AGENDA

1. External Audit Update - D. Seck/D. Lobert (p. 2)
2. Compliance Officer Report - T. Schumacher (pp. 3-13)
3. Committee Workplan, 2007-08 - L. Cohen/G. Klatt (pp. 14-16)
4. Internal Audit Update - G. Klatt (pp. 17-49)
5. Consent Report - Review/Action - G. Klatt (p. 50)
6. Information Items - G. Klatt (p. 51)
Audit Committee

September 6, 2007

Agenda Item: External Audit Update

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Denise Seck, Acting Controller
Don Loberg, Principal, LarsonAllen

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

The Audit Committee is responsible for overseeing the University's external auditors who are currently conducting the annual financial statement audit.

Outline of Key Points/Policy Issues:

Update on LarsonAllen's progress on the June 30, 2007 annual external audit.

Background Information:

The External Audit Plan was presented to the Audit Committee at the May 2007 meeting. This presentation serves to update the Audit Committee on the progress of the external audit.
Audit Committee

September 6, 2007

Agenda Item: Compliance Officer Report

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Tom Schumacher, Director of Institutional Compliance

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

The purpose of this presentation is to provide the Board Audit Committee with information on the University’s Institutional Compliance Office and its current activities.

Outline of Key Points/Policy Issues:

This report will provide compliance information to assist the Board Audit Committee in meeting its compliance oversight responsibilities. Areas covered will include:

1. A report of the activity received on the University’s confidential reporting service, Ureport;

2. A preview of the Institutional Compliance Office’s plans to perform compliance assessments for areas identified as significant during the Audit Committee’s previous risk assessment and corresponding compliance “heat map”; and

3. An evaluation of the University’s institutional compliance program upon its five-year anniversary.

Background Information:

The University created the Office of Institutional Compliance in September 2002. The Director for the Office of Institutional Compliance reports to the Board Audit Committee on a semi-annual basis. The Director last reported to the Board Audit Committee during its March, 2007 meeting.
This report includes:

- A status report on the activity received on the University’s confidential/anonymou
  reporting service;
- An overview of the Institutional Compliance Office’s plan to conduct compliance
  assessments for high risk areas; and
- An evaluation of the Institutional Compliance Program.

**Ureport - Confidential Reporting Service**

The University has maintained an integrated confidential reporting line, “Ureport,” since August, 2005. This system allows members of the University community to submit confidential or anonymous reports of suspected illegal conduct or violations of significant University policies.

The volume of reports, both on-line and through the toll-free number, are set out in the following chart.

*August 2007 data is through 8/22/07*
Relevant aggregate data over the life of the line and data for the last six months are:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Running Total</th>
<th>2-15-07 through 8-15-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Reports</td>
<td>232</td>
<td>60</td>
</tr>
<tr>
<td>Report Sources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>160</td>
<td>49</td>
</tr>
<tr>
<td>Call center</td>
<td>38</td>
<td>10</td>
</tr>
<tr>
<td>Internal entry(^1)</td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>% Anonymous (excludes “internal entry”)</td>
<td>78%</td>
<td>78%</td>
</tr>
<tr>
<td>Reporter “check back rate” for anonymous reports</td>
<td>55%</td>
<td>52%</td>
</tr>
<tr>
<td>% “Credible allegation” of law/policy violation by U representative</td>
<td>81%</td>
<td>83%</td>
</tr>
</tbody>
</table>

**Reporting Trends**

- **Report category trends continue to show human resource emphasis.** Reporters select the general category of concern they have when making a report (e.g. human resource, financial, safety, etc.) and then a more specific sub-category within that general report category. Human resource concerns continue to top the list with 94 reports over the life of the line. “Wage and hour abuse” claims continue to be the most commonly reported sub-issue (22). For the past six months, human resources concerns represented 56% of the total reports, with wage and hour abuse representing the most common human resource reported issue at 13% of the total over the period.

\(^1\) Some units initially used the reporting system to track internally identified potential violations; this has largely been supplanted by the legal compliance reporting process.
The distribution among the reports submitted to Ureport via Web or by phone are set out in the following charts:

**Allegation Category Summary for Lifetime of Hotline**

- Employment & HR, 94, 46%
- Health & Safety, 25, 13%
- Financial, 15, 8%
- Healthcare Services, 8, 4%
- Other, 20, 10%
- Research, 8, 4%
- Property, Facilities, & Equipment, 17, 9%
- Student Concerns, 5, 3%
- Athletics, 6, 3%

**Breakdown: Employment Report Allegations for the Lifetime of the Hotline**

- Dis crim in at ion/ Har ass men t/ Equal opportunity, 11, 12%
- Abuses in wage, benefits, vacation, overtime, leaves, 22, 23%
- Disability/ Accommodation concerns, 1, 1%
- Nepotism/ Consensual relations/ Conflict of interest, 14, 15%
- Misrepresentation of credentials/ Licenses, 3, 3%
- Other Employment Concerns, 24, 27%
- Privacy/ Records concerns, 4, 4%
- Retaliation, 2, 2%
- Sexual Harassment, 6, 6%
Allegation Category Summary February 15, '07 - August 15, '07

- Employment & HR, 32, 56%
- Financial, 5, 9%
- Health and Safety, 6, 10%
- Healthcare Services, 2, 3%
- Other, 6, 10%
- Athletics, 2, 3%
- Property, Facilities and Equipment, 5, 9%

Breakdown: Employment Report Allegations for February 15, 07 - August 15, 07

- Misrepresentation of credentials/Licenses, 1, 3%
- Discrimination/ Harassment/ Equal opportunity, 3, 9%
- Other Employment Concerns, 7, 22%
- Nepotism/ Consensual relations/ Conflict of interest, 5, 16%
- Sexual Harassment, 2, 6%
- Abuses in wage, benefits, vacation, overtime, leaves, 8, 25%
- Retaliation, 2, 6%
- Hiring, advancement, discipline or termination, 4, 13%
Communications

Expanding the percentage of employees who are aware of the hotline remains a challenge and a priority. Data from calendar year 2006 contained in the University’s employee satisfaction survey (“PULSE Survey”) and a rolling survey distributed by the Office of Internal Audit showed approximately 60% of the respondents indicated they were aware of the University’s confidential reporting service. Data to date for 2007 show that 66% of the respondents indicated they knew about Ureport. While this is an improvement, continued promotion of the line remains critical to ensure its success and to meet our compliance program expectations.

Actions to further increase awareness include a planned fall mailing of a new postcard about the line to all faculty, staff, and student employees; posters; news articles for collegiate and unit communicators; continued evaluation and promotion of the Ureport link on appropriate Web sites; and inclusion of material about the line in University training and education programs. The Office of Institutional Compliance also has conducted an analysis with the University’s Usability lab to evaluate the ease with which faculty and staff are able to find the confidential reporting line in the University’s Web sites. Using the results, we continue to work with many owners of the web pages to improve the visibility of the link and information about the line on the pages faculty and staff are most likely to visit to determine where to report their concerns.

Assessment Plans for High Risk Areas

As part of the on-going compliance risk evaluation process, the Office of Institutional Compliance, in close collaboration with the Office of Internal Audit, is piloting an initiative to evaluate compliance performance across the University system for higher risk compliance areas.

Rationale: The goal of the evaluation is to provide greater review and assurance over the compliance risks in the Board Audit Committee’s “red zone” as identified during the Audit Committee’s previous enterprise risk assessment evaluations and the resulting compliance “heat map.”

The University currently uses a variety of dependent and independent means to monitor its high-risk compliance areas. These include sampling as part of the external A-133 auditing process; internal audits of colleges and units conducted by the University’s internal auditor; and inspections, reviews, and unit assessments conducted by operational units. These reviews tend to focus “vertically” to either examine issues within a unit/department or to review a unit/department with the most risk activity or the greatest exposure for the institution.

This compliance evaluation is designed, conversely, to be “horizontal,” cutting across most or all of the units or departments that conduct activity subject to the designated higher risks. The goal is not to provide a detailed, forensic, and truly independent assessment of a unit, but rather an assessment of the institution, as a whole, for significant compliance risks which are distributed across many or all units. As a related goal, the units themselves will be involved in the collection and analysis of the sampled data. This “local” involvement serves as an education opportunity to improve awareness about and competencies for the selected risk issues.
The pilot project will focus on grants administration. This is in the Board Audit Committee’s compliance heat map “red zone” and is an area of heightened federal scrutiny. The topics for review were selected based upon the Office of Inspector General Audit workplans, common findings from other universities’ audits and/or fines imposed at other institutions, and areas that are inherently highly regulated. The review will not include ancillary grants administration compliance issues, such as human and animal subject protection. These areas were recently assessed as part of accreditation processes.

The anticipated high risk areas for the evaluation are:
- Time and effort reporting
- Cost transfers
- Professional service contracts
- Cost sharing
- Direct charging of administrative costs
- Subrecipient monitoring
- Financial reporting

The review process will include selecting transactions/activities from a pool that includes all departments conducting federally sponsored work. The Office of Oversight Analysis and Reporting will identify transactions for review and will utilize “certified approvers” within each department to gather supporting documentation for each selected transaction/activity. An independent team of certified approvers and/or experts within the Oversight Analysis and Reporting offices will review the responses and documentation to evaluate compliance and trend any identified concerns.

The results of this pilot project review will be presented to the Board of Regents Audit Committee at the November meeting.

**Compliance Program Evaluation**

The University instituted an institution-wide compliance program in September, 2002. Although the University had, and continues to have, distributed compliance programs across many functional compliance risk areas, the primary focus of the institutional compliance program has been to implement and promote the model compliance program elements promulgated by Congress in the Federal Sentencing Guidelines, and since widely accepted as the standard compliance model in a highly decentralized organization. On its five-year anniversary, the Director makes the following programmatic observations.

1. **The University is well-positioned to meet rising higher education compliance obligations.**

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2 The major functional compliance program areas are identified in the Audit Committee’s compliance “heat map.”
The University has a very strong, embedded compliance program and national reputation. The University was among the first academic institutions to create a system-wide compliance program based upon the federal model. The strength of the University’s compliance program is directly dependent upon the quality of the underlying distributed compliance risk areas, many of which were fully established prior to 2002.

Since 2002, however, there has been a major expansion in compliance programs in higher education. This follows the rapid growth of compliance programs in the private sector following the corporate scandals in 2003 and 2004, Sarbanes Oxley legislation, and continuing trends of regulatory requirements. As one measure, the University of Minnesota participated in a higher education compliance group in 2002 that included only a handful of schools. The 2007 higher education compliance conference had over 300 participants representing more than 100 institutions.

There will almost certainly be a continued and growing emphasis on compliance for higher education, particularly regarding accountability and stewardship for federal funds. Indicators of this trend include:

- Rising standards for accountability through legal and generally accepted practices, such as the potential expansion of parts of Sarbanes Oxley to not-for-profit and charitable and similar organizations and changes in the Government Standards Accounting Board’s standards for higher education;

- Continued focus by federal research sponsors, such as the National Institute of Health and National Science Foundation as well as active states attorney generals with respect to state-related programs;

- Higher scrutiny over international and security activities, including international students and scholars coming to the United States as well as export and foreign country concerns relating to growth in international research and partnerships; and

- Federal and state scrutiny of higher education public and private partnerships--the recent national concerns about the relationships of college and university financial aid services, alumni relations, and financial aid lenders is an illustrative example.

2. The University has built a strong institutional compliance infrastructure.

During the last five years, the University has embedded a strong, collaborative compliance infrastructure. This infrastructure supports the many distributed compliance programs as well as the internal and external audit functions. The Audit Committee should provide oversight to assure the continued vitality of this compliance program infrastructure. If maintained and enhanced, this structure will help sustain an integrated program. This infrastructure is particularly significant in light of the decentralized nature of the University and the fact that many compliance issues cut across the University’s organizational boundaries and the boundaries of functional risk areas. Key elements to sustain in this infrastructure are:
• Executive Oversight Compliance Committee of senior University officers appointed and directed by the President to oversee the compliance program, to provide policy direction, and to identify and work to resolve institutionally significant compliance issues;
• Compliance Partners specifically identified in the University’s distributed compliance risk areas to promote a proactive compliance program, and to report upon and be accountable for its success within their functional compliance areas; and
• Legal compliance reporting process providing due diligence to identify compliance breakdowns, ensuring detected breakdowns are appropriately assessed and resolved by the right parties, and escalating issues up through management and if necessary to the Board.

3. **The University has a strong compliance breakdown reporting system.**

   The University’s centralized clearinghouse for handling reported suspected legal and compliance concerns is robust and effective. In addition to processes for resolving breakdowns detected by internal and external audits, this centralized reporting and resolution includes:

   • Ureport, the University’s confidential/anonymous reporting system;
   • Effective policies and operating procedures at the central level for handling and investigating allegations of misconduct; and
   • Effective coordination among the Office of Institutional Compliance, Office of General Counsel, Office of Internal Audit, and the central Office of Human Resources.

4. **The University has strong distributed programs in certain high risk areas.**

   The University has nationally recognized areas of excellence in its compliance programs. Illustrative examples, though by no means exclusive, are

   • Grants Administration: The University has a highly effective certified approval model for localized grants administration compliance expertise, service, verified competencies, and assurance standards supported with independence in reporting lines as well as exceptional “back end” risk analysis and monitoring conducted though the Office of Analysis and Reporting;
   • Twin Cities Athletics Compliance: The Twin Cities campus has one of the most programmatically sound compliance programs in all of the compliance program model elements; it also has earned a remarkable level of “buy in” and engagement from the Twin Cities Athletics Department’s leadership and coaches; and
   • HIPAA Compliance: The University has a state-of-the-art education program and reporting system to comply with the mandates of the Health Insurance Portability and Accountability Act; this is a particularly challenging area distributed across all campuses and involving thousands of faculty, staff, and students that has achieved
exceptional levels of compliance and measured improvements in competencies, particularly with respect to data security.

5. **The University is moving towards a proactive model and culture.**

The University has made significant progress to build a “proactive” compliance culture. Hallmarks of a proactive culture include: building and sustaining a culture that values compliance and ethics on par with other management priorities; clear roles, responsibilities, and delegations of authority with respect to responsibilities; effective compliance education programs; systems and an infrastructure that enable better compliance—including leveraging responsibilities for maximum productivity; meaningful and effective policies; and embracing a movement beyond compliance as merely a process to deal with breakdowns toward a sustained and integrated component of management. Examples of success include:

- The Board of Regents adopted a more robust and values-based Code of Conduct;
- Initiatives in various units to identify compliance trending and metrics as a more effective, sophisticated method to identify points of vulnerability and best practices;
- Movement toward evaluating competencies as part of compliance-related training, for example the Enterprise Financial System training and competencies program under development;
- Integrated compliance education initiatives which blend compliance and ethics into other education programs, such as new employee orientation and manager training programs;
- Continuing education program for Compliance Partners to build core competencies around compliance proactive program levels; and
- Policy office initiatives to improve University administrative policies and the process for policy development.

6. **The University should provide greater focus on culture for ethics and compliance.**

Culture is perhaps the single most significant factor for reducing compliance breakdowns. More importantly, a culture that truly values ethics and compliance has more fundamental benefits, such as greater employee engagement, higher employee satisfaction, improved productivity and higher credibility with external stakeholders. The significance of culture for ethics, compliance, integrity, stewardship and related concepts should be an institutional priority and managed and supported through incentives and accountabilities like other institutional priorities. Options to consider include:

- Evaluate the culture for ethics and compliance and meaningfully respond to the results. In the middle 1990s, the National Institutes of Health placed the University on “exceptional status,” having found what it characterized as a pervasive “culture” of non-compliance. The University instituted sweeping changes to redress the NIH’s findings and moved off of exceptional status—at considerable expense. Now, more than ten years later, the University should consider a meaningful
analysis to re-evaluate its culture to confirm progress and identify points of weakness, if any. While the University conducted a modest culture assessment for compliance and ethics with several questions in the last PULSE survey\(^3\), a more robust, validated, and embraced assessment is appropriate. Many organizations are engaged in this same review process.

- Include ethics and compliance in University metric initiatives. The University has embraced accountability and a philosophy of “evidence” to evaluate strategic initiatives and overall college/unit performance. There are widely accepted metrics for compliance ethics, including such factors as observations of perceived misconduct, perceived value of “doing the right thing,” perceptions of managers, supervisors and leadership, willingness to report concerns without fear of retaliation, and others. These metrics should be included, perhaps as an indexed metric, in the University’s metric initiatives and used to identify strength and vulnerability and integrated into the University’s compact and budgeting processes.

7. **The University should effectively promote its Code of Conduct.**

A meaningful, and embraced, Code of Conduct is a hallmark of an effective compliance program. The Code should be a primary tool for building and sustaining an ethical culture. It should be embraced by all levels of the organization and “translated” by managers and others to be meaningful to the University’s various roles. It should be proactively promoted rather than waiting passively for a reader to search for it in the University’s Web sites or click through a series of links in an e-mail. Potential actions include:

- On-line and “role based” education program for all faculty and staff;
- Broad communication and promotion strategy;
- Inclusion of the Code of Conduct’s underlying values, principles and where applicable Standards in communications and communication strategies;
- Inclusion of the Code of Conduct into performance review and assessment; and
- Adaptation of applicable Code of Conduct Standards to existing training and education curricula.

\(^3\) The Office of Institutional Compliance presented the PULSE results for these questions to the Board Audit Committee at its March, 2007 meeting.
Audit Committee

Agenda Item: Committee Workplan: 2007-08

☐ 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 proposed workplan focuses on oversight and monitoring of risks which could impede the University from achieving its goal to become one of the top three research universities in the world. Topical discussion items were selected based on their relevancy to the Audit Committee’s institutional risk assessment and their import to strategic positioning outcomes.

The workplan also ensures 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.

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.
September: Audit Committee Workplan (L. Cohen)  
External Audit Update (LarsonAllen)  
Compliance Officer Report (T. Schumacher)  
Internal Audit Update (G. Klatt)  
Consent Item

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)  
- Review of FY06 financial statements  
- Communication of Audit Judgments and Unadjusted Differences Assessment of University accounting practices  
Compliance Officer Report: Results of University-Wide Research Compliance Study (T. Schumacher)  
Information Item: Semi Annual Controller’s report

February:  
External Auditor’s Management Letter (LarsonAllen)  
Overview of the University-Fairview Relationship and its Governance Structure (F. Cerra)  
Internal Audit Update (G. Klatt)  
Information Items:  
- Annual Compliance Audit of Federal Awards Programs (A-133)  
- NCAA Agreed-Upon Procedures

March:  
Evolving the University’s Research Infrastructure to Support Emerging Trends in Federal Funding Opportunities (T. Mulcahy)  
External Auditor Review (M. Volna)  
- Review of fees paid  
- 2008-2009 Engagement Letter and Proposed Fees  
- Review of independence  
- Review of performance  
Compliance Officer Report (T. Schumacher)  
Information Item:  
- External Auditor Relationships and Services Provided
May  

**Impact of the EFS Implementation and New Accounting Pronouncements on the University’s Internal Control Environment (D. Seck)**

External Audit Plan (LarsonAllen)

Internal Audit Update (G. Klatt)

Information Item: Semi-Annual Controller’s Report

July  

Internal Audit Plan (G. Klatt)

The proposed committee work plan incorporates 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.
Audit Committee

September 6, 2007

Agenda Item: Internal Audit Update

[ ] review [ ] review/action [ ] action [x] discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

[ ] policy [ ] background/context [x] oversight [ ] strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations. The report also includes the status of outstanding “essential” recommendations.

Outline of Key Points/Policy Issues:

• This past quarter, 38% of the outstanding recommendations rated as “essential” were implemented by University departments. This percentage is higher than the previous quarter, and nearly equal to our expected rate of 40%. An updated control evaluation chart is included for each audit to show progress made on the “essential” items. Five units fully implemented all their remaining “essential” recommendations.

• Ten audit reports containing 46 recommendations rated as “essential” were issued in the last four months.

Background Information:

This report is prepared on a quarterly basis and is presented to the Audit Committee in conformance with Board Operations and Agenda Guidelines.
This report includes:
- Audit Observations/Information/Status of Critical Measures
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since May 1, 2007

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

Audit Observations/Information

Status of Critical Measures

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

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

The second chart, entitled “Progress Towards Annual Audit Plan Completion”, is our assessment of how we are progressing towards completion of the FY 2008 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

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

Implementation rates were 38% for the quarter, close to our expected rate of 40%.

Progress Towards Annual Audit Plan Completion

Time spent to date on the FY 2008 audit plan is consistent with what was expected and budgeted.

Time Spent on Investigative Activities

Time spent on investigative activities is consistent with the budget for the year.

Five Year Funding Analysis

In response to a question raised during the July 2007 Audit Committee meeting, we have compiled the following information related to budget amounts and annual budget increases for the Office of Internal Audit compared to the University’s All-Funds budget.

<table>
<thead>
<tr>
<th></th>
<th>Office of Internal Audit Budget</th>
<th>% Increase</th>
<th>University All-Funds Budget</th>
<th>% Increase</th>
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<tbody>
<tr>
<td>FY 2003</td>
<td>$1,594,748</td>
<td></td>
<td>$1,850,092,263</td>
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<tr>
<td>FY 2004</td>
<td>$1,588,754</td>
<td>-0.4%</td>
<td>$1,856,250,263</td>
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<td>FY 2005</td>
<td>$1,586,196</td>
<td>-0.2%</td>
<td>$1,964,382,456</td>
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<tr>
<td>FY 2006</td>
<td>$1,623,326</td>
<td>2.3%</td>
<td>$2,133,270,213</td>
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<tr>
<td>FY 2007 (1)</td>
<td>$1,700,969</td>
<td>4.8%</td>
<td>$2,263,306,080</td>
<td>6.1%</td>
</tr>
<tr>
<td>FY 2008 (2)</td>
<td>$2,011,261</td>
<td>18.2%</td>
<td>$2,383,980,692</td>
<td>5.3%</td>
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</tbody>
</table>

For the FY 2007 Office of Internal Audit budget (item 1), additional non-recurring funding totaling $159,540 was received this year and is not reflected in this analysis. For FY 2008 (item 2), additional non-recurring funding totaling $215,340 is budgeted to be received and is also not reflected in this analysis. The information presented for the University's All-Funds budget excludes sponsored research accounts, and FY 2003-2006 are actual expenditures, while FY 2007-2008 are budgeted expenditures.
## Status of "Essential" Recommendations as of August 24, 2007

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Audit</th>
<th># of Essential Recommendations in the Report</th>
<th># of Essential Recommendations Remaining From Prior Quarter</th>
<th>Current Quarter Results</th>
<th>Overall Progress Towards Implementation*</th>
<th>Any Individual Issues With &lt; Satisfactory Progress?</th>
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<tbody>
<tr>
<td>Apr-03</td>
<td>Athletic Department - NCAA Compliance</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
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<tr>
<td>Apr-04</td>
<td>College of Architecture &amp; Landscape Architecture</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>Completed</td>
<td></td>
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<tr>
<td>Aug-04</td>
<td>UMD Health Service</td>
<td>10</td>
<td>3</td>
<td>3</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Jan-05</td>
<td>A Review of Education Abroad Programs</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td>(a) Lack of computer programming resources has slowed progress on this issue. An expected Fall 2007 system implementation will not be met.</td>
</tr>
<tr>
<td>Jan-05</td>
<td>University of Minnesota - Crookston</td>
<td>11</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td>(b) A control evaluation chart was not developed for this audit since the audit was a review of just one sponsored grant.</td>
</tr>
<tr>
<td>Mar-05</td>
<td>College of Veterinary Medicine</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
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<tr>
<td>Apr-05</td>
<td>Enterprise Imaging System</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
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<tr>
<td>May-05</td>
<td>Carlson School of Management</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>Satisfactory</td>
<td></td>
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<tr>
<td>Jun-05</td>
<td>UMD School of Fine Arts</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>Satisfactory</td>
<td></td>
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<tr>
<td>Aug-05</td>
<td>Selected Units Within the Controller's Office</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
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<td>Total</td>
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<td>204</td>
<td>86</td>
<td>33</td>
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(a) Lack of computer programming resources has slowed progress on this issue. An expected Fall 2007 system implementation will not be met.
(b) A control evaluation chart was not developed for this audit since the audit was a review of just one sponsored grant.

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

"Essential" Recommendation Implementation Trends

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<td># of Essential Recommendations Receiving Follow-up</td>
<td>86</td>
<td>96</td>
<td>91</td>
<td>114</td>
<td>108</td>
<td>112</td>
<td>110</td>
<td>120</td>
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<td># of Recommendations Considered Fully Implemented</td>
<td>33</td>
<td>29</td>
<td>48</td>
<td>46</td>
<td>27</td>
<td>44</td>
<td>36</td>
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<td>Implementation Percentage</td>
<td>38%</td>
<td>30%</td>
<td>53%</td>
<td>40%</td>
<td>25%</td>
<td>39%</td>
<td>33%</td>
<td>30%</td>
<td>42%</td>
<td>36%</td>
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<td>Current Comments From Management</td>
<td>Audit Observations And Comments</td>
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| Athletic Department - NCAA Compliance Apr-03 | P | Elizabeth Eull, Joel Maturi | In order to ensure that equipment rooms establish and maintain adequate control of University athletic equipment and apparel, the Athletic Department and Compliance Office should implement and monitor the following controls:  
• Require that consistent and complete documentation of equipment and apparel issued be kept by each equipment room. Athletics should make a determination if it is necessary for athletes to sign the issuance record to acknowledge the receipt and return of equipment and apparel.  
• Ensure that a perpetual inventory is kept showing all purchases, disbursements, and disposals of equipment and apparel. Periodic inventory counts should be performed to ensure that inventory records match actual inventory (with the possible exclusion of small disposable items such as socks).  
• Issue and account for all equipment through the equipment rooms. If it is determined that coaches should be allowed to issue equipment, formal permission should be received from the Athletic Department. Also, if it is determined that some athletes are allowed to keep equipment without purchasing it, the Compliance Office should formally approve this.  
• Develop a consistent policy regarding the sale and disposal of used equipment. University Property Accounting should be contacted in each case to help determine pricing, unless Athletics receives an exception to University policy from the Controller’s Office.  
• Discontinue the practice of selling apparel at cost to student athletes unless Athletics is willing to make this opportunity available to all students. | The scanning devices needed to implement the inventory system are on order. The entire staff has had one training session on Sports Soft, and will have another one when the scanners arrive. All necessary information has been entered into the programs so each sport is ready to go when the scanners arrive. |  |
<p>| UMD Health Services Sep-04 | P | Katherine Morris, Bruce Gildseth | Health Services should establish a formal data security strategy, policy and set of system configuration guidelines. Health Services staff should model its guidelines off of those developed by OIT. Data and physical security should be enhanced by implementing the controls noted in the UMD Health Services - Sensitive Information Systems Concerns memo. | A contract was signed for the purchase of eClinicalWorks (eCW) application. The building has been rewired. Hardware, including the production and test environments and client workstations, have been purchased. The application has been set up and training has begun with an anticipated “go live” date of August 27th. The server hosting the production version of the application is housed in an ITSS data center, which has adequate physical security. The test server is also housed in ITSS. However, the application is not yet set up on the test server because another license is required. The servers have firewalls established with assistance of OIT and the AHC HIPAA compliance officer. The vendor’s access to the server is controlled by an ITSS server administrator. All workstations and servers have been configured according to OIT standards. The |  |</p>
<table>
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<tr>
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<tr>
<td></td>
<td></td>
<td>Katherine Morris</td>
<td>Health Services should configure its systems and enhance their program change process as recommended in the UMD Health Services - Sensitive Information Systems Concerns memo.</td>
<td>application's security features are being evaluated by ITSS, AHC and OIT. It is anticipated that documentation demonstrating application password controls, intrusion detection logging, user profiles and timeout settings will be available by the next quarterly follow-up.</td>
<td>The purchase of the eCW application included only one license. Health Services, with the assistance of ITSS, is working to obtain a second license for the test environment. The original plan was to have a test environment established to test the application prior to the go live date. While a separate server has been configured for the test environment, the absence of the second license precluded timely implementation of the application. The current strategy is to load the production server, test the data and go live by August 127th. Data from the old &quot;VitalWorks&quot; system cannot be moved electronically to the eCW application. A plan is being developed to migrate and/or retain the data in the old application.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bruce Gildseth</td>
<td></td>
<td></td>
<td>A draft of the disaster recovery plan has not been written. Health Service will focus on this after implementation of the new system. ITSS has provided a template of a disaster recovery plan for the servers supported by ITSS. However, documentation of the internal Health Services processes needs to be incorporated with the ITSS information into a comprehensive plan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E. Thomas Sullivan</td>
<td>The University should roll-out to all colleges and departments a uniform process for the assessment of program costs associated with study abroad programs. This process should ensure all study abroad program charges are billed to the student's University financial account.</td>
<td>Programmers needed for system completion have been lost to the EFS project, although application definitions have been developed.</td>
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<tr>
<td>A Review of Education Abroad Programs Jan-05</td>
<td>P</td>
<td>E. Thomas Sullivan</td>
<td>The University should roll-out to all colleges and departments a uniform process for the assessment of program costs associated with study abroad programs. This process should ensure all study abroad program charges are billed to the student's University financial account.</td>
<td>Programmers needed for system completion have been lost to the EFS project, although application definitions have been developed.</td>
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<th>Current Comments From Management</th>
<th>Audit Observations And Comments</th>
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</table>
| University of Minnesota - Crookston | P | Charles Casey  
Robert Jones | For standard keys issued UMC needs to implement a process to ensure keys are returned as students or staff leave campus. The return of keys should be a requirement before issuing final paychecks, transcripts etc. Also the use of an appropriate key deposit can facilitate their return. | Process has been implemented for employees to return keys upon termination. Keys are turned in to Facilities Management and a form is completed confirming all keys were returned. This form is then sent to HR clearing the way to issue the final paycheck. UMC is working on a similar process for return of keys by students, and hope to have it implemented by the next quarterly follow-up. |  |
| College of Veterinary Medicine  
Mar-05 | P | Jeffrey Klausner  
Frank Cerra | The current relationship between Emerald Dairy II and CVM with regards to the activities of TMF should be documented, reviewed, and approved by the appropriate CVM departments. This documentation should include written rental agreements and revenue sharing agreements. Procedures should also be established to properly classify and deposit external sales revenues. | There is still not a written agreement to document the complete business relationship with Emerald Dairy and there have been some barriers preventing such an agreement. Vet Med continues to work toward the completion of appropriate contractual documents prior to the current contract with Emerald Dairy expiring in June 2008. |  |
| Enterprise Imaging System  
Apr-05 | P | Amie Dardis  
Dan Wagner | Management and OIT Data Security should continue to work with the vendor to address security concerns identified. User authentication and intrusion monitoring processes should be enhanced to address security concerns noted in this review. OIT Data Security should continue to work with the vendor about the problem with deleted IDs in the application. The application should be modified to allow userIDs to be deleted without affecting audit trails. The application should also be modified so application users do not have to have accounts established within the operating system. As management works with the vendor to correct these problems, management should continue its efforts to get upgrades in a more timely manner. | The login monitoring process has been tested and is now waiting for final approval from Data Security for migration to the production system. The EFS project is developing a new single-sign-on process that will take advantage of delivered PeopleSoft Code. This solution will be implemented for both the Campus Solutions and the Financial System in July 2008. OIT hopes this new method will remove some of the roadblocks encountered with the current CAH system and WebNow. A member of the Imaging team is actively working with Perceptive Software, the NTS group, and the EFS project to determine what options exist. If there is a feasible solution the goal is to have it ready in the ImageNow 6.1 development system when the PeopleSoft EFS styem is ready for system testing on Nov 2. |  |
<table>
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<td>Carson School of Management May-05</td>
<td>P</td>
<td>Caroline Chase, Connie Buechele</td>
<td>CSOM should enhance its change control procedures and modify the access rights of its developers and vendors so management can ensure only authorized and tested program changes are moved into production. Developers/vendors should not have update access to the production application. Responsibilities for modifying program code, testing system changes, and moving program changes into production should be separated. CSOM should assure these concerns are addressed for all of its key applications.</td>
<td>Addressing change control is still in process. The new Carlson School IT Director became involved with this process in late Fall 2006, and following is a more detailed update on the current status: During Fall 2007/Winter 2008 the production web servers will be moved to WBOB. At that point they will no longer be locally located and a specific role will be established that appropriately restricts access to the production system. Current established practices include: • Work with the customers to develop requirements and prioritize them, • Track the features that are being developed in Xplanner, • Maintain all code changes in a version control repository, • Create automated Unit Tests for code using Test Drive Development (TDD) practices, • Deploy to a test environment for regression and integration testing done there by us and the users of the system, • Use scripted builds for migrating changes from test to production, • Document our test and production deployments on the wiki.</td>
<td>Addressing Disaster Recovery is still in process because the new IT Director was not involved in this project until later in Fall 2006. The goal dates were then scheduled for Fall 2007 into Winter 2008. The Carlson School is in the process of moving most if not all servers to WBOB. Following is a more detailed update on the current status: June 2007 - completed the conversion from the local Lotus Notes server to the central email and calendar systems. Currently working on converting from the local Novell network (for files and printing) to the University AD network with a goal of completion during Fall 2007. Also working on rolling out usage of the University NetFiles for more file storage and secure collaboration.</td>
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<td>UMD School of Fine Arts</td>
<td>P</td>
<td>Jack Bowman, Vince Magnuson</td>
<td>SFA administration needs to establish an environment in which ethical behavior and compliance with policy and procedure are emphasized. This emphasis should be communicated to employees in writing; it should be reinforced through the provision of adequate training to ensure employees fully understand policies and procedures; and it should be exemplified through management’s actions.</td>
<td>SFA administration has made efforts to improve the work environment. The determination of the status of this recommendation will be postponed until the timing is right for another employee survey or until the performance review of the Dean is completed in the next year.</td>
<td>SFA administration has made efforts to improve the work environment. The determination of the status of this recommendation will be postponed until the timing is right for another employee survey or until the performance review of the Dean is completed in the next year.</td>
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<tr>
<td>Jun-05</td>
<td>P</td>
<td>Jack Bowman, Vince Magnuson</td>
<td>SFA administration should utilize the knowledge, skills, and talents of faculty and staff to help identify SFA priorities and to formulate effective methods for accomplishing those priorities. The department should work with Human Resources to develop a system for promoting employee involvement and input. This could include the use of periodic surveys, suggestion boxes, or open discussions.</td>
<td></td>
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<tr>
<td>Intercollegiate Athletics</td>
<td>P</td>
<td>Joel Maturi</td>
<td>The Athletic Ticket Office should ensure that employees are adequately trained in Paciolan and cross trained in areas that affect their current duties, and potentially back-up duties.</td>
<td>The full implementation of AudienceView has been delayed. Athletics is hoping for full implementation by this fall. Some cross training has occurred as the entire Ticket Office staff has worked on implementing this new system. Also, the Ticket Office is going through some reorganization and is revising some job duties. Cross training will be completed after this reorganization is</td>
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| Hodge Poiut     | P                                                       | Joel Maturi               | Athletics should implement the following:  
• Develop a formal system administrator procedure manual,  
• Define and post emergency shut down procedures in the data center,  
• Establish a formal disaster recovery and business continuity plan,  
• Identify critical recovery times and back-up locations for servers, with documented agreements for space use,  
• Maintain an up-to-date off-site list of equipment, applications, data files, and procedures needed to recover the network,  
• Contract for the securing of equipment via quick purchase or a recovery insurance policy, and  
• Test recovery procedures on a periodic basis. | completed and the Audience View system is implemented.  
Business continuity plans have not been formally tested, but a formal test is planned for this September. |                                      |
| # of Items: 2    | P                                                       | Michael Volna            | The Controller’s Office, in conjunction with the Budget Office and Employee Benefits, should modify existing processes to ensure the salaries from all employee groups receiving benefits from the workers’ compensation program are contributing to the funding of the program. | Additional data representing actual workers compensation claims by specific job codes is being gathered.  
Once this information is quantified, a decision will be made on whether faculty and P&A salaries should be included in the workers compensation fringe benefit pool calculation. |                                      |
| # of Items: 1    | P                                                       | Richaed Pfutzenreuter     |  |
| Total: 15        | P                                                       |                           |  |

**Selected Units Within the Controller’s Office**
Aug-05

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**Note:** The table above lists the summary of issues and risks involved, along with the proposed solutions and comments from management. The total number of items is 15.
The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and the current status of the "essential" recommendations only (those bars that have red segments). The chart in the center column displays the status as of May 2007, while the chart on the right represents the current status. Charts are not presented for investigations. Charts for those units having implemented all "essential" recommendations during the current quarter are shown at the end of this report.
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

UM - Crookston (January 2005)

College of Veterinary Medicine (March 2005)
Original Report Evaluation

Previous Quarter Evaluation
Enterprise Imaging System (April 2005)

Current Quarter Evaluation

Carlson School of Management (May 2005)
Original Report Evaluation

Previous Quarter Evaluation
University Stores (April 2007)

Current Quarter Evaluation

UMD Continuing Education (April 2007)

39
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Institutional Biosafety Committee (March 2006)
Current Quarter Evaluation

Previous Quarter Evaluation

Original Report Evaluation

Department of Surgery (May 2007)
Audit Activity Report

Scheduled Audits

- Completed audits of: the Division of Epidemiology and Community Health, the School of Physics and Astronomy, NCAA Compliance for Twin Cities Department of Intercollegiate Athletics, the Stem Cell Institute, the Department of Psychology, project management of the Enterprise Financial System Project, the General Clinical Research Center’s HIPAA compliance, the University of Minnesota-Morris campus, the School of Mathematics, and the University Purchasing Card Program. Details are shown on the following charts.

- Began/continued audits of: UMD Department of Intercollegiate Athletics, the Veterinary Medical Center, the Department of Central Security, the Natural Resources Research Institute, Weisman Art Museum, the Office of the Vice President for Equity & Diversity, the Department of Recreational Sports, the Department of Computer Science & Engineering, the College of Biological Sciences, the University Press, the Cancer Center, central server administration managed by OIT, and active directory administration managed by OIT.

Non-Scheduled Audits

- Began an audit of the Minnesota Population Center. This audit was requested by the Vice President for Research due to a change in reporting structure.

Investigations

- Performed investigative work on 15 issues in accordance with the University Policy on Financial & Operational Misconduct.

Special Projects

- Provided consulting services related to: HIPAA compliance, data security, the Enterprise Financial System implementation, the new credential system project, the student loan history enhancement project, and University payroll exception testing.

- Provided assistance to the Office of Technology Commercialization relating to improvements in financial reporting tools and processes.

- Assisted in the review of billing rates and charge transactions processed by an internal service organization.

- Provided consulting assistance to CUHCC related to their new billing system implementation.

Other Audit Activities

- Participated in the following:
  - Enterprise Sponsor Committee
  - HRMS PeopleSoft Steering Committee
  - Training Advisory Committee
  - Fairview Health Systems Audit Committee
  - University of Minnesota Foundation Audit Committee
  - Enterprise Financial System Executive Steering Committee
  - Research Compliance Committee
  - Executive Administrative Committee
  - Executive Compliance Oversight Committee
  - Institutional Conflict of Interest Committee
  - NCAA Self-Study Committee
EpiCH demonstrates an interest in developing a control environment and a system of internal control that addresses its major business and compliance risks. However, our review identified a number of varied and significant exception conditions. Based on the exceptions identified we believe the controls in place within EpiCH have not operated consistently, nor been effective in identifying and correcting problems.

The process for the development of rates for the Computer Internal Service Organization was identified as a major issue. Because of the potential regulatory and financial impact of this problem, a team of experts from the Vice President for Research’s Office of Oversight, Analysis and Reporting, Sponsored Projects Administration and Accounting Services was convened to reconstruct the computer access ISO rate to meet the federal allowability standard. This work is nearing conclusion.

From the results of the audit work performed, we believe Physics has developed a control environment and a system of internal control that addresses most major business and compliance risks. There were several issues resulting in “essential” recommendations in the areas of:

- ISO rate development
- Physical and data security of information systems
- Disaster recovery planning
- Lab Safety
From the results of the audit work performed, we believe the SCI has developed a control environment and a system of internal control that addresses many of its major business and compliance risks. Significant effort has been spent to develop policies and procedures related to research involving human embryonic stem cells (hESC) not eligible for federal funding, and except for a few remaining items that may occur in the future, we believe this area is properly controlled and administered. This area of research has been physically segregated from other stem cell research, and principal investigators involved with it have incorporated good controls to ensure only allowable funding sources are used to finance it.

Essential recommendations were made relating to clarification of financial matters pertaining to hESC research, documenting plans to address ISO deficit and expected future operating loss issues, addressing ISO rate development and billing issues, and improving inventory records and monitoring activities for controlled substances.
This audit reviewed the various aspects of managing/executing the project. The EFS project is using a structured and strong development methodology. The first phase of the project was substantially completed on time. Budget and process issues which surfaced early in the project appear to have been addressed and have not adversely affected the overall project budget and schedule.

While it is too early to fully evaluate the security and program change processes that will be incorporated during roll-out of the new system, the strategies being drafted are focused on the right issues to ensure the system is properly secured and processes are in place so only authorized and tested program changes are moved into production.

Status reports produced by the project team appear accurate and the project team is communicating a consistent message as status reports are summarized and passed on to senior management and the Board of Regents.
We believe the University of Minnesota Morris (UMM) has developed a control environment and a system of internal control that addresses many of its major business and compliance risks. In addition, information technology risks were being actively reviewed by management prior to our arrival.

We made seven essential recommendations related to UMM information systems. These included ensuring compliance with OIT standards, management of UMM computers, addressing physical security weaknesses, improving change controls, reconfiguration of UMM network design, system administrator controls, and developing and testing a disaster recovery plan. We also developed essential recommendations addressing financial issues faced by UMM, weaknesses in the cashier and bursar functions, cashier & bursar physical security concerns, notification to a sponsor of a project delay, and improving oversight and monitoring of UMM auxiliaries, particularly the bookstore.
The University of Minnesota Purchasing Card (PCard) program is administered by the Disbursement Services unit within the Controller's Office.

We believe Disbursement Services has developed a control environment and a system of internal control that addresses most of the business and compliance risks associated with operation of the PCard program. The program is also administered in an efficient manner.

One essential recommendation was developed concerning the need to cancel PCards held by former employees in a more timely manner.

The School of Mathematics (Math) is a large academic department within the Institute of Technology. The audit included a review and assessment of current operating controls and procedures, and testing of financial transactions.

From the results of the audit work performed, we believe Math has developed a control environment and a system of internal control that addresses most major business and compliance risks.

Our information systems review noted the need to implement numerous physical security improvements for the data center housing the Math servers, and establishment of a formal disaster recovery plan.

The University of Minnesota Purchasing Card (PCard) program is administered by the Disbursement Services unit within the Controller's Office.

We believe Disbursement Services has developed a control environment and a system of internal control that addresses most of the business and compliance risks associated with operation of the PCard program. The program is also administered in an efficient manner.

One essential recommendation was developed concerning the need to cancel PCards held by former employees in a more timely manner.
Audit Committee

Agenda Item:  Consent Report

☐ review  ☒ review/action  ☐ action  ☐ discussion

Presenters:  Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To approve engagements with external auditing firms.

Outline of Key Points/Policy Issues:

- To approve the engagement of PriceWaterhouseCoopers, LLP, by the University’s Office for Technology Commercialization, to perform audit services on royalty calculations for sales occurring in the calendar years 2005 and 2006. The contract is for a value not to exceed $99,000.

Background Information:

The President recommends approval of the Consent Report.
Audit Committee

September 6, 2007

Agenda Item: Information Items

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

Outline of Key Points/Policy Issues:

Report on External Auditor Engagements

Various departments within the University entered into three different engagements with external auditing firms for professional services. None of the engagements was with LarsonAllen, LLP (the University’s external auditor), and none of these engagements impaired the independence of any of the firms that were engaged.

Background Information:

By Board policy, engagements for professional services with external auditing firms that do not exceed $25,000 and that do not impair the independence of the firms may be approved by the Controller. The engagements must then be reported to the Audit Committee at the next Audit Committee meeting.