of anonymous reporters check back to determine the status of the follow up conducted regarding the concerns they have described. The graphs below illustrate these figures.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Running Total from Launch (August 2005)</th>
<th>Twelve Months (11/18/2012-11/19/2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Reports</td>
<td>1066</td>
<td>138</td>
</tr>
<tr>
<td>Report Sources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>86%</td>
<td>90%</td>
</tr>
<tr>
<td>Call Center</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>% Anonymous</td>
<td>74%</td>
<td>70%</td>
</tr>
<tr>
<td>Reporter “check back rate” for anonymous reports</td>
<td>50%</td>
<td>51%</td>
</tr>
</tbody>
</table>

The following chart provides categorical breakdowns with respect to all allegations made in reports submitted in the previous 12 months.
Allegation Category Summary
November 19, 2012 - November 19, 2013

- Employment & HR, 71, 51%
- Healthcare Services, 2, 1%
- Property, Facilities & Equipment, 7, 5%
- Research, 6, 4%
- Student Concerns, 6, 4%
- Athletics, 2, 1%
- Financial, 16, 12%
- Other, 18, 13%
- Health & Safety, 10, 7%
- Allegation Category Summary
- Healthcare Services, 2, 1%
- Employment & HR, 71, 51%
- Property, Facilities & Equipment, 7, 5%
- Research, 6, 4%
- Student Concerns, 6, 4%
- Athletics, 2, 1%
- Financial, 16, 12%
- Other, 18, 13%
- Health & Safety, 10, 7%

November 19, 2012 - November 19, 2013
Audit Committee

December 12, 2013

Agenda Item: Information Items

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

• To report engagements with auditing firms that do not require prior approval by the Board.
• To provide the Audit Committee with the Semi Annual Controller's Report.

Outline of Key Points/Policy Issues:

Report of Engagements with auditing Firms
The Tweed Museum of Art entered into an engagement with Bradley Mickelson to prepare a statement of financial activity for the fiscal year 2013 to be used as financial support for grant applications. The fees for this engagement are not to exceed $1,915. This engagement did not impair the independence of Bradley Mickelson as related to the University's external audit and was approved by the Controller's Office in conformance with Board policy.

The University of Minnesota - Duluth entered into an agreement with Licari Larsen & Co, LTD to provide an audit of the financial statements of KUMD radio station as of June 30, 2013. This audit is being performed as a requirement for receiving grant funding from the Corporation for Public Broadcasting. The fees for this engagement are not to exceed $5,200. This engagement does not impair the independence of Licari Larsen & Co., LTD as related to an external audit of the University and was approved by the Controller's Office in conformance with Board policy.

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 and compliance risks to the University, and improving efficiencies and service.

Background Information:

Engagements with external auditors that do not require prior approval by the Board of Regents are reported after the fact to the Audit Committee as information items, in conformance with Board of Regents Policy: Audit Committee Charter.
This report presents a summary of activities completed by the Controller’s Office in the last six months that have strengthened financial reporting, enhanced internal controls, reduced financial risks, improved services to the University community, or created efficiencies in financial operations.

I. Accounting and Financial Reporting Matters

GASB has issued a number of new accounting and reporting standards that will be effective for fiscal years 2014 and 2015. The following provides a brief summary of each new standard.

- **GASB Statement No. 65, Items Previously Reported as Assets and Liabilities**, which establishes proper classification of certain items that were previously reported as assets and liabilities as deferred inflows or outflows of resources and recognize certain items that were previously reported as assets and liabilities as revenues or expenses. This statement is effective for the fiscal year ending June 30, 2014.

- **GASB Statement No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62**, which amends existing standards’ guidance on the fund type to report risk financing activities; operating lease payments that vary from a straight-line basis; purchase of a loan or group of loans; and certain servicing fees related to mortgage loans that are sold. This statement is effective for the fiscal year ending June 30, 2014.

- **GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27**, which establishes and improves accounting and financial reporting for defined benefit and contribution pension plans administered through trusts or equivalent arrangements. This statement is effective for the fiscal year ending June 30, 2015.

- **GASB Statement No. 69, Government Combinations and Disposals of Government Operations**, was issued in January 2013. It establishes accounting and financial reporting standards related to combinations and disposals of government operations, such as mergers, acquisitions, and transfers of operations. This statement is effective for the fiscal year ending June 30, 2015.

- **GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees**, was issued in April 2013. This standard addresses financial guarantees in situations where the University would commit to indemnify an external entity that issued an obligation and whereby does not fulfill its payment requirements, or
when an external entity commits to indemnify the University in a comparable transaction. This statement is effective for the fiscal year ending June 30, 2014.

The University is currently analyzing the potential impact of these new standards on our financial accounting and reporting practices.

II. Activities to Enhance Service, Productivity, and Efficiency, and to Improve Internal Controls

**Electronic processing of vendor payments**

In FY 2013, as part of a strategy to reduce costs associated with paper checks, increase electronic payments and generate revenue, the University launched a Virtual Card program in partnership with US Bank. This program allows accounts payable payments to be disbursed by virtual credit card using existing A/P processes. Leveraging existing Electronic Funds Transfer technology, payments are scheduled and generated automatically from the University’s PeopleSoft financial system. The payment data is processed by US Bank’s Payment Plus system, and notifications of these payments are generated and emailed to suppliers. Suppliers complete the payment process and receive the funds by charging the virtual card the same way they would process any other customer credit card transaction.

Upon completion of the first year of the program, the University had successfully signed up 286 vendors to the program, processed 11,743 vendor invoices, and issued 2,840 electronic payments (in lieu of paper checks) totaling approximately $12 million. In addition, the program generated one-time and recurring rebates to the University of $267,000. For FY 14, the University is on track to process an estimated $40-$45 million dollars in vendor payments through the Virtual Card program.

In terms of benefits to vendors, this program speeds up payments processing and gets payments to vendors within a few days of invoicing the University, versus receiving payments under the University’s standard terms of 30 days.

Finally, it should be noted that this program is consistent with one of the key recommendations made by Huron Consulting Group in its 2013 *University of Minnesota Administrative Services Benchmarking and Diagnostic Study*.

**Enterprise Systems Upgrade Program – Finance project planning and kickoff**

The Finance organization has been working with the EFS Functional Steering Committee and our internal business process owners to complete Phase 2, the “Analyze and Design” phase of the financial system upgrade. Analyze and Design for Finance is planned to go through December. We are currently better than 75% complete and are on schedule. Some related statistics:
• “Interactive Design and Prototyping” (IDP), where current and future processes are evaluated, has completed 104 business processes. This is greater than 90% of the topics and processes identified for evaluation.
• Approximately 50% of Change Requests have been fully reviewed and approved; the majority of remaining change request will be reviewed in December
• 220 individuals from the Finance community have participated on work groups to propose, review, and confirm recommendations for the Change Request process
• We have had additional participants from the other work streams (primarily Student and HR/Payroll systems) for integrated business processes. In particular, a great deal of collaboration has occurred in evaluating and redesigning HR/payroll accounting and student refunding processes, to name a few.

Finance is also beginning Phase 3 “Configure and Develop” concurrently with conclusion of Phase 2. Many of the designs already approved have begun development. In addition to the development we are preparing for testing of the individual development items as well as the ‘End to End’ business process testing scheduled for Phase 4, “Test and Train”.