UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
Thursday, May 10, 2012
8:15 - 9:30 a.m.
600 McNamara Alumni Center, East Committee Room

Committee Members
Richard Beeson, Chair
David Larson, Vice Chair
Clyde Allen
Laura Brod
John Frobenius
Maureen Ramirez

Student Representatives
James Rook

AGENDA

1. External Auditor Review - M. Volna (pp. 2-6)
2. External Audit Plan - K. Vosen/J. Dockendorf (pp. 7-31)
3. Compliance Officer Report - L. Zentner (pp. 32-39)
4. Social Media: Realizing its Opportunities Responsibly - D. Harvey/R. Rubinyi/L. Vicich (pp. 40-42)
5. Information Items - M. Volna (pp. 43-45)
Audit Committee May 10, 2012

Agenda Item: External Auditor Review

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Associate Vice President Michael Volna

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

To review audit and non-audit services provided by Deloitte & Touche, LLP (Deloitte) and related fees paid during FY 2011 and FY 2010.

To review Deloitte’s internal assessment of their independence relative to the University of Minnesota.

Outline of Key Points/Policy Issues:

Total Deloitte contracted audit and non-audit fees were $584,000 for FY 2011 engagements, with actual fees paid of $571,504. All FY 2011 engagements have been completed and final billed.

Management will provide its evaluation of Deloitte’s performance for FY 2011.

Deloitte will provide the firm’s internal assessment of their independence relative to the University of Minnesota.

Background Information:

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

The Board of Regents is responsible for hiring and engaging the University’s independent external auditors, for reviewing the work of the auditor, and periodically reviewing the fees paid to the audit firm. Effective governance practice recommends that the Audit Committee of the Board should conduct such a review at least annually. The Audit Committee conducted its last review of audit services and fees in March 2011.

The Controller’s Office presents the information below and on the accompanying schedule for the Audit Committee’s 2012 review of audit, audit related, and non-audit services fees paid to Deloitte & Touche, LLP (Deloitte), the University’s independent external auditor. Also included is management’s assessment of Deloitte’s performance for the FY 2011 engagements.

Review of Fees Paid to Deloitte & Touche, LLP

The accompanying schedule presents a summary of fees paid to Deloitte for the various FY 2011 audits and other services. The top portion of the fee schedule represents fees paid for the University’s annual institutional audits and engagements. The contract amounts reported on the schedule are consistent with the amounts agreed to in the fiscal 2011 engagement letters and the firm’s fixed price contract for FY 2011. The total audit fees paid to Deloitte in FY 2011 were $12,150 less than the contract amounts in total, and represent less than expected actual expenses. These amounts are final.

The lower portion of the schedule contains a breakdown of fees paid to Deloitte for other services. During the year, Deloitte performed four other engagements for specific units of the University. In order to reduce audit costs and maintain greater oversight of audit and audit-related engagements across the University, the Controller’s Office is working closely with Deloitte and University departments to use Deloitte whenever possible for additional external audit or attest services.

Services performed by Deloitte during the current fiscal year that were not part of the annual audits and NCAA agreed-upon-procedures of the University included:
• Deloitte was engaged to audit the statement of activities for the Department of Concerts and Lectures. This engagement was the result of an external funder’s stipulations that require the Department of Concerts and Lectures to prepare and submit financial statements of their activity. The related engagement letter was reviewed by the Controller’s Office prior to its finalization, consistent with Board Policy. As this engagement was solely to provide an audit opinion, it did not present an independence issue with regard to Deloitte.

• Deloitte was engaged to perform agreed-upon-procedures to assist the University’s Student Fees Committee and the Office of Student Affairs in determining the proper record keeping and use of the University fees that are allocated to student organizations. Deloitte reviewed fifteen organizations that received University fees and performed the agreed-upon-procedures as outlined by the University Fees Committee and Office of Student Affairs. The related engagement letter was reviewed by the Controller’s Office and signed by the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.

• Deloitte was engaged to perform procedures in connection with the University’s Bond Offering documents. The related engagement letter was reviewed by the Controller’s Office prior to its finalization, consistent with Board Policy. As this engagement was solely to perform attest procedures in connection with the bond offering, it did not present an independence issue with regard to Deloitte.

• Deloitte was engaged to perform an audit of the Weisman Art Museum. This engagement was the result of an external funder’s stipulations that require the Weisman Art Museum to prepare and submit financials statements of their activity. The related engagement letter was reviewed by the Controller’s Office prior to its finalization, consistent with Board Policy. As this engagement was solely to provide an audit opinion, it did not present an independence issue with regard to Deloitte.
UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 10, 2012
Fees Paid To Deloitte & Touche, LLP
FY 2011 Engagements

### Annual Institutional Engagements for FY 2011

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Contract Amount</th>
<th>Billed Amount</th>
<th>Over/(Under) Budget</th>
<th>Total FY 2010 (prior year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Financial Statement Audit</td>
<td>$352,000</td>
<td>$341,463</td>
<td>$(10,537)</td>
<td>$336,616</td>
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<tr>
<td>RUMINCO Financial Statement Audit</td>
<td>20,000</td>
<td>19,000</td>
<td>(1,000)</td>
<td>18,163</td>
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<tr>
<td>Compliance Audit (OMB A-133 and MOHE)</td>
<td>106,000</td>
<td>105,138</td>
<td>(862)</td>
<td>103,053</td>
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<tr>
<td>NCAA Agreed-Upon-Procedures</td>
<td>15,000</td>
<td>15,249</td>
<td>249</td>
<td>16,308</td>
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<tr>
<td><strong>Total Fees for Institutional Engagements</strong></td>
<td><strong>$493,000</strong></td>
<td><strong>$480,850</strong></td>
<td><strong>$(12,150)</strong></td>
<td><strong>$474,140</strong></td>
</tr>
</tbody>
</table>

### Other Audit, Audit Related and Non-audit Fees

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Contract Amount</th>
<th>Billed Amount</th>
<th>Over/(Under) Budget</th>
<th>Total FY 2010 (prior year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ofc of Investments &amp; Banking Agreed-Upon-Procedures</td>
<td>0 (1)</td>
<td>0</td>
<td></td>
<td>$2,800</td>
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<tr>
<td>Audit of Department of Concerts and Lectures</td>
<td>7,000 (1)</td>
<td>7,957</td>
<td></td>
<td>7,169</td>
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<td>Student Organization Agreed-Upon-Procedures</td>
<td>51,000 (1)</td>
<td>48,105</td>
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<td>40,000</td>
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<tr>
<td>Consent procedures related to Commercial Paper</td>
<td>26,000</td>
<td>26,600</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Audit of Weisman Art Museum</td>
<td>7,000 (2)</td>
<td>7,992</td>
<td></td>
<td>7,922</td>
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<tr>
<td>Audit of Goldstein Gallery</td>
<td>0 (3)</td>
<td>0</td>
<td></td>
<td>1,000</td>
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<tr>
<td>Audit of Minnesota Job Skills Partnership</td>
<td>0 (1)</td>
<td>0</td>
<td></td>
<td>13,500</td>
</tr>
<tr>
<td><strong>Total Other Audit, Audit Related, and Non-Audit Fees</strong></td>
<td><strong>$91,000</strong></td>
<td><strong>$90,654</strong></td>
<td></td>
<td><strong>$72,391</strong></td>
</tr>
</tbody>
</table>

**Total Fees**

| Total Fees | $584,000 | $571,504 | $546,531 |

(1) These engagement contract amounts do not include out-of-pocket expenses.
(2) The fees did not include additional fees to convert prior year financial statements to Governmental Accounting Standards.
(3) Planning work was completed for a grant-related audit, at which point it was determined the audit was not needed.
Annual Review of External Auditor Relationship Performance:

University management and the Deloitte engagement management team met on March 7, 2012 to review Deloitte’s services and performance during the FY 2011 audit. The overall conclusion was that Deloitte did an excellent job during the FY 2011 audit.

The University and Deloitte had each prepared an assessment of the engagement, identifying both positives and opportunities for improvement and increased audit efficiencies. The teams met to compare notes and identify opportunities for improvement.

Relative to the strengths of Deloitte and the positive aspects of the audit:

- All audits and non-audit engagements that were performed by Deloitte were completed in a timely manner, with no significant issues, and no budget over-runs;
- Management felt that the continuity of key Deloitte team members from the FY 2010 audit contributed to the efficiency of the audit;
- Deloitte’s audit approach, particularly as relates to the high-risk area of investments, was streamlined and more efficient than in prior years;
- Many of the prior year’s recommendations were incorporated into the audit processes, and as a result, efficiencies were seen by both Deloitte and the University staff.

Both the University team and the Deloitte team identified several opportunities for improving next year’s audit process. These included:

- Suggestions for improving communications and coordination between University staff and Deloitte’s field team;
- A number of detailed suggestions for streamlining the process, creating better documentation, reducing workload for everyone, and improving the efficiency of the audit.
- Increase audit work completed during the interim period to accelerate the timing of the FY 2012 audit.
- Revise the IT segment of the audit to increase efficiency for both the Deloitte team and the University staff.
Audit Committee May 10, 2012

Agenda Item: External Audit Plan

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Kirsten Vosen, Partner, Deloitte
Judi Dockendorf, Manager, Deloitte

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

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

Outline of Key Points/Policy Issues:

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

Background Information:

This report is prepared annually and presented to the Board of Regents Audit Committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
The University of Minnesota 2012 Client Service Plan
May 10, 2012

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

Dear Members of the Board of Regents:

We are pleased to present Deloitte & Touche LLP’s (“Deloitte & Touche”) 2012 plan to serve the University of Minnesota (the “University”). First and foremost, we value our role as your external auditor. We understand our responsibility to you as the Board of Regents’ chosen representatives of the University, and we have developed an audit plan that is specific and candid. This audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence.

Our audit addresses financial statement and internal control risks through targeted procedures that are responsive to the nature of the risks, including changes in the University, the business environment, and the regulatory landscape. Our procedures include identifying and analyzing issues and facts relevant to our audit conclusions and providing objective challenges to management’s judgments and assumptions.

In this document, we describe our plan to serve you, the protocols for communication with the audit committee and management, and other permissible services we provide for the University.

Our organization is dedicated to bringing a high level of quality and service to the audit of the University. We commit to proactively addressing your needs; delivering the right team; and providing understanding, perspective, and industry insights.

We appreciate the opportunity to serve the University. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan. Please contact me at +1 612 397 4418 if I can be of assistance in any way.

Yours truly,

Kirsten Vosen
Your Lead Client Service Partner

cc: Management of the University
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We are pleased to present an overview of our plan to serve the University. We have prepared this document to assist the audit committee in fulfilling its role in overseeing the financial reporting process and the performance of the independent auditor.

Our primary responsibility is to plan and perform the audit of the University’s consolidated financial statements to obtain reasonable assurance about whether effective internal control over financial reporting (ICFR) was maintained in all material respects and whether the consolidated financial statements are free of material misstatements. It is our professional responsibility to challenge significant management assumptions and estimates and to employ an appropriate level of professional skepticism to evaluate these assumptions and estimates, including related audit evidential matter. We also perform certain permissible services that further develop our understanding of your business; we can leverage this understanding to further improve our audit procedures.

Below are the key elements that demonstrate our commitment to quality:

- Strong tone at the top
- Comprehensive ethics and compliance programs
- Communication of professional standards and client service standards
- Multifaceted approach to monitoring independence
- Strong industry qualifications
- Robust technical consultation
- National office consultation
- Appropriate technical training for our professionals
- Annual internal and external inspections
- Continuous improvement.

As professionals, we are each responsible for gaining a thorough understanding of the applicable auditing standards and for executing our audit in accordance with those standards; thus, the Deloitte Audit is based on auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and emphasizes a risk-based approach. We identified the risks of
material misstatement facing the University, beginning with a reassessment of risk areas from our
2011 audit, followed by consideration of the University’s fiscal 2012 enterprise goals, and the current
state of the industry and the economy. As a result of our planning process, we identified the
following item as an area of significant risk for the fiscal 2012 audit:

• Alternative investment valuation

Our professional judgment is central to the application of due care and professional skepticism in
these areas of significant risk.

See Section “The Deloitte Audit Approach” for further discussion of identified risks of material
misstatement and related audit responses.

Engagement team

Our engagement team is led by Kirsten Vosen, lead client service partner. Ms. Vosen is responsible
for all services provided to the University.

We have assigned a senior technical partner to our team to help evaluate issues of importance to
the University. Deborah Metalsky, your engagement quality control review partner, has 23 years of
experience, with a main focus on higher education clients. Her main clients include The Pennsylvania
State University, Temple University, and Drexel University. She also leads the Philadelphia office’s
higher education and not-for-profit practice. In addition to her engagement review responsibilities,
Ms. Metalsky is Ms. Vosen’s primary consultation resource. When a matter requires review at a
higher level, Ms. Vosen will work with Deb DeHaas, national office liaison partner for the University.

Our specialists often assist the audit team with procedures in areas involving management’s most
subjective and complex judgments. These procedures will be developed in conjunction with the core
audit team, and the core audit team has a responsibility to develop the scope of the work performed
by the specialist, review the working papers, and participate in reaching the audit conclusions.

The Deloitte Audit Approach uses a broad range of industry and functional specialists who are
integral to the audit team. For the University’s audit, we have identified specialists to assist in:

• Assessing the design and operating effectiveness of information technology and security
  controls
• Auditing income tax exemption
• Auditing estimates that involve actuarial calculations
• Auditing fair value of alternative investments.

We also recognize the importance of sharing our accounting, reporting, and industry knowledge and
experience, and we will provide skilled resources for the specialized risks and industry issues
affecting the University. Our specialists have been actively involved in the planning and risk
assessment process and will be available to the audit team and the University’s management year-
round to discuss ongoing risk assessment, accounting and financial reporting issues, industry
developments, and other matters of interest. As a complement to management’s current process to
respond to new and developing standards, these specialists will periodically update the University’s
management on technical accounting and industry matters that affect the University.

See Section “Our client service team” for more information on the University’s engagement team.
Streamlining our audit approach

We recognize that the quality of our audit depends on us providing a robust challenge to significant assumptions of management, coupled with unambiguous and direct communication. That does not mean the process needs to be cumbersome or tedious. We will focus our service approach on what matters most by providing timelines and involving senior members of our leadership team, including having Ms. Vosen develop and approve the audit scope and attend meetings with management to discuss key matters.

We have provided you with a timeline for our audit that articulates the timing of our planning and testing procedures (see Section “Audit timeline”).

Our plan of action includes:

• Managing the work of our professionals and affiliates
• Avoiding surprises to the best of our ability
• Responding to your questions within 48 hours
• Identifying and communicating key issues timely
• Working with you directly to manage deadlines
• Providing our broader views and perspectives on the University’s operations and internal control, not just in the traditional areas of accounting and financial reporting, but by setting out our observations on the University’s operations and activities identified during the audit.
Risk assessment

Risk assessment is a critical facet of our audit approach and scoping process. We identify risks of material misstatement associated with the University and its various businesses, material account balances, assertions, and related controls. We design all phases of the audit to identify and address risks associated with the University and to enable us to respond to the challenges posed by the business, regulatory, and economic environment in which the University operates. Risk identification takes place at several levels throughout the year.

In developing our audit plan for each material account balance or disclosure, we consider:

- What could go wrong to cause a material misstatement of the consolidated financial statements
- Control activities that management has identified, documented, and tested
- The nature and extent of substantive testing needed.

For each risk of material misstatement we identify, we perform substantive procedures to address that risk. The number and nature of the risks identified may be adjusted as circumstances change during the audit. We will update the audit committee on significant changes to our risk assessment or audit scope as we perform our work.

Deloitte & Touche’s approach to the University’s audit is grounded in our understanding of your business, as accumulated from our experience. We begin by gaining a comprehensive perspective of your operations and business objectives, as well as material financial statement accounts and disclosures.

When we speak about risk, we don’t mean errors are occurring. Rather, we identify significant areas in the financial reporting process where judgment, complexity, or infrequency of occurrence may give rise to a higher chance that misstatements exist.
Deloitte & Touche audit planning process

Accumulated knowledge about your organization is the foundation for our audit planning process.

Our top-down risk assessment begins with the consolidated financial statements to determine material account balances and disclosures.

Using assertions, we organize and refine the focus of our audit procedures. All relevant assertions for material account balances and disclosures are addressed in our audit plan.

Our knowledge and understanding of your organization allows us to pinpoint risks. We assess each risk and determine whether it is a significant risk or normal risk.

We develop tailored responses to significant risks and normal risks.
- Control and substantive responses are integrated.
- We consider the effectiveness of the responses and align the budget with risks.
- Using our most current understanding, we reconsider our approach at the end of each audit cycle.

Understand the entity
Assess financial statements accounts
Assertions
Identify and evaluate risks
Respond to significant and normal risks

Identify and evaluate risks

Understand the entity

Assertions

Respond to significant and normal risks

Assess financial statements accounts

The University of Minnesota 2012 Client Service Plan 5
Commitment to quality


We take our responsibilities to audit committees and boards of trustees seriously, and we are dedicated to building confidence in the independent audit process. Transparency regarding our governance processes, ethical standards, and quality controls demonstrates the culture of integrity, professional excellence, accountability, and continuous improvement that underpins our organization and promotes investor confidence and trust.

The intent of our transparency report is to provide investors, audit committees, regulators, and other market participants with information that will help them understand our commitment to audit quality. This transparency report includes, among other things, information about the governance processes, ethical principles, and quality control procedures of Deloitte LLP, particularly for the accounting and auditing practice of Deloitte & Touche LLP (the audit subsidiary of Deloitte LLP). Additionally, this transparency report includes a description of internal and external inspections and peer reviews of our practice and a discussion of our programs to continually improve our audit quality.
Scope of services

Our responsibility under generally accepted auditing standards will be described to you in our engagement letter. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, is to express an opinion on the fairness of the presentation of the University’s consolidated financial statements for the year ending June 30, 2012, in conformity with accounting principles generally accepted in the United States of America, in all material respects. We consider the University’s ICFR as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s ICFR. Accordingly, we will not express an opinion on the effectiveness of the University’s ICFR. Our consideration of ICFR would not necessarily identify all deficiencies in ICFR that might be significant deficiencies or material weaknesses.

We will also issue certain other reports as described below:

Reports on financial statement audits
- University of Minnesota Consolidated Financial Statements
- RUMINCO, Ltd (performed by Deloitte Bermuda)

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

Should you require additional attestand compliance-related services, we will work closely with the University to scope such services appropriately.

In addition to our independent auditors’ reports, we will report significant deficiencies and material weaknesses identified in internal controls and issue a management letter when opportunities for improvements or efficiencies come to our attention during the audits and a letter to the audit committee and management summarizing the results of our audits.
The Deloitte Audit Approach

Our responsibility to you is the foundation of our role as the University’s independent auditor. As your independent auditor, we recognize that you operate in an environment that demands objectivity, skepticism, responsiveness, and deep technical skills. A critical facet of our integrated audit approach is the risk assessment. We design the integrated audit to identify and address risks to obtain reasonable assurance whether effective ICFR was maintained and whether the consolidated financial statements are free of material misstatement.

Our audit approach is partner-led, focused, interactive, and dynamic and follows four major steps:

1. Engage in initial planning
   - Assess and respond to engagement risk
   - Select engagement team
   - Establish terms of engagement
   - Enhance our understanding of the University’s business and environment
   - Enhance our understanding of internal controls and the accounting processes
     - Entity-level controls
     - Process-level controls
   - Determine planning materiality

2. Develop Audit Plan
   - Assess risk at account-balance and potential-error Levels
   - Plan tests of controls
     - Plan the use of the work by the University
   - Prepare and communicate the audit plan

3. Perform Audit Plan
   - Perform tests of controls and evaluate
     - Entity-level controls
     - Process-level controls
     - Evaluate control deficiencies
   - Perform substantive tests and results

4. Conclude and report
   - Perform the financial statement review
   - Perform subsequent events review
   - Obtain management representations
   - Prepare audit summary memorandum
   - Report

The Deloitte Audit Approach is rooted in professional standards and involves using the right resources at the right time to tailor our response to the risks of material misstatement that have been identified. Continuous communication with the audit committee and management to inform you of key issues throughout the audit process is an essential element for success in the audit.

In applying our audit approach for the University, we will:

- Conduct a partner-led planning process that enhances risk identification and assessment and promotes an appropriate response in controls testing and substantive procedures
- Empower our people to apply professional judgment and apply an appropriate level of skepticism in evaluating management’s significant assumptions based on a thorough understanding of your business strategies, operations, structure, risks, internal control environment, and accounting policies, paired with an awareness of related industry and economic events
• Leverage our global investments in technology to deliver the level of effort needed to address the related risk through the scalability and flexibility of our audit tools and ease of access to comprehensive accounting and financial disclosure literature

• Build our knowledge of the University and improve our risk identification and tailored procedures through delivery of additional permissible services and use the knowledge of your business we have gained through the audit to provide business process and industry insights

Year-round involvement—Our audit approach reflects our commitment to providing timely service. This approach includes:

• The consistent availability of partners, specialists, and staff
• Meetings with executive management, including the internal auditors
• Analysis and auditing of large or complex transactions

Use of specialists—The Deloitte Audit is distinguished by the use of a broad range of industry and functional specialists who are integral to the audit team and carry a deeper understanding of specific topics. These specialists augment the core audit team in understanding business processes and related risks and help the audit team in applying an appropriate level of professional skepticism to challenge significant management assumptions.

Specialized skills may be needed to assist in audit procedures in the following areas:

• Assessing the design and operating effectiveness of information technology and security controls
• Auditing income taxes exemption
• Auditing estimates that involve actuarial techniques
• Auditing fair value of alternative investments.

For the University’s audit, we have identified specialists in control assurance and information technology auditing, income taxes, derivatives, actuarial valuation, and alternative investments. These specialists have been actively involved in the planning and risk assessment process and are available to the core audit team and the University’s management year-round to discuss ongoing risk assessment, accounting and financial reporting issues, industry developments, and other matters of interest. These specialists will regularly update management on technical accounting, industry, and other matters that affect the University to minimize surprises and provide timely information to improve your understanding and ability to respond when new standards are issued or accounting developments occur.

Partner-led audit planning and execution—The Deloitte culture is noted for its emphasis on the role of our partners in the execution of our services. Experience tells us that an audit plan developed at the direction of engagement leaders yields an audit that has clarity of purpose and is tailored to the University’s business. Ms. Vosen will guide the planning and execution of the audit, using her understanding of your organization, your industry, your risks, and the professional literature to drive quality throughout the process.
Ms. Vosen will guide the engagement team in identifying risks of material misstatement by considering what could go wrong in significant account balances and disclosures. She will be involved in the detailed audit execution, including assessing which procedures are most responsive to the identified risks, the level of testing required, and the timing of the testing. She will continuously challenge the procedures performed to deliver an effective audit.

When issues are identified and warrant discussion with the audit committee and management, Ms. Vosen will provide prompt communication of significant developments and findings.

Our coordination plan features:

- Onsite supervision of fieldwork by our partners and managers
- Regular weekly status meetings with the Controller’s group conducted by Ms. Vosen and engagement team members throughout fiscal 2012 audit timeframe
- Regular meetings with key members of management other than Finance and Internal Audit in areas important to the audit to help build upon our understanding of your business

A key to maintaining our responsiveness are the regular meetings we conduct with key members of management and the Internal Audit function. These meetings provide opportunities for candid discussion of important matters.

Ms. Vosen and our team will keep you informed of progress, provide findings and feedback in a timely manner, and offer insights on your processes and business for you to consider. When questions arise about accounting positions or procedures, Ms. Vosen will be proactive and candid in discussing these concerns with you. It is our professional responsibility to challenge significant assumptions and positions, and we are committed to fulfilling it. We will consult with the audit committee and management openly and candidly.

**Initial planning process**

We plan our audit to parallel the financial reporting and organizational structure of the University based on our understanding of your business. Our planning emphasizes the continuous identification of organization, control, and financial risks. Our audit approach is tailored to focus on those risks and is flexible enough to allow adjustment as risks are identified or eliminated.

The audit plan allows constructive, timely feedback to management regarding matters warranting attention, including significant deficiencies or material weaknesses. The majority of our audit procedures are performed throughout the year and updated at year-end.

In developing the audit plan, we plan tests to obtain evidence regarding the design and operating effectiveness of relevant controls, and we plan substantive auditing procedures to test for risks of material misstatement related to significant account balances and disclosures. Our procedures focus our attention on risk areas. When necessary, we will devote special attention to areas of interest identified by the audit committee or management.
Develop audit plan

A laser focus on your most significant risks

Our approach pinpoints what could go wrong to cause a material misstatement for significant account balances and disclosures. Applying this lens to the University’s audit, we will spend time on the areas that matter most. We will develop our audit plan for the University at the financial-statement level and craft an audit plan that targets the risks of material misstatement in each area.

Customized procedures

We customize the nature, timing, and extent of the control and substantive procedures we perform by matching the level of risk identified for each material account or disclosure to the relevant assertions. The decisions in these areas are matters of professional judgment. In this regard, Deloitte & Touche’s depth of resources, understanding of professional standards, and risk-based audit approach come together in an audit that is specifically tailored for the University.

The following represents our preliminary detailed risk assessment and our responses to these risks. As we perform our audit procedures, we will update our risk assessment and inform the audit committee and management of any significant changes to this assessment.

Areas of audit focus

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<tr>
<th>Audit focus areas</th>
<th>Description</th>
<th>Planned audit response</th>
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<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>• Fair value of investments, particularly those that are not readily marketable</td>
<td>• Evaluate management’s methodology and process for valuing investments</td>
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<td>Investments</td>
<td>• Illiquidity in cash accounts, specifically money market accounts</td>
<td>• Review support for valuation of investments, including money market funds, for potential impairment</td>
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<td>Investments</td>
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<td>• Confirm all investment balances, including more detailed confirmations, on a sample of alternative investments</td>
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<td>Investments</td>
<td></td>
<td>• Obtain the most recent audited consolidated financial statements for a sample of alternative investments for which a readily determinable market value is not available</td>
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<tr>
<td>Investments</td>
<td></td>
<td>• Perform additional analysis as appropriate to support the valuation and existence assertion relative to alternative investments</td>
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<tr>
<td>Investments</td>
<td></td>
<td>• Perform analytical procedures to test fair value measurements, recorded appreciation/depreciation, and investment returns both for the audited period and for the most recent audited consolidated financial statements to the reporting date</td>
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<td>Long-term debt</td>
<td>• Default by counterparties on SWAP agreements</td>
<td>• Obtain an understanding of all SWAP agreements</td>
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<td>Long-term debt</td>
<td>• Existence of debt covenant violations</td>
<td>• Review management’s analysis and conclusion on accounting for SWAP agreements</td>
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<td>Long-term debt</td>
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<td>• Assess the financial condition of the SWAP counterparties</td>
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<td>Long-term debt</td>
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<td>• Confirm long-term debt</td>
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<td>Long-term debt</td>
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<td>• Assess compliance with debt covenants</td>
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Benefits of pinpointing risk

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

Our service

- Helps us identify opportunities for the University’s management to consider in refining its assessment of risks and related controls
- Provides insight on industry matters, business issues, and risks that may affect the University

Quality

- Focuses our specialists by identifying and addressing areas of significant risk
- Drives an integrated approach that covers both controls and substantive responses
- Facilitates the identification of more effective audit methods

Efficiency

- Creates a targeted response for significant risk areas and normal risk areas, aligning audit effort with the risk.
Audit focus areas | Description | Planned audit response
--- | --- | ---
Student, tuition and fees — net | • Risk of overstatement of student tuition and fees, and other revenues (through premature revenue recognition or recording fictitious revenues) | • Review student tuition and fees and other revenue recognition accounting policies and procedures through walk-throughs of revenue cycles during internal control testing
Federal grants and contracts | • Risk of understatement of student tuition and fees or other revenues (due to improperly shifting revenues to later periods) | • Audit student tuition and fees and other revenues recorded through substantive analytical reviews and/or dual purpose detail testing in conjunction with federal grant compliance work
Auxiliary enterprises — net | • Accuracy of all information generated or stored in the University’s financial information systems | • Reconciliation between federal grant and contracts revenue and our audit of the schedule of federal expenditures

Information management and communication | • Accuracy of information accumulated throughout the University | • Perform internal control testing around the University’s ability to accumulate accurate and reliable information for various departments throughout the University

Fraud-related procedures

There is continued emphasis on the auditor’s responsibility to detect material misstatements resulting from fraud. We perform the following audit procedures to address fraud risks:

- Identify unusual trends in account balances and ratios
- Perform tests of journal entries selected through electronic data interrogation techniques
- Consider the potential for bias in judgments and estimates, including performing retrospective analysis
- Evaluate the business rationale for significant unusual transactions
- Engage in periodic fraud discussions with certain members of senior management and others, including the audit committee
- Evaluate identified audit adjustments (recorded and passed) for potential fraud
- Consider the impact of the results on financial statement and internal control opinions.

Communication with the audit committee and management

We believe in timely communication that is candid and open at all times. We will coordinate with management to establish clear communication protocols and audit timelines, and we will meet regularly to provide our independent perspective on key issues. By coordinating with management, we can communicate all relevant matters promptly and focus meetings with the audit committee on issues of importance to the University, its financial reporting process, and our audit services.

Execute the audit plan

Execution of the audit plan includes evaluating the design and testing the operating effectiveness of controls and performing substantive audit procedures.

Testing of internal controls

We consider the University’s ICFR as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s ICFR. Accordingly, we will not express an opinion on the effectiveness of the
University’s ICFR. Our consideration of ICFR would not necessarily identify all deficiencies in ICFR that might be significant deficiencies or material weaknesses.

**Substantive audit procedures**

Our substantive audit procedures consist of a tailored combination of analytical procedures and detail tests of transactions and balances; these procedures are designed to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. We apply a professional level of skepticism to the evidential matter provided by management to support their assertions in the consolidated financial statements. To obtain this assurance, we accumulate known and likely misstatements that were identified while performing substantive auditing procedures and consider such misstatements in relation to the consolidated financial statements as a whole. Misstatements that are identified above a certain threshold will be reported to the audit committee and management.

**Evaluate financial statement presentation and disclosures**

Among the final steps of our audit is the overall evaluation and assessment of the consolidated financial statements’ presentation and the related disclosures. Our overall review and evaluation consists of analytical procedures and consideration as to whether the consolidated financial statements are consistent with our knowledge of the University’s business, our understanding of individual balances and relationships, and the evidence accumulated throughout our audit. In addition, we review the appropriateness and adequacy of the required disclosures.

**Perform subsequent-events review and obtain management representations**

Our subsequent-events review will cover the period from June 30, 2012, through the date of our reports on the consolidated financial statements, which we expect to be issued in October 2012. This review is performed to identify any significant matters that would require adjustment of year-end amounts or disclosure in the consolidated financial statements.

The consolidated financial statements are the responsibility of management. We obtain written acknowledgment from management of its responsibility for the preparation of the consolidated financial statements. We ask management to affirm its belief that the effects of any unrecorded audit adjustments are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. In addition, we request that management confirm certain specific representations that comprise or supplement our audit support in significant areas or with respect to matters for which there may be limited audit evidence available (e.g., a matter affected by management intent and judgment). The final, signed management representation letter will be provided to the audit committee prior to the issuance of our report.

**Continuous communication and coordination**

In the course of the audit, issues will be reported to Ms. Vosen for discussion with the University’s management.

Our coordination plan features:

- Regular status meetings conducted by Ms. Vosen throughout the 2012 audit
- Meetings with your professionals in areas other than finance to continue to build our understanding of your organization and further develop our audit procedures.

Our team will coordinate with your financial personnel to make effective use of their time, keep you informed of progress, and provide findings and feedback in a timely manner. We also will provide any insights related to improvements in internal controls and operational efficiencies for
management to consider. As your auditor, we will challenge significant financial assumptions, and when questions arise about accounting positions or procedures, Ms. Vosen will be proactive and candid in discussing these concerns with you. That is our responsibility, and we are committed to fulfilling it.

**Collaborative consultation on technical matters**

We understand that the technical interpretation of accounting matters is frequently necessary and that these questions can range from mundane to difficult. We will discuss the issues with you to evaluate your positions in real time, rather than waiting until the end of the reporting period to judge them.

Ms. Vosen is responsible for the resolution of all technical matters. Because issue resolution is an art, not a science, deciding which issues require additional consultation is a key part of Ms. Vosen’s role. When a complex technical matter arises, Ms. Vosen will immediately engage management to understand their views and engage their team as needed, keeping management informed until the matter is resolved. The audit committee and management will have full access to those involved in the resolution process and are welcome to participate in related discussions. We recognize that management owns the consolidated financial statements and we are auditing them. Ms. Vosen and other team members will seek to clearly understand management’s perspective on the facts and judgments underlying each issue with an open and professionally skeptical mind.

Every step of the way, we will help you understand how we are making decisions, provide you with direct access to our specialists, and talk through issues with you. Although the final decision on all matters rests with Ms. Vosen, she will have timely access to Deloitte & Touche’s most knowledgeable specialists on those occasions when she believes she would benefit from the experience of others.

We have assigned a senior technical partner Deborah Metalsky, your engagement quality control review partner, to our team to assist in evaluating issues of importance to the University. In addition to her engagement review responsibilities, Ms. Metalsky is Ms. Vosen’s primary consultation resource.

**Using technology to increase effectiveness and consistency**

To promote audit effectiveness and consistent service in all your locations, Deloitte & Touche uses a uniform audit approach with common documentation standards and enabling software in the audits of financial statements and ICFR. These tools help us increase audit effectiveness and execute our audit in a high-quality, reliable, consistent manner. Deloitte & Touche invests heavily in technology development and enhancement to meet the changing needs of our engagement teams. We are committed to being the leader in global audit technology.

**Consistency**

To facilitate seamless coordination, communication, and knowledge sharing across our work teams, we will customize a secure Deloitte Online website for the University. This is a collaborative area where we can communicate our scoping, collect and summarize audit information, and share information with the University’s personnel and our team members.

**Consideration of the University’s use of information technology**

The University’s use of information technology to serve customers, maintain compliance with regulatory requirements, and support day-to-day operations is pervasive. General information technology controls continue to be a major element in the control environment of the University, and our computer assurance specialists will be involved to assess and evaluate the general information
technology and automated controls. In addition, these specialists will continue to meet with management to understand planned changes in the IT environment and assess and test changes as they occur, as deemed appropriate.

Conclude and report

The results of the audit procedures performed throughout 2012 will be analyzed and conclusions drawn based on applicable standards. Before rendering our reports, we will conclude whether (1) the scope of the audit was sufficient to support our opinions, (2) the misstatements identified, if any, have caused the consolidated financial statements to be materially misstated, and (3) the control deficiencies identified, if any, represent material weaknesses.

To obtain this assurance, we accumulate known and likely misstatements, if any, that were identified while performing our procedures and consider such misstatements in relation to the consolidated financial statements as a whole. Material misstatements that are identified by us and uncorrected misstatements identified by us or the University will be reported to the audit committee and management.
The audit committee oversees the financial reporting process of the University, evaluating whether there is an effective process for identifying significant risks and managing them appropriately. An important part of that oversight role is working with the independent auditor. Our commitment to an independent professional relationship with the audit committee focuses on the following:

- More dialogue and less presentation
- Concise, clear, tailored written communications
- Supporting the audit committee in fulfilling its responsibilities
- Exposure to specialists, as requested.

Our audit methodology features a high degree of formal and informal communication.

**Deloitte & Touche’s principles for communicating with the University’s audit committee**

- Communicate difficult matters in an open, transparent manner
- Advise the audit committee on key audit matters to aid in fulfilling its responsibilities
- Provide advance materials with sufficient time to allow the audit committee to prepare for meetings effectively
- Share our intellectual capital, highlighting and tailoring information that is relevant to the University
- Address likely questions proactively
- Provide candid, insightful feedback regarding the audit committee’s and management’s activities
- Seek the audit committee’s assessment of our performance
- Avoid surprises
- Answer your questions.

The willingness of the members of the audit committee and management to engage in an open dialogue regarding issues is instrumental in our ability to deliver high-quality service to the University.

We will demonstrate commitment to communicating with the audit committee in the following ways:

- Industry insights on compliance organizations, risk management initiatives, and the finance function
- Personalized communication that focuses attention on relevant matters

Deloitte’s Center for Corporate Governance offers a number of resources for executives, directors, and others who are active in governance. In addition to its website, the center’s activities and programs include:

- Research and thought leadership
- Monthly governance webcasts
- The Directors’ Series program and other sponsored events
- Governance services.

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

- Updates on industry and market trends, as well as matters related to governance requirements and leading practices
- Access to the range of knowledge and experience used in the audit process and the opportunity to talk to subject-matter specialists about significant issues affecting the University.

In today’s rapidly changing environment, our Center for Corporate Governance is a resource for you as you fulfill your fiduciary responsibilities. The center manages a number of offerings, including the following that provide audit committee members with our insight on matters of importance in corporate governance. The Center for Corporate Governance helps audit committees and boards fulfill their oversight responsibilities and keeps them informed on the latest governance trends, regulations, and leading practices:

- The Center for Corporate Governance generates research on boardroom issues, conducts roundtables bringing together governance specialists to address board-related challenges, hosts monthly webcasts on governance topics, and provides governance-related services for audit committees. The Center for Corporate Governance website includes the latest corporate governance thought leadership by both Deloitte & Touche professionals and leading third-party governance experts and organizations. Many of our complimentary subscription publications are housed on the website, including:
  - *Audit Committee Brief*—This monthly publication addresses key topics affecting audit committees.
  - *Audit Committee Resource Guide*—This overview of audit committee regulatory requirements discusses common practices and specific steps for audit committees to consider. It also provides references to relevant tools and resources.
  - *Hot Topic*—This monthly article discusses relevant governance topics.
  - *Corporate Governance Monthly*—A monthly newsletter that captures the most timely and relevant governance publications housed on the website.

- Informed decision making is a cornerstone of an effective board. Our permissible board development education programs include topics such as executive development and succession planning; doing business in emerging markets; the board’s role in a crisis; assessing and strengthening corporate culture; improving the board’s business insight; the risk-intelligent board; the marketplace view of corporate governance; the board’s role in strategic planning; assessing earnings quality; trends in executive compensation; other regulatory developments; antifraud program oversight; and conducting investigations.

- In addition to education, Deloitte & Touche provides a variety of governance services that are supported by the Center for Corporate Governance. These services may include benchmarking of board practices, executive management and director interviews and surveys, and peer and self-evaluations.

- Quality service assessment for audit committees. At least annually, your Deloitte & Touche professionals, led by Ms. Deb DeHaas, your advisory partner, will meet with members of the audit committee to assess how Deloitte & Touche is serving the University. This will allow the audit committee to provide feedback and ask questions. Deloitte & Touche will use this feedback to enhance the service provided to the University.
Independence encompasses integrity, professional skepticism, intellectual honesty, and objectivity—freedom from conflicts of interest. No entity or circumstance is compelling enough for us to compromise our ability to serve the public interest or our reputation.

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

- Commitment of our leaders and a culture that stresses the importance of independence
- Consultation and monitoring processes
- Clearly communicated, comprehensive independence policies on areas including, but not limited to, personal financial interests, scope of services, business relationships, employment relationships, and partner rotation
- A chief ethics and compliance officer who makes presentations regarding personal financial holdings compliance to the chief executive officer and the board of directors
- Mandatory training for all partners, principals, and professionals
- A searchable global database of restricted entities
- Electronic tracking of personal financial holdings
- At least annual representations from partners, principals, and employees
- An internal inspection and audit process for compliance with personal financial holding policies
- An internal inspection process for compliance with preapproval and scope-of-services policies
- A disciplinary process for noncompliance
- Policies to document preapproval of any permissible services by the audit committee.

Independence representation

The engagement team and Deloitte & Touche have complied with all independence requirements as described under Section 3 of the generally accepted government auditing standards, as provided in Government Auditing Standards, July 2007 Revision, issued by the U.S. Government Accountability Office — more commonly referred to as the Yellow Book and as provided by applicable American Institute for Certified Public Accountants standards.
Our client service team

Consolidated financial statement audit
Kirsten Vosen — Lead client service partner
Deb DeHaas — Advisory partner
Debbie Metalsky — Quality review director
Amy Kroll — Enterprise Risk Services principal
Judi Dockendorf — Audit manager
Nicole Maggio — Audit manager (Investments)
Terry Delahunt — Enterprise Risk Services manager
Reggie Abraham — Minority business partner (IT Controls)

A-133 single audit
Katie Knudtson — Audit partner
Judi Dockendorf — Audit manager

NCAA agreed-upon procedures
Katie Knudtson — Audit partner
Judi Dockendorf — Audit manager

RUMINCO Ltd
Stephen Kuzyk — Audit partner
Clay Holland — Audit manager
# Audit timeline

<table>
<thead>
<tr>
<th>Monthly activity</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
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Recent accounting and industry matters

Recent GASB project updates

Postemployment benefit accounting and financial reporting

The objective of this project is to consider the possibility of improvements to the existing standards of accounting and financial reporting for postemployment benefits — including pension benefits and other postemployment benefits (OPEB) — by state and local governmental employers and by the trustees, administrators, or sponsors of pension or OPEB plans. One objective of this project is to improve accountability, or the transparency of financial reporting, with regard to the financial effects of employers’ commitments and actions related to pension benefits and OPEB. This objective would include improving the information provided to help financial users assess the degree to which interperiod equity has been achieved. The other objective of this project is to improve the usefulness of information for decisions of judgments or relevance to the various users of the general-purpose external financial reports of governmental employers and pension or OPEB plans. This project is currently being deliberated.

Conceptual framework — recognition and measurement attributes

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

Derivative instruments—application of hedge accounting termination provisions

The objective of this project is to clarify the termination provisions in GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, when a counterparty of an interest rate or commodity swap is replaced. During June of 2011, the GASB unanimously approved for issuance Statement No. 64, Derivative Instruments — Application of Hedge Accounting Termination Provisions.

Fair value measurement and application

The objective of this project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value, and potential disclosures about fair value measurements. Within this review, specific issues including fair value measurement of alternative investments, such as private placements and hedge funds, real estate investment trusts, state land trusts, and partnership interests, are to be addressed. This project is currently being deliberated.

\(^1\)Information obtained from the Governmental Accounting Standards Board’s website at GASB.org.
Audit Committee

May 10, 2012

Agenda Item: Compliance Officer Report

☐ review  ☐ review/action  ☐ action  ☑ discussion

Presenters: Lynn Zentner, Director, Office of 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 Audit Committee with a summary of current compliance-related initiatives undertaken by her office since her December 2011 report. She will focus on the status of the current conflict of interest reporting cycle, actions taken to address regulatory changes affecting the conflict of interest program, an update of the evaluation of the institutional compliance program, and Ureport.

Background Information:

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

This report provides: (1) a review of Conflict of Interest Program activities for 2011; (2) an update on the efforts underway to ensure full compliance with the Public Health Service’s revised conflict of interest regulations; and (3) an update regarding the process underway to evaluate the University’s Compliance Program.

Information regarding the University’s Compliance Program is available at: http://www.compliance.umn.edu/complianceHome.htm.

I. THE UNIVERSITY WIDE CONFLICT OF INTEREST PROGRAM

A Summary of Statistics for 2011

The University’s Conflict of Interest Program addresses conflicts of interest in connection with the mission and all functions of the University: teaching, research, clinical health care, outreach, and administrative functions. Conflicts of interest arise in the context of financial interests, e.g., income from consulting relationships, equity interests, and the receipt or right to receive royalties. In this context, certain dollar thresholds trigger a conflict of interest review. Conflicts of interest also arise in the context of business interests, e.g., a faculty or staff member holding an executive position in a business or serving on a board of directors, a medical advisory or scientific advisory board.

The University annually implements a disclosure process via a Report of External Professional Activities (REPA) through which faculty and staff report financial and business interests. Conflict of interest committees conduct an inquiry to determine whether a financial or business interest overlaps with an individual’s University responsibilities or expertise. Below is a common example:

• The individual earns more than $10,000 each year from a consulting relationship with a technology company. The individual is a principal investigator on a University research grant and the results of that research could benefit the commercial interests of that company. The individual teaches students about the company’s technology and has administrative responsibilities in her department which include making decisions regarding technology purchases to include the products produced and marketed by the company with which she has the consulting relationship.

In addition to the REPA, University Officials, as that term is defined by policy, also complete a Financial Disclosure For University Officials form (FDUO).
The next step involves review by a conflict of interest committee which ultimately determines whether a conflict of interest exists and, if one exists, how to most effectively reduce, eliminate, or manage the conflict.

Conflict of interest committees typically meet monthly. They review summaries of a wide range of scenarios that involve financial and business relationships which overlap with one or more aspects of an individual’s University responsibilities and/or expertise. When a conflict of interest committee determines that a conflict of interest exists, various mechanisms are identified to manage the conflict and a conflict management plan is developed. The individual whose business and/or financial interests are the subject of a conflict of interest review has the opportunity to review the proposed plan and have input into it before it is finalized. Conflict of Interest Program staff follow up within the first 90 days of a newly created conflict management plan to ensure compliance with the plan and then annually until the plan is retired.

In some circumstances, guidance letters and e-mails are created instead of conflict management plans. Guidance e-mails are used when an individual’s financial or business interests do not yet create a conflict but likely will in the near future. Guidance letters are prepared when, in the course of conducting a conflict of interest review, Conflict of Interest Program staff determine that an individual has violated a University policy other than those that govern conflicts of interest. In these circumstances, it is the goal of the Program to be supportive of faculty and staff and provide guidance that will assist them in staying within the bounds of University rules.

The following statistics reflect the current status of this year’s disclosure process which began on March 12, 2012:

- 9049 University faculty and staff are required to file a REPA.
- During the past six weeks, 6527 or 72% have completed that process. Annually, we typically achieve 98% compliance.
- 251 University officials are required to file a FDUO.
- To date, 213 University officials or 84% have filed. Annually, we achieve 100% compliance.

The following statistics reflect the conflict of interest review activity in 2011:

- 939 REPAs were individually reviewed by Conflict of Interest Program staff.
- 177 FDUOs were individually reviewed by the Compliance Officer.
- Conflict of interest committees reviewed 152 matters.
- 63 conflict management plans were created.
- 68 matters were reviewed to ensure compliance with existing conflict management plans.
- 31 guidance letters and e-mails were prepared.
The conflict of interest policies adopted in 2010 and 2011 require the faculty and staff who file REPAs and FDUOs to complete conflict of interest training every three years. That interval has recently been extended to “every four years”, consistent with new Public Health Service (PHS) regulations which are addressed later in this report. On this issue, our rate of compliance remains at 50%. We are working to increase compliance in this area.

**The Revised Conflict of Interest Rule Adopted by the Public Health Service**

My December 2011 report summarized the recently revised conflict of interest rule adopted by the PHS on September 26, 2011. The revised rule governs all institutions and investigators who apply for or receive PHS-funded grants issued after August 24, 2012.

PHS agencies include:

- Administration for Children & Families
- Administration on Aging
- Agency for Healthcare Research & Quality
- Centers for Disease Control and Prevention
- Center for Medicare & Medicaid Services
- Federal Occupational Health
- Food and Drug Administration
- Health Resources & Services Administration
- Indian Health Service
- National Institutes of Health
- Substance Abuse and Mental Health Services Administration

We estimate that approximately 1500 faculty and staff, primarily faculty, will be impacted by the revised rule. Below is a brief summary of the significant provisions of the revised rule:

- The reporting threshold and “significant financial interest” threshold have been reduced from $10,000 to $5,000.
- Investigators are required to report travel reimbursed or sponsored by a business entity.
- Institutions are required to provide greater detail when reporting identified conflicts of interest to a PHS funding agency.
- Where an investigator is involved in ongoing PHS funded research, and a significant financial disclosure is made, the institution must review that disclosure and, if it relates to the PHS-funded research, implement within 60 days, at least on an interim basis, a
conflict management plan that reflects the actions that have been and will be taken to manage the conflict.

- The rule imposes expanded reporting requirements on institutions whenever a conflict of interest finding has been made. The content of the University’s current management plans meet this requirement.
- When an investigator fails to timely disclose a financial interest or an institution fails to timely review and manage a disclosed conflict of interest, a retrospective review must be conducted to determine whether the research was biased during that period of delay. If bias is found, a mitigation report must be submitted to the PHS funding agency.
- The institution must take reasonable steps to ensure that any subrecipient investigator complies with the PHS rule.
- The institution must make information regarding identified financial conflicts of interest publicly accessible via either a public website or by a written response to any requestor within five business days of a request. The University has selected the option of providing the information by written response rather than on a website.

As my December report reflects, given the added burden associated with the requirements of the revised PHS rule, the University has decided to limit its application to those who conduct PHS funded research. All others will be subject to the current requirements of the University’s conflict of interest policies.

The University has taken or is currently taking the following steps to ensure compliance with the revised rule:

- In February, a communication was sent to all investigators involved in PHS funded research to alert them to the revised PHS rule and some of the rule’s most significant provisions. They were advised that this year’s REPA would have sections specifically created for the revised rule’s requirements. They were also advised of the rule’s mandatory training requirements and that the University was then engaged in the process of revising its conflict of interest training module to meet those requirements.
- When the REPA filing season began in March, PHS funded investigators were advised that the form had been revised to respond to the requirements of the revised PHS rule. All filers were reminded of the requirement to complete conflict of interest training. PHS investigators were separately advised that, if they had already taken the training module developed in connection with the University’s conflict of interest policies, they were subject to additional training requirements under the revised PHS rule.
- The University is currently engaged in identifying all PHS funded researchers to ensure that: (1) all will be in compliance with the training requirements by the August 24th deadline; and (2) all will be given priority for conflict of interest review to ensure the timely management of identified conflicts.
- With respect to meeting the mandatory training requirement, Conflict of Interest Program staff are coordinating efforts with Sponsored Projects Administration (SPA), the Associate Deans for Research, and the Program’s collegiate and unit contacts.
• Conflict of Interest Program staff and SPA are also coordinating efforts to identify all subrecipients whose conflicts the University may be required to manage. We anticipate that small colleges and businesses likely will not have their own conflict of interest policies and, as a result, the University will be responsible for identifying and managing the conflicts of interest of their faculty and staff. At this point in time, it is not possible to quantify what that additional burden will be.

II. Update: Compliance Program Review

We are continuing the Compliance Program review (previously described in my December 2011 Report). Over the past few months, the effort has been focused on the development of guiding principles and the identification of operational elements. In addition, roles and responsibilities are being developed for the many stakeholders who ultimately share responsibility for the Program, including:

• The Board of Regents
• The President
• Responsible Vice Presidents
• Compliance Partners
• The Compliance Officer
• The General Counsel
• The University Auditor
• The Executive Oversight Compliance Committee

Various resources have been consulted including: U.S. Federal Sentencing Guidelines for Organizations; FAR Regulations; HHS OIG Guidelines; COSO Internal Control Framework; Sarbanes Oxley Act; AGB Statement on Board Accountability; AGB Statement on Board Responsibility for Institutional Governance; and other materials.

My next report to this Committee will include the results of this review. At that time, we will share the roles and responsibilities framework in detail and the committee will have an opportunity to provide feedback and input.

UREPORT

Ureport is the University’s confidential web-based reporting service. This reporting service is provided by EthicsPoint, an independent company that provides similar services for hundreds of companies and universities. Ureport is intended to be used to report violations of local, state and federal law as well as violations of University policy. This reporting system is not intended to be used for employment concerns that do not involve legal or policy violations or that involve purely student concerns, or issues for which the University is not responsible. Reporters may submit reports either via a hotline or the web. Reports may also be submitted anonymously. Those who submit reports are expected to report good faith concerns and are expected to be truthful and cooperative in the University's investigation of allegations.
Ureport has been in existence at the University since 2005. Since its inception, a total of 860 reports have been submitted. To date, in 2012, 43 reports have been submitted. Sixty-seven percent of the reports submitted during this calendar year have been anonymous. Eighty-eight percent of the reports are received via the internet. Only 49% of anonymous reporters checked back to determine the status of the follow up conducted regarding the concerns they have described. The graphs below illustrate these figures.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Running Total</th>
<th>Year to date (4/27/2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Reports</td>
<td>860</td>
<td>43</td>
</tr>
<tr>
<td>Report Sources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>87%</td>
<td>88%</td>
</tr>
<tr>
<td>Call Center</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% Anonymous</td>
<td>74%</td>
<td>67%</td>
</tr>
<tr>
<td>Reporter “check back rate” for anonymous reports</td>
<td>49%</td>
<td>49%</td>
</tr>
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</table>

The following chart provides categorical breakdowns with respect to all allegations made in reports submitted from May 1, 2011 to April 27, 2012. The Student Concerns category is unusually high due to issues reported surrounding the March vote on whether graduate student workers should unionize.
Social media have evolved rapidly over the last decade to take a preeminent position in society and the lives of individuals. Higher education institutions such as the University of Minnesota are leveraging social media to address strategic objectives of the academy. Social media brings both benefits and risks. This session will provide an opportunity for members of the Audit Committee to become acquainted with current practice and emerging trends and issues around the use of social media. More specifically, through engagement with a small panel we will discuss the:

- Strategic uses of social media at the U of M;
- Benefits and risks of social media at U of M; and
- How the U of M can more proactively use social media while respecting University guidelines.

The discussion will address the following key questions:

- What is social media and why is it important at the U of M;
- How students expect strategic use of social media at the U of M;
- How the U of M is currently using social media strategically;
  - Faculty and students for teaching and learning
  - Institutional marketing, branding, and communication
  - Staff use for increased efficiency, communication, and building community
- What are the risks, benefits, and challenges of social media at U of M; and
- Given the rapidly changing environment, how should the U of M approach the use of social media in the future.
Background Information:

The following material is provided to further inform Committee members on social media and its import to higher education:

  Highly recommended article by one of the leading voices in higher education social networking conversations that raises some of the risks and opportunities in social networks
  Social Media in the Workplace (Common Craft video)
- [http://www.youtube.com/watch?v=NugRZGDbPFU](http://www.youtube.com/watch?v=NugRZGDbPFU)
  A short, animated version of TED talk delivered by Steven Johnson, author of *Where Good Ideas Come From*
  A concrete account of the use of social networking technology in class

Social media guidelines developed by University Relations
The University has a student discipline case involving Facebook pending at the Minnesota Supreme Court, *Tatro v. University of Minnesota*. Amanda Tatro, a Mortuary Science student, wrote Facebook posts that caused safety concerns on campus and that were disrespectful about the cadaver she was working on in her embalming and anatomy lab classes. Following a hearing, the student was given academic discipline; she was not suspended or expelled. But the student challenged any discipline as a violation of her First Amendment right to free expression.

The University prevailed at the Minnesota Court of Appeals, and the Minnesota Supreme Court took review. The University argued that it could regulate the student’s expression on Facebook because her expression violated academic rules requiring respectful discussion, including online discussion, of cadavers donated to the University. Those rules, the University argued, serve the Mortuary Science program’s legitimate pedagogical interests in training professional students in the norms and ethics of their profession, and in protecting the integrity of the University’s anatomy bequest program. The Minnesota Supreme Court heard oral arguments in April, and a decision is pending.
Audit Committee                                  May 10, 2012

Agenda Item:  Information Items

☐ review         ☐ review/action         ☐ action         ☑ discussion

Presenters:  Associate Vice President Michael Volna

Purpose:

☐ policy         ☐ background/context      ☑ oversight        ☐ strategic positioning

To provide an annual report on audit and non-audit services provided by all public accounting firms during FY 2011 through April 2012.

Outline of Key Points/Policy Issues:

Report on Audit and Non-Audit Services and Fees
Total fees of $608,409 have been paid through April 2012 to five different public accounting firms for a variety of audit and non-audit services, which are described in the accompanying narrative and schedule.

Background Information:

This report is prepared and presented to the Board of Regents Audit Committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
These materials represent a summary of fees paid to all auditing firms that provided any professional services to the University in relation to FY 2011 (through April, 2012), with comparisons to the prior year.

In addition to the audits performed by Deloitte & Touche, LLP (the University’s independent external auditors), other accounting and auditing firms performed a variety of audit and non-audit services at the University during FY 2011. These services were:

- Charles R. Ziegler Co., Ltd. was engaged by the Tweed Museum of Art to perform a yearly report on the Tweed budgets for FY 2011, to be included in an application for Minnesota State Arts Board Grant funds. This contract was previously reported to the Audit Committee.
- LarsonAllen performed procedures in connection with their consent to use the FY 2009 Audited Financial Statements in the University’s 2011 Bond Offering documents.
- LarsonAllen was engaged by the National Center for Food Protection and Defense to perform procedures on behalf of vendor, DataStream Connection, to develop cost and pricing structures for the CoreShield Program. This contract was previously reported to the Audit Committee.
- Licari Larsen & Co Ltd was engaged by KUMD, the Duluth campus radio station, to perform attest services in FY 2011 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting. This contract was previously reported to the Audit Committee.
- PriceWaterhouseCoopers, LLP was engaged by the University’s Office for Technology Commercialization to perform audit services on royalty calculations. This contract was for a value not to exceed $95,000. This contract was approved by the Board of Regents.

The Office of the Controller reviewed all of the contracts detailed on the attached schedule, consistent with Board policy. None of these engagements resulted in an impairment of independence, in fact or in appearance, for any of the firms.
### Report Of Fees Paid To Audit Firms
(through April, 2012)

<table>
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<tr>
<th>Audit Firm</th>
<th>FY 2011 Engagements</th>
<th>FY 2010 *</th>
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<tr>
<td></td>
<td>Audit Fees</td>
<td>Non-Audit Fees</td>
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<td>Baker Tilly Virchow Krause &amp; Co, LLP</td>
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<tr>
<td><strong>Total Fees Paid</strong></td>
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<td><strong>$127,559</strong></td>
<td><strong>$608,409</strong></td>
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</tbody>
</table>

*FY 2010 Fees are reported for comparative purposes only.*