UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
Wednesday, May 6, 2009
2:45 - 4:00 p.m.
600 McNamara Alumni Center, East Committee Room

Committee Members
Linda Cohen, Chair
Clyde Allen, Vice Chair
Dallas Bohnsack
John Frebenius
Venora Hung
Dean Johnson

Student Representatives
Jordan Bronston
Dustin Norman

AGENDA

1. Office of Internal Audit Quality Assurance Report - G. Klatt/K. Patton (pp. 2-10)

2. Request for Proposal for External Audit Services - Review/Action - M. Volna/D. Seck (p. 11)

3. External Audit Plan - M. Volna/D. Seck/D. Loberg (pp. 12-33)

4. Risk Management in the International Arena - M. McQuaid (pp. 34-51)

5. Internal Audit Update - G. Klatt (pp. 52-80)

6. Information Items - G. Klatt (pp. 81-85)
Audit Committee
May 6, 2009

Agenda Item: Office of Internal Audit Quality Assurance Review

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Associate Vice President Gail Klatt
Kevin Patton, Audit Director, The Ohio State University

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To review the process for, and the results of, the external quality assurance review of the Office of Internal Audit.

Outline of Key Points/Policy Issues:

The external quality assurance process will be explained, including the Standards against which the Office of Internal Audit practices are evaluated, and the opinions which can be rendered by the review team.

The scope of the review will be discussed.

The conclusions of the review team will be provided:

1) The internal audit activity at the University of Minnesota generally conforms in both spirit and application to all of the Standards.
2) University Management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office of Internal Audit.

The Office of Internal Audit’s strengths and best practices, as well as the review team’s comments, recommendations, and observations will be discussed.

Background Information:

The Board of Regents Audit Committee Charter charges the Committee with oversight of the internal audit function.

The Standards for the Professional Practice of Internal Auditing require that internal audit functions have a formal external quality assurance review performed every five years.

The results of the Office of Internal Audit’s self-assessment, conducted as part of the quality assurance review process, were communicated to the Audit Committee at its November 13, 2008 meeting.

The quality assurance process, including the external peer review of the Office of Internal Audit, is aligned with the President’s initiatives to improve accountability mechanisms/assessment for service and support units.
BACKGROUND

An independent validation of the University of Minnesota internal audit activity self-assessment was performed by a peer review team consisting of internal audit professionals from the University of California System, Michigan State University, University of Wisconsin, and The Ohio State University. The primary objective of the validation was to verify the assertions made in the attached self-assessment report (Addendum 2) concerning adequate fulfillment of the organization’s basic expectations of the internal audit activity and its conformity to The Institute of Internal Audit’s International Standards for the Professional Practice of Internal Auditing (Standards).

STANDARDS

The Institute of Internal Auditors (IIA) is an international organization, established in 1941, providing guidance to internal audit professionals in the areas of internal auditing, governance and internal control, information technology, security, and audit education. Over the past several years, there have been significant changes to the demands made on internal auditors to provide more value to their organizations. In June 1999, the IIA responded to these changes by providing a revised definition of internal auditing as follows:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

In addition to the enhanced definition of internal auditing, the IIA has developed and adopted two sets of *Standards* focusing on basic principles and best practices for the profession:

1. **Attribute Standards** – address the characteristics of organizations and parties performing internal audit services and
2. **Performance Standards** – describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

**ASSESSMENT METHODELOGY FOR THE UNIVERSITY OF MINNESOTA OFFICE OF INTERNAL AUDIT (Office)**

Attribute Standard #1312 addresses external assessments of internal audit departments:

*External assessments must be conducted at least once every five years by a qualified, independent review or review team from outside the organization.*

The IIA recognizes two methods of conducting this assessment. An external review team may arrive on site of the office being reviewed, collect all necessary information from audit files, Web sites, and interviews and test the information in accordance with the Standards; or the office being reviewed may perform a self-assessment using the Standards, followed by an independent validation. The Office elected the second review method, Self-Assessment with Independent Validation. This Self-Assessment is included as Addendum 2 of this report.

**VALIDATING CONFORMITY TO THE STANDARDS**

In acting as independent validators, on behalf of the IIA, we conducted an independent validation of the Office’s Self-Assessment of the internal audit activity. Our validation, conducted from March 2 – 6, 2009, consisted primarily of a review and testing of the procedures and results of the Self-Assessment. In addition, we conducted interviews with the following individuals:

- University President
- Chair, Board of Regents
- Chair, Audit Committee, Board of Regents
- Executive Director and Secretary, Board of Regents
- Chief Information Officer
- Vice President for Research
- Senior Vice President for Health Sciences
- Institutional Compliance Officer
- University External Auditors

**OBJECTIVE OF THE INDEPENDENT VALIDATION**

The principal objective of the independent validation was to assess the internal audit department’s conformity to the IIA Standards. A secondary objective was to assess the extent to which the department has been providing value to the university, consistent with the objectives contained in the
above-cited definition of internal auditing. The criteria used for evaluating conformity to the Standards were as follows:

**Generally Conforms** means the evaluators have concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.

**Partially Conforms** means the evaluators have concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives.

**Does Not Conform** means the evaluators have concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category.

**OPINION – CONFORMITY TO THE STANDARDS**

Based on our independent validation of the Office’s Self-Assessment, it is our opinion that the internal audit activity at the University of Minnesota “generally conforms” in both spirit and application to all of the Standards.

It is also our opinion that the processes within the Office are operating effectively and there is a high degree of respect for the value added to the university. In particular, we would like to bring the following to your attention:

- The Office has a very robust risk model methodology and based on our judgment, is considered a ‘best in practice.’
- The Office is highly regarded and supported throughout the institution.
- The Office does a good job of fostering continuous improvement related to their audit practices.
- The Office is initiating a process to search for new ways to monitor the effectiveness of controls on a more automated basis, as well as using key performance indicators to act as early-warning signals of potential problems.
- There is a sense among those that we interviewed that the department is (a) addressing important issues, and (b) is constructive in its approach to improving the organization’s risk management and control processes.

As a result of our review, University Management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office of Internal Audit.
We have carefully examined the Office’s Self-Assessment Report which is included as Addendum 2 and fully concur with the recommendations contained therein. We view the self-assessment recommendations as a strong commitment to continuous improvement. In addition, we recognize that opportunities exist for further improvement. These opportunities are discussed in Addendum 1. These comments and recommendations will enhance the effectiveness of the Office’s services.

Thomas N. Lucock, CIA, CPA
Director, Department of Internal Audit
Michigan State University

Kevin R. Patton, CIA
Director, Department of Internal Audit
The Ohio State University

Patrick V. Reed, CPA
The University Auditor
University of California System

Larry E. Rittenberg, Ph.D., CIA, CPA
Chair, Committee of Sponsoring Organizations (COSO)
Ernst & Young Professor of Accounting and Information Systems
University of Wisconsin
ADDENDUM 1 – COMMENTS, RECOMMENDATIONS, AND OTHER OBSERVATIONS

COMMENTS AND RECOMMENDATIONS

Follow-up Reviews

Currently the Office conducts follow-up reviews only on “essential” comments that have been issued in a formal report. Since both “essential” and “significant” comments are included in final reports, we recommend the Office conduct follow-up reviews on all comments included in issued reports. Additionally, the Office should consider enhancing their follow-up reporting to the Audit Committee to include information on past due recommendations.

Risk Assessment Enhancements

As mentioned in the previous section of our report, we were impressed with the comprehensiveness of the risk model the Office has developed and implemented and consider it a ‘best in class’ approach. As with any process, we believe the Office can further enhance its risk modeling process. Currently, the Office provides a table which shows coverage of the risk identified at the Board of Regents level. We recommend that this report be enhanced to include the next level of detail such that they have an understanding of the specific risks that have been covered by Internal Audit each year, as well as the results of the audits that address the risks. Additionally, the Office should consider interviewing the Chairs of other Board of Regents Committees to obtain their perspective of risks that may need to be considered by the Office.

Associate Vice President’s Annual Evaluation

Historically the Associate Vice President of Internal Audit’s annual performance review is conducted solely by the University President. In addition to reporting to the President, the Associate Vice President also reports to the Board of Regents. Therefore, we recommend that the Board of Regent’s Audit Committee Chair be consulted and have input into the Associate Vice President’s performance evaluation.
OTHER OBSERVATIONS

Audit Coverage of Component Units

Currently the Office does not provide audit coverage for many of the University’s component units (e.g., Foundation, Clinical Practice Plan, etc.). This is somewhat different than what we have seen at other universities. We understand these relationships are governed by Memorandum of Understandings (MOUs). As these MOUs are reviewed and renewed, we recommend university leadership and the Board of Regents consider expanding Internal Audit’s audit responsibility over appropriate component units.

Physical Office Space

The Office of Internal Audit is currently housed in the West Bank Office Building which has an open-space environment without the privacy and security usually seen for internal audit departments. The Office of Internal Audit is not separated from the Office of the Controller or multi-purpose training rooms. Given the nature of confidential material addressed by the internal audit department, we recommend consideration be given to finding a more appropriate office environment that allows for privacy and security related to the operations of the Office of Internal Audit.
ADDENDUM 2 – SELF-ASSESSMENT REPORT

University of Minnesota
Office of Internal Audit
Quality Self-Assessment
October 2008

EXECUTIVE SUMMARY

In accordance with IIA’s *International Standards for the Professional Practice of Internal Auditing* (*Standards*), we conducted a quality self-assessment to ensure conformity with the *Standards*, evaluate the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. As part of the assessment, we evaluated the Office of Internal Audit’s (OIA) ability to carry out its mission including adding value and improving operations of the University of Minnesota.

The self-assessment was performed using the methodology outlined in the IIA’s *Quality Assessment Manual, 5th Edition* and included compiling and reviewing detailed documentation, confidential staff surveys and staff interviews to obtain sufficient documentation to allow us to assess and support overall compliance with the *Standards*. We also reviewed the OIA’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes to assess a broad perspective of OIA’s activities.

We found the OIA to have a well organized structure conducive to compliance with the *Standards*. OIA has a well established rapport with senior leaders of the University and the Board of Regents, lending OIA the support and credibility needed to effect necessary change. The reporting relationship of OIA allows for the independence and objectivity in fulfilling their responsibilities. The audit staff is highly capable with complementary and auxiliary expertise in information systems, research, investigations, analytics and data analysis. We found the risk assessment methodology and processes to be particularly well developed and sound. The results, of which, are valued and leveraged for institutional purposes. The information systems planning, risk assessment and coverage is progressive, capitalizing on an effective partnership with the Office of Information Technology.

OPINION AS TO CONFORMITY TO THE STANDARDS

It is our opinion that the Office of Internal Audit *generally conforms* to all *Standards* in effect on the date of our review. According to the IIA *Quality Assessment Manual*, "generally conforms" means we have concluded the “internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in our recommendations” below:
• Cycle time for completion of audits can be improved, especially the time delays related to work paper review.
• The timing of the performance evaluations should be customized to meet the varying feedback needs of the staff.
• Employee development processes should be enhanced to provide for mentoring opportunities and systematic skill development.
• Communication should be improved to ensure participating auditor understanding of annual risk methodologies and planning considerations.
• Opportunities to expand staff exposure to different managers, clients and audit modules should be considered to provide variety and to expand skill sets.
• Information systems training is needed to improve generalist audit staff’s effectiveness and credibility with the audit client.

Self-assessment performed by: Tom Eggenberger, Principal Auditor; Richard Gurria, Principal Auditor; Ann Marie Kim, Principal Auditor; Kelly Kuhns, Principal Auditor; Gail Renteria, Principal Auditor and Ted Wallerstedt, Principal Information Systems Auditor
Audit Committee

May 6, 2009

Agenda Item: Request for Proposal for External Audit Services

☐ review   ☒ review/action   ☐ action   ☐ discussion

Presenters: Associate Vice President Michael Volna
Associate Controller Denise Seck

Purpose:

☐ policy   ☐ background/context   ☒ oversight   ☐ strategic positioning

The External Audit contract with LarsonAllen runs through FY2009. Management will bring forth recommendations related to the audit contract for future fiscal years.

Outline of Key Points/Policy Issues:

Management’s recommendations related to the External Audit Contract for future fiscal years including timeline and approach.

Background Information:

The Board of Regents reserves to itself authority to approve selection of external public accountants by Board of Regents Policy: Audit Committee Charter.
Audit Committee

May 6, 2009

Agenda Item: External Audit Plan

☐ review  ☒ review/action  ☐ action  ☐ discussion

Presenters: Associate Vice President Michael Volna
Associate Controller, Denise Seck
Don Loberg, Principal, LarsonAllen

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To provide an overview of the audit plan to be used by LarsonAllen in performing the University's annual audits for the year-ended June 30, 2009, as required by Audit Committee Charter.

Outline of Key Points/Policy Issues:

The external audit plan presents the approach, objectives, and scope to be used for the University's financial audits and compliance audits. LarsonAllen'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.

President's Recommendation for Action:

The President recommends approval of the LarsonAllen external audit plan.
Audit Approach for the
UNIVERSITY OF MINNESOTA

For the Year Ending
June 30, 2009

Submitted by:

LarsonAllen

Minneapolis, Minnesota

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Principal, Nonprofit and Government Group
612/397-3064

CRAIG W. POPENHAGEN, CPA
Principal, Nonprofit and Government Group
612/397-3087

220 South Sixth Street, Suite 300
Minneapolis, Minnesota  55402-1436

April 22, 2009
I. Client Service Team

II. Scope of Services

III. Significant Audit Areas

IV. The LarsonAllen Approach

V. Factors Affecting Future Audits
I. CLIENT SERVICE TEAM

Board of Regents of The University of Minnesota

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Nancy Kaplan | Sr. Manager, Information Systems nkaplan@larsonallen.com | 612/397-3178 | - | 612/376-4850
Barry Hanson | RUMINCO-Chartered Accountant bhanson@zobec.bm | 441/295-1393 | - | 441/292-1244

University of Minnesota
Minneapolis, Minnesota
Our services to the University of Minnesota (the University) for the fiscal year ending June 30, 2009, will include the following:

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Management Letter (7) | X | X | X | | | | X |

Required Communications Letter (8) | X |

1. We will express an opinion on the fair presentation of the University’s consolidated financial statements taken as a whole. We will not provide an audit opinion on management’s discussion and analysis nor any introductory material to the consolidated financial statements for the University.

The discretely presented component units that are included in the University’s consolidated financial statements are audited by other audit firms. Our opinion on the financial statements of the discretely presented component units will be based solely on the report of such other audit firms.

Bermuda regulations state that only an accounting firm domiciled in Bermuda may audit and provide an opinion on entities located in Bermuda. Therefore, the firm of Barry Hanson, a Chartered Accountant licensed in Bermuda, will express an opinion on the fair presentation of RUMINCO Ltd.’s financial statements taken as a whole. Barry Hanson, Chartered Accountant, is a subcontractor to LarsonAllen.

We will also express an opinion on the fair presentation of the financial statements of The Frederick R. Weisman Art Museum and The Goldstein Museum of Design. These audits are required primarily for purposes of the Museums’ application for grant funding from the Minnesota State Arts Board.
II. SCOPE OF SERVICES

2. We will report to the University’s management and Audit Committee any material instances of noncompliance with laws and regulations and material weaknesses or significant deficiencies in internal controls over financial reporting that we detect during our audit.

3. We will issue a report on the University’s compliance with federal grant programs, such as federal Student Financial Aid and federally-sponsored research programs that are selected by us for testing under OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. We will also report on the University’s internal controls over compliance with such requirements.

Our report will communicate any significant deficiencies found during our audit of the University. A significant deficiency shall be defined as a single control deficiency, or a combination of control deficiencies, that adversely affects the University’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University’s financial statements that is more than inconsequential will not be prevented and detected.

A significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected will be disclosed as a “material weakness”.

The report on compliance will also include an “in-relation-to” report on the schedule of expenditures of federal awards.

Additionally, we will prepare the data collection form to be submitted to the Federal Audit Clearinghouse as part of the University’s annual reporting package.

4. We will issue a report on University management’s assertions on compliance over state-funded student financial aid programs in accordance with the Minnesota Office of Higher Education’s (OHE) 2008-09 Audit Guide.

5. We will express an opinion on the fair presentation of the statement of activities of the Department of Concerts and Lectures (Northrop Auditorium). This audit is required primarily for purposes of Northrop Auditorium’s annual application for grant funding from the Minnesota State Arts Board.

6. We will issue a report on agreed-upon procedures performed for the University’s Office of Investments and Banking, the National Collegiate Athletic Association, and Student Organizations.

7. We will issue a Management Letter containing other observations and recommendations, including responses from University management.

8. We will provide a letter to the Audit Committee concerning certain communications required by Statement on Auditing Standards No. 114, The Auditor’s Communication with Those Charged with Governance.

9. We will also summarize the results of our audits in a Powerpoint presentation to the Board of Regents.
**Work Plan Summary**

For our audit of fiscal year 2009, we plan to perform a significant amount of audit procedures at interim dates in May and June and will begin our final fieldwork in September. We will meet with University officials to design the exact audit schedule, including the pre-audit planning meetings.

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III. SIGNIFICANT AUDIT AREAS

Some of the areas where we will focus our attention due to our assessment of risk or the significance to the University’s financial statements are as follows:

**A-133 Compliance Audit** – The University’s A-133 compliance audit will be a significant audit area given the magnitude of the University’s annual federal grant expenditures. We will audit the federally-sponsored research and Student Financial Aid clusters of programs each year in order to obtain appropriate A-133 audit coverage. Due to the decentralized administration of the University’s several federal and state grant programs, we will perform the A-133 compliance audits for the federal student awards cluster on-site at the Twin Cities, Duluth, Crookston and Morris campuses on a rotational basis.

We will also review the preliminary schedule of expenditures prepared by the University’s Sponsored Financial Reporting personnel to assess whether testing of additional federal programs will be necessary.

**Revenue Recognition and Presentation** – Under GASB Statement No. 34/35, we will evaluate the University’s revenue recognition procedures, particularly when determining the amount of summer session revenue and sponsored projects revenue earned vs. deferred. We will also evaluate the University’s procedures for calculating and presenting the scholarship allowance.

**Student Loans Receivable** – Much of our testing on student loans receivable will be combined with our testing of internal controls required for the compliance audit of the Student Financial Aid Cluster under OMB Circular A-133. We will continue to obtain the service auditor report for the University’s student loan servicers to evaluate the effectiveness and design of controls outsourced by the University as they relate to student loans receivable.

**Payroll Expense** – As with all higher education clients, payroll comprises a significant amount of overall operating expense. Our audit procedures will include testing of internal controls over the processing of payroll and predictive tests on payroll accruals and payroll expense based on such factors as changes in full-time equivalents and pay rate increases over the prior year.

**Alternative Investments** – The valuation of alternative investments represents a significant estimate for the University, and we will assess whether the University’s procedures for estimating the values of alternative investments produce reasonable results. Therefore, we will perform “lookback” procedures regarding valuation of alternative investments by comparing the recorded values of selected investments as of June 30, 2008, to revised values that encompass information available through June 30, 2009 and thereafter. We will mail confirmation letters to the respective asset managers to verify the existence of the holdings of alternative investments and request other detailed information from the asset managers for each holding.

We will also evaluate the University’s internal controls, processes, and procedures for any commitments that the University has made during fiscal year 2009 to increase their holdings of alternative investments. Likewise, we will also be alert for outstanding redemptions that the University submitted during and after fiscal year 2009, given we have seen reports in the media of redemptions being delayed by certain investment managers.
III. SIGNIFICANT AUDIT AREAS

Enterprise Financial and Grants Management Systems Replacement Project (EFGMS) – We will audit the activity of the University’s EFGMS Replacement and other hardware / software implementation projects focusing particularly on the capitalized costs of these projects, as well as document our understanding of the design and effectiveness of internal controls for EFGMS. We plan to audit the activity during our interim work in summer 2008. We also plan to complete the majority of our documentation of internal controls for EFGMS by mid-May 2009.

Given the EFGMS commenced operations on July 1, 2008, a key cornerstone of our audit will be assessing the integrity of the information and reports generated by EFGMS. Early detection of issues will be very important in targeting a sign-off date for the audit in mid-October. For example, if issues are identified in June, we can adapt our staffing model for the audit quite easily. On the other hand, if issues are identified in September, we likely will have less flexibility in adapting our staffing model, which ultimately could jeopardize a mid-October sign-off date.

Cash Reconciliations – We will test the bank reconciliations to assure the proper support is provided for the items within the reconciliations.

Bonds and Notes Payable – The University has significant amounts of general obligation bonds payable for which we will mail letters of confirmation. We will also evaluate and test the University’s process for monitoring compliance with covenants, if any, and the amount of arbitrage rebate liability recorded. We will also analyze the related interest rate swap agreements for valuation and remarketing features associated with the University’s bonds.

Other Post-Employment Benefits – The GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which was effective for the University’s year ended June 30, 2008. We will obtain the report from the University’s independent actuarial firm in evaluating the amount of the liability and related disclosures reported by the University.

New Accounting Standards – The GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. The statement provides that, once any of the defined obligating events has occurred, the University would be required to estimate the expected pollution remediation outlays and determine whether such outlays should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The provisions of the new standard are effective for the University’s fiscal year ending June 30, 2009.

The GASB issued Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. This statement also requires that changes in fair value of such investments be reported as investment income. This statement also requires the disclosure of the methods and significant assumptions used to determine fair value, and other information that they currently present for other investments reported at fair value. The provisions of the new standard are effective for the University’s fiscal year ending June 30, 2009.
III. SIGNIFICANT AUDIT AREAS

Estimates – Auditing standards require us to rotate procedures for testing of significant estimates. We will perform a test on the allowance for uncollectible receivables to ascertain whether receivable are recorded at net realizable value.

Financial Reporting – The auditing standards require us to attain an understanding of the internal controls and test such controls in regards to the financial reporting process.

We will also perform auditing procedures to ascertain that the consolidated financial statements drafted by University management contain all significant disclosures and that the disclosures are accurate. We will also audit the disclosure checklist to assure that all required disclosures are included in the consolidated financial statements.

RUMINCO Ltd. – The audit of RUMINCO will be subcontracted to Barry Hanson, an independent chartered accountant in Bermuda. Our Minneapolis audit team will assist Barry Hanson by auditing a sample of insurance claims processed by third-party claims administrators in Minnesota. We will also review the work performed by the Bermuda audit firm.

Internal Controls – In addition to the areas noted in previous sections, we will test internal controls for a sample of the following types of transactions:

♦ Expenses / cash disbursements
♦ Payroll
♦ Cash receipts
♦ Student Financial Aid
♦ Sponsored Research Projects

Our procedures for internal controls will include testing whether selected transactions were recorded in a manner consistent with the following significant assertions of the University’s management:

♦ Transactions were recorded consistently with the University’s chart of accounts
♦ Transactions were supported by appropriate documentation
♦ Transactions were recorded in the appropriate fiscal year
♦ Transactions were in accordance with University policies
Information Systems Audit Procedures – The University has a complex and robust information processing environment. As a result, the automated procedures for processing information are an important aspect of the University’s internal controls. We therefore involve information systems specialists to test automated controls.

We identified the following key information systems during our previous audits of the University:

<table>
<thead>
<tr>
<th>Category</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>PeopleSoft (General Ledger)</td>
</tr>
<tr>
<td>Financial</td>
<td>Data Warehouse</td>
</tr>
<tr>
<td>Financial</td>
<td>PeopleSoft® – TIMS</td>
</tr>
<tr>
<td>Employee</td>
<td>PeopleSoft® – Payroll</td>
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<tr>
<td>Employee</td>
<td>COMPASS</td>
</tr>
<tr>
<td>Student</td>
<td>PeopleSoft® – Student Financials</td>
</tr>
<tr>
<td>Student</td>
<td>PeopleSoft® – Financial Aid</td>
</tr>
<tr>
<td>Student</td>
<td>ECSI – Student Loan Servicing</td>
</tr>
<tr>
<td>Grants</td>
<td>EGMS / EGMSi</td>
</tr>
</tbody>
</table>

LarsonAllen’s information systems auditors will update our risk assessment of the University’s information technology environment and continue a rotational plan commenced with our audit of fiscal year 2006 to audit key information systems. In addition, for each application we will analyze the supporting database(s) and operating system(s) with a focus on accessibility and integrity. We will also review supporting IT operations including policy statements, software administration, user account provisioning, IT Systems operations, physical environment and disaster recovery.

Component Units – The inclusion of the financial statements of several discretely-presented component units makes coordination with their respective auditors imperative to assure that their respective audits of the components units are completed by the deadlines established for issuance of the University’s consolidated financial statements. We will also request independence representations from the auditors of the component units, as required by generally accepted auditing standards.

Other Items of Interest – During our audit, other items of interest will include resolution of previous year’s management letter comments.
The following is a description of the general approach that we follow for all audits.

**Audit Philosophy**
We perform efficient, effective audits and we use the audit to gain a better understanding of our client's organization. We believe that auditing should be viewed as a contributing factor to better business and administrative practices. Recommendations or suggestions for improvement in systems and procedures, and comments on business problems will be offered to you.

To the extent possible, we will involve your personnel as a means of controlling efficiency and as a basis for broadening the usefulness of information produced. With this involvement, recommendations are more comprehensive, better understood, and more frequently implemented. This approach makes your audit a worthwhile and positive experience.

**Risk Focus**

**Audit Approach**
Our firm follows a risk based approach similar to the COSO framework in which we build our audit test plan. We build our test plan by identifying the risks concerning the University and the material accounts and transactions inherent in the year end financial statements as well as compliance with federal and state regulations.

**Planning**
Planning for the audit will include three distinct objectives including understanding the processes, assessing risk and development of materiality. Through meeting the three objectives we will build a comprehensive audit plan which should reduce the risk of misstatement in the financial statements to a level of low.

**Understanding of Processes**
One of the planning objectives in building our audit plan is to understand any changes made to the University of Minnesota’s policies and procedures. The ultimate goal is to reach a conclusion on the critical processes in meeting compliance requirements and building the financial statements to be audited. LarsonAllen will perform inquiries of the associated University of Minnesota personnel; obtain policies and internal control documentation to map processes of areas critical to providing auditable financial statements and meeting the federal and state regulations necessary to give an opinion on compliance; and test the internal controls relative to areas with perceived high risk of material misstatement of the financial statements.

Under our approach, significant internal control cycles include cash and investments, revenues, general ledger journal entries, payroll, accounts payable, single audit, and purchasing.
Risks Assessment and Materiality

During the planning stages and throughout the audit, we also identify the external and internal pressures and risks influencing the University’s day to day operations and future goals.

We utilize a multi-faceted approach to identify significant audit risk areas. Some of the inputs to our risk identification process include:

- Principal-led fraud risk discussion with the audit team, as required by Statement on Auditing Standards No. 99
- Meetings with management
- Meetings with the Audit Committee
- Reading minutes of meetings
- Use of our specialized college and university audit professionals
- Industry-specific training provided by both in-house specialists and outside professional organizations
- Communications from the Minnesota Office of Higher Education, Offices of Inspectors General or other oversight agencies
- Level of University management controls – whether these controls are centralized in the Twin Cities or decentralized and performed at Crookston, Morris, and Duluth

Another objective of planning is to establish materiality, generally calculated as a percentage of assets or revenues. The goal of establishing materiality is to assign a qualitative and quantitative boundary for the transactions and accounts in producing the audited financial statements, taken as a whole. We also establish qualitative and quantitative boundaries for compliance issues during the planning stages.

The concept of materiality focuses our attention on areas that are significant to the financial statements. In this manner we utilize a “top-down” risk assessment that provides us with the basis for determining the most effective audit-testing plan. In our assessment, we consider quantitative materiality factors such as:

- Materiality of individual operations
- Degree of risk of loss or error – e.g., complex transactions

We also consider qualitative materiality factors such as:

- Inherent complexities of operations
- Inherent risks related to control risks associated with account balances and transactions
- Status of changes in financial systems
- Nature and degree of centralization of key functions
- Industry, economic, political and regulatory environment
- Public scrutiny and effect on operations
- Needs and concerns of management
Re-evaluation of our understanding of the processes, the risk assessment and materiality will be ongoing during the audit.

**Testing Internal Controls**
The scope of our tests of controls is driven by our combined assessment of inherent risk and control risk, which we determine during the planning phase.

We challenge the combined risk assessment for each significant financial statement assertion related to each significant account balance, which was identified based on the concept of materiality.

This combined risk assessment then is used to balance our testing of internal controls (control risk) with the nature, timing, and extent of substantive audit procedures (detection risk).

Generally, testing internal controls, provided they are effectively designed, is the most effective and efficient audit strategy.

Our utilization of sampling in auditing generally centers on compliance and controls testing, rather than substantive testing of account balances. We use a series of quality control materials in all our audit engagements. These forms guide our staff through a logical process of assessing inherent risk, control risk, and combined audit risk, followed by an assessment of appropriate sample size for testing areas.

We are usually able to obtain assurance on multiple levels when sampling transactions for testing compliance. For example we may also incorporate elements for testing of internal controls and substantive testing into our compliance testing. In this manner we obtain “dual-purpose” or “triple-purpose” testing for internal controls, compliance, and substantive assurance with one sample, resulting in a very efficient transaction testing phase.

**Substantive Testing**
While reliance upon testing of effectively designed controls reduces the amount of substantive testing that is required, it does not eliminate the need for substantive testing. Therefore, substantive testing will be performed on account balances. Again, the results of our tests of controls influences the nature, timing, and extent of substantive audit procedures, which may include the “dual-” or “triple-purpose” tests as described above, other detailed sampling of account balances or classes of transactions particularly related to balance sheet accounts, or predictive analytical tests related particularly to revenues and expenses.

With audit risks identified, our control emphasis reduces duplicative verification efforts and the associated time and cost. Based on our understanding of management and the internal control structure, we evaluate the effectiveness and then use that evaluation in our substantive testing of operating results in place of item-by-item verification. Conversely, when controls in a particular area are found insufficient, we direct our substantive audit testing to that area and recommend to management appropriate countermeasures either during the audit or as part of our management letter at the end of the audit, depending on the circumstances.
**Analytical Review**

In accordance with generally accepted auditing standards (SAS No. 56, *Analytical Procedures*), analytical review will be utilized in the planning process to identify significant account balances for audit fieldwork and during the final review stage of the audit. Specific procedures would include comparison of actual results to prior years and to adopted budget (as amended), including known fluctuation in funding levels, contributions, student enrollment, rates for tuition, fees, etc. and a reasonableness test for return on investments. Other substantive procedures may be supplemented by analytical procedures, depending on our audit risk assessment process.

**Information Technology Audit Strategy**

The scope of our information technology audit is “driven” by the financial reporting process, whereby we focus on the information systems that are critical to the financial reporting process.

We will update our understanding of key financial controls and business processes within each financial reporting cycle (revenues, expenditures, payroll, etc.), identifying any changes to the key business applications that support those key controls and processes.

Once we have updated our understanding of key controls, business applications, and critical infrastructure, we will request information and meet with the appropriate individuals and proceed with testing the following areas:

- Control environment
- Information systems general controls, including:
  - Organization and management controls
  - System security administration
  - Access controls
  - Network security
  - Operations controls
  - Physical security
  - Data center environment controls
  - Backup and recovery
- System development controls (system development life cycle)
- Separation of duties (development, operations, change management)
- Change management
- Application controls, including:
  - Input controls (data validation)
  - Processing controls
  - Output controls
  - Interfaces
  - Security features (user account profile management)

Test procedures for each control domain will include the following as applicable:

- Inquiry / observation
- Inspection of key documents
- Review / observation of information system configuration settings
Information Technology Audit Focus

We will focus on understanding the overall technical environment within the University of Minnesota for "mission critical" application systems that are either server- or web-based including:

- PeopleSoft Financials
- PeopleSoft Campus Solutions (although not included this year)
- Selected Business Processing applications

Our Information Technology audit procedures will also enhance single audit testing under OMB Circular A-133 since the processing of federal grant transactions is performed on many of the same systems as the University of Minnesota’s general financial accounting.

Reliance on Other Auditors

We are aware of other auditors being involved for the audits of several discretely presented component units which are included in the University’s financial report, and we will refer to the other auditors’ opinions within our opinion on the consolidated financial statements of the University. We will require that the other auditors sign a representation letter as required by professional standards. If we believe the other auditors have performed substandard work, we reserve the right to modify our opinion for such.
**Communications to the Audit Committee, Board of Regents and University Management**

**During the Audit**
During the audit process we will participate in weekly meetings, including audit in-charges of LarsonAllen and the University of Minnesota and/or other entities to assure all parties are aware of how the audit process is going.

**Fraud-Risk Discussions**
The engagement principals and managers will engage in discussions with management, the Audit Committee, and members of the Board of Regents to obtain an understanding of potential risks of fraud within the University of Minnesota and its several entities. These discussions are required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, issued by the American Institute of Certified Public Accountants, and will be held during the planning phase of our audit.

**Communication of Internal Control Related Matters**
Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires the auditor to communicate significant deficiencies in internal control to the audit committee or to individuals with a level of authority and responsibility equivalent to an audit committee in organizations that do not have one, (e.g. the legislative body). For purposes of SAS No. 112, the following definitions apply:

**Deficiency** The design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Deficiencies, as defined, are the least severe in nature, and may therefore be communicated verbally to management.

**Significant Deficiency** A single control deficiency, or a combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of an entity’s financial statements that is more than inconsequential will not be prevented and detected. Significant deficiencies are required to be communicated in writing to management and to the Board of Regents.

**Material Weakness** A significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Material weaknesses, as defined, are the most severe in nature and, like significant deficiencies, must be communicated in writing to management and to the Board of Regents.

The auditor is required by SAS No. 112 and *Government Auditing Standards* (the Yellow Book) to separately identify and communicate in writing any significant deficiencies and material weaknesses. We will discuss, immediately upon discovery, any instances of material accounting or internal control weaknesses or suspected fraud, defalcations, collusion or manipulation, and request instructions as to how to proceed with the audits.
Communication of Internal Control Related Matters (continued)

Management Letter At the conclusion of our audit, we can, at your option, communicate our recommendations and suggestions for strengthening your accounting procedures, internal controls and possible business improvements by way of a Management letter. One of the reasons our clients retain LarsonAllen as their auditor, we believe, is because of the ideas and recommendations we can offer to improve the organization’s operating effectiveness and efficiency, giving our clients the opportunity to utilize best practices in operating your organization. Communication of other comments to management is optional under SAS No. 112.

Required Audit Communication (SAS 114)

We will inform the University Board (and/or Audit Committee) of each of the following:

- The auditor's responsibility under generally accepted auditing standards and OMB Circular A-133.
- Significant accounting policies.
- Management judgments and accounting estimates.
- Significant audit adjustments and waived adjustments, if any.
- Our responsibility for reading other unaudited information in documents such as bond offerings, etc., which contain audited financial statements.
- Disagreements with management, if any.
- Management consultation with other accountants.
- Major issues discussed with management prior to retention.
- Difficulties encountered in performing the audit, if any.

Irregularities and Illegal Acts

We understand that we are required to make an immediate, written report on all irregularities and illegal acts or indications of illegal acts of which we become aware. It is our firm’s policy to report alleged irregularities or illegal acts to the level of management having immediate oversight of the department or employee(s) suspected of committing the act. Professional standards also require us to report such matters directly to the University Board, depending upon the materiality of an identified act.

Non Audit Period

After the audit is completed and until the subsequent year’s audit has commenced, we will be active in attending the audit committee meetings as requested by the audit committee. Our lead engagement principals will also meet with the Audit Committee Chairperson on a quarterly basis to assure the optimal client service and audit product quality.

We will also meet with management of the University of Minnesota to assure the optimal client service and audit product quality. We find that the meetings with representatives of the Board of Regents and management allows the client representatives a chance to ask questions of current and possible future transactions and activities that might affect the audited financial statements.
Non Audit Period (continued)
We also believe the discussions allow us as auditors to provide Board of Regents and management allows the client representatives a chance to ask questions of current and possible future transactions and activities that might affect the audited financial statements. We also believe the discussions allow us as auditors to provide insights to management and the Board of Regents, allowing us to compile inherent risks that might not be transparent if the meetings and discussions were not held.
New Campus
We will continue monitoring the position of the Minnesota Office of Higher Education regarding their interpretation of whether the Rochester, Minnesota, learning center will be viewed as a separate campus of the University. Based on discussion with the University’s financial aid management team and with the Minnesota Office of Higher Education in the spring of 2009, the Rochester learning center is not viewed as a separate campus for the fiscal year ending June 30, 2009. However, this interpretation may change in future years and therefore may require us to perform on-site auditing for purposes of complying with OHE’s requirements for state-funded student financial assistance programs. We may also need to do additional on-site testing for the federal student awards for the OMB Circular A-133 compliance audit.

New Accounting Standards
The GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software, be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization and provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances. The requirements of this Statement will be effective for the University’s fiscal year ending June 30, 2010. The provisions of this Statement generally are required to be applied retroactively back to and including the University’s fiscal year ended June 30, 1981.

The GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in the University’s statement of net assets.
New Accounting Standards (continued)

Much of Statement No. 53 describes the methods of evaluating effectiveness.

The disclosures required by Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, have been incorporated into this Statement. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments.

The requirements of Statement No. 53 are effective for the University’s fiscal year ending June 30, 2010.

Statement on Auditing Standards (SAS) No. 115 is effective for the University’s fiscal year ending June 30, 2010. SAS No. 115 supersedes SAS No. 112 of the same title and was issued to eliminate differences within the AICPA’s Audit and Attest Standards resulting from the issuance of Statement on Standards for Attestation Engagements (SSAE) No. 15: An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements.

SAS No. 115 contains the following revised definitions of the terms material weakness and significant deficiency:

- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

SAS No. 115 revises the list of deficiencies in internal control that are indicators of material weaknesses to consist of:

- Identification of fraud, whether or not material, on the part of senior management;

- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;

- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity’s internal control; and

- Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.
The standard no longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies and it contains a revised illustrative written communication to management and those charged with governance of material weaknesses and significant deficiencies.

**New Legislation**

The *Higher Education Opportunity Act* (Public Law 110-315) (HEOA) was enacted on August 14, 2008, and reauthorizes the *Higher Education Act of 1965*, as amended (HEA). Some parts of the law will be implemented through new or revised regulations. The negotiated rulemaking process will be used for some regulations/ other areas will be regulated either through the usual notice and comment process or, where regulations will merely reflect the changes to the HEA and not expand upon those changes, as technical changes.

The department will be publishing a “Dear Colleague Letter” which provides a summary of each provision of the HEOA. However, affected parties are responsible for taking the steps necessary to comply by the effective dates established by the HEOA. The provisions of the HEOA are effective upon enactment unless otherwise noted in the law. Potentially affected parties should review the legislation immediately to determine the proper measures they must take to comply.

After a complete review of the HEOA and the public comments presented at the public hearings and through written submission, the department will publish a subsequent notice (or notices) in the *Federal Register* announcing the specific subject areas for which they intend to establish negotiated rulemaking committees, and a request for nominations for individual negotiators for those committees who represent the interests significantly affected by the proposed regulations.
Audit Committee May 6, 2009

**Agenda Item:** Risk Management in the International Arena

☐ review  ☑ review/action  ☐ action  ☑ discussion

**Presenters:** Associate Vice President and Dean Meredith McQuaid

**Purpose:**

☐ policy  ☑ background/context  ☑ oversight  ☑ strategic positioning

The University of Minnesota cannot become one of the top three public research universities in the world without becoming truly international. With a goal of graduating students who possess the global competency necessary not only to succeed in the world but to lead, it is essential that our faculty, our staff, our campuses, our research, and our curricula be international. With this progression comes increased activity abroad, and with it increased risk and potential for liability. The Office of International Programs takes seriously the need to identify and address potential risk and liability and to educate the university community about how to plan for and respond to such situations. By addressing high-priority risk areas in advance of a crisis, the University is in a position to better protect our assets at home and abroad.

**Outline of Key Points/Policy Issues:**

The following will be discussed:

1) The process of international risk assessment to date
2) Key priorities identified by the University's International Risk and Liability Committee
3) The steps necessary to address the key priorities
4) Other concerns associated with international activity

**Background Information:**

The following information is included in the Audit Committee docket material:

2) Information on International Travel Approval from the Office of International Programs website. The website can be accessed directly at: [http://www.international.umn.edu/travel/travelwarning/](http://www.international.umn.edu/travel/travelwarning/)

The Educational Planning and Policy Committee of the Board of Regents reviewed the Board of Regents Policy: *International Education* and received an update on goals and strategies for International Education at its May 2008 meeting.
Report/Recommendations of the International Risk and Liability Committee: Top Priority Risks and Liabilities Associated with International Activities

Submitted on January 16, 2009 to Meredith McQuaid, Associate Vice President and Dean, Office of International Programs

Committee Membership:

Don Amundson, Associate General Counsel, Office of General Counsel
Elizabeth Anderson, Paralegal, Office of General Counsel
A. Gail Bier, Director, International Education Office, Duluth Campus
Ed Ehlinger, Director, Boynton Health Service
Kim Gillette, Director, International Programs, Crookston Campus
Peter Hudleston, Professor of Geology and Geophysics
Martha Johnson, Interim Director, Learning Abroad Center
Gail Klatt, Associate Vice President, Office of Internal Audits
Tom McRoberts, Director, Continuing Education, Morris Campus
Steve Pardoe, Director, Office of Risk Management and Insurance
Duane Rohovit, Associate Counselor, International Student and Scholar Services
Mark Schneider, Acting Associate Director, Office of Int’l. Programs (chair)
Bill Toscano, Professor and Head, Division of Environmental Health Sciences
Stacey Tsantir, Health, Safety and Compliance Coordinator, Office of Int’l. Programs
Lynn Zentner, Director, Office of Institutional Compliance

On January 17, 2008, Subcommittee C of the International Working Group (IWG) presented their report to you that included a set of comprehensive heat maps of the risks and liabilities facing the university. In June of 2008, you established the International Risk and Liability Committee (IRLC) to identify the top 5 to 10 risks that should be addressed by the university. You clarified that the committee was not to be an implementation or enforcement group; rather it was to make recommendations for who could address these issues and give suggestions for developing policies and procedures.

We met six times between June and December 2008, along with a number of additional meetings of subgroups and email exchanges. In the January 17, 2008 IWG report, there are two heat maps listing a large number of risk areas. Table 1 addresses existing programs and Table 2 addresses new program start-ups. We chose to focus our attention on Table 1, reasoning that risks and liabilities that currently exist should be addressed first. In addition, we feel that by addressing the top priority risks of existing programs, we are laying important groundwork by addressing issues that will affect planning for new international programs.

The committee feels that by addressing high-priority risk areas in a timely manner we could create a significant competitive advantage among higher education institutions.
Many universities have set the goal of becoming more global in activities and reach, but if we establish the infrastructure to support international mobility and activity we will be ahead of the pack.

We have identified six priority areas, three of which need to be assigned to working groups. In regards to the three other areas, we are pleased to report that three university departments/committees have already stepped forward voluntarily and taken the lead in creating an action plan to address one of the issues each. This is because they view the area of identified risk to fall under their purview and agree that policies and procedures need to be established to mitigate or eliminate the risk. Indeed, the “Employment Outside the United States” working group first convened in the summer of 2008 and has already taken concrete steps in their area.

The six priority areas are as follows:

A. Recommendations: Three Top International Risks (in order of priority)
   1. Track Travel Abroad by University Students, Faculty and Staff
   2. Expand Education/Resources on Cultural and Legal Norms for University Students, Faculty and Staff Traveling Abroad
   3. Standardize International Contracts and Agreements and Create an Inventory

B. Reports: Three High-Priority Risk Areas Being Addressed by University Units/Groups
   1. Employment Outside the United States
   2. Research Issues in the International Context
   3. International Asset Protection and Insurance

The rest of this document presents recommendations and reports addressing these six high-priority areas. First we present the IRLC subcommittee reports on the three areas that need to be assigned to working groups. Secondly, we include reports from the three university units who have chosen to address the three other risk areas.

A. Recommendations: Three Top International Risks (in order of priority)

1. Track Travel Abroad by University of Minnesota Students, Faculty, and Staff

The IRLC has identified the tracking of students, staff and faculty who go abroad as the number one priority for the university in terms of risk in the international arena. Tracking rose to the top of the list because many of the other risks/liabilities listed in the heat maps created for the IWG report are related to or dependent upon knowing who is abroad.
We define tracking as the capability to gather, store, and have quick access to the specific travel dates and contact and location information regarding individual faculty, staff, and students who go abroad. This information should be obtained before individuals go abroad. The purpose of this type of tracking is for individual and institutional safety, risk and liability reasons. By tracking international travel activities, University departments and offices will be able to provide individuals with support services and information, as well as emergency assistance. For example, the University could more consistently provide resources for preparation and planning related to areas such as culture, language and safety, scholarships/funding etc. These are widely available now but are only communicated to those populations that OIP or the education abroad offices know are traveling. In addition, international travel involves a number of university requirements and policies that all international travels should be aware of such as 1) prior authorization of proposals for funding and/or research, 2) international insurance coverage and 3) protection of researchers and human subjects.

The committee has determined that the following groups are currently being tracked sufficiently:
- International students and scholars coming to the University
- US students in programs managed by University education abroad offices and faculty/staff traveling with these students
- Faculty/staff leading programs run by their colleges and working through University education abroad offices, and students on these programs

We have identified two categories of persons as not currently being sufficiently tracked by the University and offer recommendations for policies, procedures and systems to identify and track these individuals’ travel abroad.

a. Faculty/staff going abroad for research, teaching or other University work

Currently, there is no mandatory or comprehensive system for tracking the international activities of these individuals. The committee strongly recommends that a system be established to track faculty/staff travel abroad, while acknowledging that this will be logistically challenging and an effort that faculty and staff may resist. It will be helpful in this effort to include incentives as well as policies/procedures that enforce compliance. For example, release of travel reimbursement funds could be an element of the system, but it would also be useful to articulate benefits that tracking will afford to individuals and the University such as stimulating research connections. In light of the current financial issues faced by the University and the ongoing modifications to the EFS system, now may be an opportune time to establish such procedures.

Recommendation: Enlist top-level support from University administrators (perhaps the three senior vice presidents and the Deans Council) to make reporting and tracking of international travel a top priority and to mandate compliance with policies and procedures that establish reporting mechanisms to capture tracking-related information.
After this mandate is approved and announced by central administration, you should appoint a working group of administrators and faculty, including policymakers and staff from units that implement systems and procedures to consider implementing a comprehensive tracking system (see recommended approaches below). Such a system should be user-friendly and require the minimum information and effort necessary for gathering the essential tracking information. It may be prudent to gradually phase in a system including steps to communicate the necessity and benefits, and foster buy-in across campus. Currently, the only University-wide policy that relates to tracking travel abroad is the “Traveling on University Business” policy (see Appendix 1 or http://policy.umn.edu/groups/ppd/documents/Policy/travel.cfm?copy=print&view=all), under which departments have the discretion to require their employees to obtain permission to travel before expenses are incurred. This policy includes the use of Authorization to Travel Form #1649 (see Appendix 2 or http://www.fpd.finop.umn.edu/groups/ppd/documents/index/formresults.cfm?titlecode=travel&go=Go) as a centralized procedure for tracking travel and travel expenses prior to its occurrence, but it does not seem to be widely used. We recommend that prior travel authorization be adopted as a mandatory university policy and be implemented in one or more of the following ways.

- The Controllers Office or another centralized office could oversee implementation of a tracking system for international travel based on the current expense reporting system. Currently, university travel policy gives departments approval authority for all travel and allows them the discretion to require travel authorization for their employees prior to travel. Thus, travel is handled differently in each department and most departments have at least one employee responsible for administering travel approvals, authorizations and expense reporting. Departments that choose to require prior authorization either (1) require the Authorization to Travel Form #1649 or (2) use their own department-created forms. The working group charged with establishing this system should find out how widely these processes are followed, when Form #1649 is used as opposed to departmental forms, and when travel expense reimbursements are tied to prior authorization. Form #1649 may need to be amended in order to gather information currently not collected such as emergency contact information. The information collected through this process should optimally be available not only for tracking/approving individual travel but also centrally so in the case of an emergency, people in a certain location at a given time could be accounted for and contacted if necessary. Staff from the Controllers Office in charge of purchasing procedures have informed us that PeopleSoft does have a travel expense reimbursement module that has not been implemented at the University. NOTE: Both Michigan State University and The Ohio State University currently have effectively functioning “prior authorization to travel” procedures that faculty and staff are required to follow in order to receive expense reimbursements.

- OIP is currently working to develop a database that would be a central resource for the academic activity abroad of faculty, staff, and students as well as activities by department and college. Development of this database is seen as a core tool of
OIP’s internationalization mission. The goal of this system is to gather and share information on who is doing what and where around the world to demonstrate and promote the internationalizing of teaching, learning and research. The goal is not to track specific real-time information of who is where and when. However, once this first phase of the database is developed and is working successfully, a natural second phase could include the development of a reporting and tracking system that would expand the purpose and breadth of the database. A tracking portal could capture travel dates, location, overseas contact information, nature of the activity to be pursued abroad (e.g. teaching, research, etc.) and the names of other University employees and students who will travel abroad to participate in the same activity. The database containing this information could be linked to the travel authorization and expenses reimbursement and reporting procedures and systems. In order to make this second phase optimally functional, attention should be given in the first phase to including system architecture that could readily accommodate such a patch.

NOTE: The Sponsored Projects Administration is currently considering adding a section to their Proposal Routing Form for sponsored research to gather information about international travel and collaboration, in part because of prompting by a member of the IRLC committee. This is an example of separate University procedures and systems related to international travel that should be coordinated and integrated to accomplish or accommodate tracking needs and requirements.

b. Students going abroad without working with/through University education abroad offices

1. Graduate students who go abroad for research or thesis work, whether for credit or not. Many of these students go without receiving the international insurance offered through the education abroad offices or obtaining required OIP approval for travel to countries on the Department of State Travel Warning list.

2. Students, both undergraduate/graduate, who go abroad during non-standard terms:
   a. For credit: For example, students who go on a non-University program during winter, summer, or May term can simply transfer credit through the registrar even if not going through the appropriate channels prior to departure. We suggest that ideally these students would work through the education abroad offices’ “outside program process” or similar in order to receive orientation as well as the required international insurance.

   b. Not for credit but connected to the University: For example, students traveling during breaks with choir tours, service or internship programs, student clubs, research sanctioned by their faculty/department etc. This group is of specific concern as the University has liability for these university-sanctioned groups and the U-wide policy on insurance specifically requires these students to obtain international insurance as well as apply for the required OIP approval if traveling to countries on the Department of State Travel Warning list.
3. Students, both undergraduate/graduate, who choose to take a leave of absence for the term of travel abroad. This allows such students to skirt University policies and, for example, allows students to travel without obtaining required insurance or paying the education abroad office outside program fee. These students, much like the non-standard term travelers, can then transfer credits back through the registrar.

Recommendation: Charge a small working group of constituents (with representatives from Twin Cities and coordinate campuses) to explore this issue and possible identification/tracking mechanisms, and initiate communications with appropriate university units. They should develop a coordinated tracking system and related policies and procedures to address each population. The working group could include representation from OIP, the education abroad offices, the Registrar, Directors of Graduate Studies, Council of Research Associate Deans, and Academic Advising Network, Council for Undergraduate Education, Office of Undergraduate Research, Office of Institutional Compliance, student organizations, and Purchasing. Also, as international students fit within each of the above populations we recommend that international student offices be included in discussions of how to work with this specific population.

NOTE: Any system(s) developed to track these groups should aim to coordinate with existing or proposed procedures, policies or systems that track travel, business or academic work, or research (whether out-of state or international), as well as education abroad systems. The system should avoid duplication of efforts on the part of the multiple offices doing the tracking as well as the end-users. Again, no matter how easy, user-friendly, and loaded with benefits and incentives the system is, we expect significant pushback from faculty and other groups on campus. Therefore, the working group and office charged with implementing any tracking requirement and system should put significant thought into a public relations effort to explain the need, importance and benefits of this requirement as well as the ease of complying. The working groups that are assigned to carry forth these recommendations should examine what related policies, requirements, and systems exist across campus. An example of a “requirement” is the U-wide policy that students and staff/faculty traveling abroad as part of their University degree or job have international health insurance approved by Risk Management. An example of a working model to consider is in the School of Public Health, which has an electronic travel authorization procedure for students, staff, and faculty that includes prompts for health insurance and completion of the required release and waiver. Once policies and procedures are established, they should be communicated widely and displayed prominently on the website of the Policy Owner, but also linked to and highlighted on all relevant websites (e.g., OIP/units, financial systems, faculty/staff governance and benefits sites, Registrar, colleges, etc.)
2. Expand Education/Resources on Cultural and Legal Norms for University Students, Faculty, and Staff Traveling Abroad

The committee recognizes that in many circumstances, University students, staff, and faculty intend to conduct themselves appropriately abroad, but may not recognize or understand the many local customs and laws that may impact their University-related activities. Local laws, resources, infrastructure, and cultural norms all may impact any of the activities engaged in by the wider University community. Particularly in the context of crisis management, it is imperative to have quick access to a) the critical questions/issues that need to be identified and b) the information that provides answers to those questions. Such situations include but are not limited to:

- Accidents or injury
- Sexual assault or harassment
- Political unrest and other safety and security-related situations
- Public health issues
- Detainment or arrest of a member of the University community
- Crime and scams
- Financial issues to include cash management
- Traffic safety and road conditions

Recommendation:
Charge a working group of 5 to 10 persons (OIP staff and University faculty and staff with cultural, legal and business expertise) to expand OIP and education abroad offices efforts to make resources available to students, staff and faculty traveling abroad to enable them to more effectively prepare for the local context they will find in their host country/region. This will include expanding the scope of currently available resources, such as currently existing resources in international student offices and leveraging the cultural/country knowledge of current international students.

OIP’s website currently provides a link to the State Department’s country-specific information, which is an excellent resource. It may also be helpful to ask the working group to review the OIP travel resources page and suggest additional links to expand this page. For example, links to the U.S. Customs and Border Protection website (Top 10 Traveler Tips and Know Before You Go), a resource on determining what conduct constitutes “bribery” versus “a facilitation fee” and additional links to country specific details might be useful. TRACE is a nonprofit membership organization that works with companies with international operations to ensure that the practices of those companies reflect anti-bribery “best practices.” It is recommended that efforts be directed to the identification and/or development of comparable resources for the countries most frequently traveled by University students, staff and faculty in connection with University-related activities. All additional information either identified or developed on these issues should ultimately be available on the OIP website and linked to appropriate other web locations, such as OGC and Student Affairs.
Furthermore, OIP might consider the use of its “World Team” or other pre-identified local and language experts and prepare such a group to assist or advise in situations where such knowledge might prove useful or expedite processes.

3. Standardize International Contracts and Agreements and Create an Inventory

The University of Minnesota has a great number of international agreements and contracts. There is a both a lack of complete understanding as to what agreements exist and no standard way of writing or approving agreements. The IRLC is concerned about the risk to the University due to the lack of oversight related to international agreements and contracts for international programs, which could potentially open the University to violations of tax and employment law, human subjects protocol concerns, conflicts of interest, import/export regulations, or other University of Minnesota policies.

As indicated by the tracking subcommittee, we see the first step in addressing this issue to be efforts related to learning about what agreements/contracts with an international component currently exist. The “world team” group could assist in identifying what agreements we currently have as will the activities database suggested in the tracking section of this report. In addition, a search for any protocols or guiding principles already in place would be included in this initial information-gathering phase. A few examples of the international agreements that should be considered are:

- Affiliate agreements
- Contracts for international programs
- External sales agreements
- Exchange agreements—including the movement of students, staff, and/or faculty
- Research agreements
- Agreements that include clinical rotations or clinic work
- Agreements that involve University property/royalties
- Purchasing and/or service agreements
- Employment contracts

Next, we would recommend a review of what policies, rules, regulations, and laws apply in each agreement/contract. This would constitute a review of compliance; a few questions we suggest need to be address include: What is the expectation compared to the reality? What processes/policies will assist in reaching the expectation? What policies/processes already exist on campus that can be applied to these situations?

A few efforts related to this topic are already underway. The first of these is that the Office of the General Counsel (OGC) is in the process of updating their Contracts Library and reorganizing to add a specific section related to international contracts. This library has been suggested as a central location to provide international contracts/agreement templates as well as policy/practice. OIP is also working closely with OGC and other units across campus that have international exchange agreements in order to create standard templates for some of the most common situations including student and faculty exchanges. In addition, it seems that SPA has a good process for ensuring that research
related agreements are in compliance with University policy as well as U.S/international law and best practices surrounding research.

Recommendation:
Charge a working group drawn from OIP, OGC, Risk Management, the Office of Institutional Compliance, the Tax Director and Asset Management to address this issue. In addition, other relevant offices would need to be involved dependent on the type of agreement/contract. For example, OGC would bring expertise on contracts and patents, HR would need to be involved in employment discussions, the Conflicts of Interest Review and Management Program (through the Office of Institutional Compliance) would provide valuable knowledge related to avoiding conflicts of interest in agreements/contracts and the Controller could bring additional expertise in cases where money is exchanged. We suggest that the group assigned to investigate and address these concerns would need to consider delegations of authority, internal policies, and methods of communication and training. They would also need to reference domestic analogs and interpret policies, laws, and regulations.

B. Reports: Three High-Priority Risk Areas Being Addressed by University Units/Groups

1. Employment Outside the United States

Report: Employment Outside the U.S. Working Group, 12/9/08
-Chair: Susan Rafferty, Human Resources

The Employment Outside the United States Working Group, formed in July 2008, is an ad hoc committee pulling together diverse sections of University administration that interface with international employment situations on a regular basis. The Working Group includes representatives from the Academic Health Center, the Office of the General Counsel, the Office of International Programs, Risk Management, and the Tax Department, in addition to several areas of the Office of Human Resources, including Employee Benefits, Employee Relations and Compensation, the Job Center, Payroll Services, and Policy Development. While the group’s primary intent is to gauge and manage risks in international employment cases, it serves as an important vehicle to share information and improve coordination of central service areas.

Standardizing Employment Procedures
The group’s goal is to identify, or, when necessary, create procedures or practices for employing individuals to work for the University outside the United States for a period of twelve months or longer. (Note that twelve months is an important point of reference because shorter periods typically are exempt under international tax treaties.) These employment situations involve (1) expatriates or U.S. authorized workers, (2) home-country nationals, and (3) third-country nationals.
Major advancements in regularizing programs and procedures have occurred in two areas this fall. First, the OGC finalized contracts with Celergo to provide payroll services for home-country nationals and third-country nationals; Payroll Services is standardizing procedures with that vendor. Second, Employee Benefits has worked with a broker to create benefits programs for expatriates.

Work to capture or create procedures for all three above-listed employment situations for the key steps in the employment process – recruitment, hiring, establishing and paying salary/wages, determining and providing benefits, managing performance, and voluntarily or involuntarily severing employment – is ongoing. Standardizing employment procedures will help campus, college, and administrative unit administrators understand and comply with applicable laws and policies.

Reviewing Current “Employment” Situations
A primary concern is that several individuals working outside the United States are being classified as independent contractors and, therefore, have work arrangements that are not being reviewed by administrators in Payroll Services or the Tax Department. In order to examine these situations, the group is gathering names of current and recent workers and reviewing the classification and handling. This work will provide some assurance that current situations are in compliance with applicable federal and state employment and tax laws and should highlight situations for possible further review by the OGC for compliance with foreign laws and regulations. While any system to track University members’ work abroad is outside the scope of this working group, such a system, of course, would greatly further our more specific compliance goals.

Determining Applicability of Laws, Regulations, and University Policies
With an opinion from the OGC, the Working Group has examined the applicability of the major federal and state labor and employment laws and regulations. The vast majority of these laws and regulations do not apply outside the United States.

Because the applicability of foreign laws is specific to each situation at hand, the Working Group is not exploring applicability of those laws but expects that work to standardize employment procedures will help ensure that these situations are brought to the attention of the OGC for timely review.

With the beginning of a new year, the Working Group will be turning its attention to the applicability of the University’s human resources policies and practices to these international employment situations. Examination of these policies will require extensive consultation with various policy owners. For example, reviewing applicability of the sexual harassment policy and the consensual relationship policy will require working with the Office of Equity and Diversity and the Equal Opportunity and Affirmative Action Office. It is anticipated that one policy will be created instead of potentially revising each of these numerous policies to address whether and how they apply to employment situations outside the U.S. The established procedures for policy making, including review by the Policy Advisory Committee and the President’s Policy Committee, will be followed.
2. Research Issues in the International Context

Report: International Risks & Liabilities Research Subgroup
- Chair: Lynn Zentner, Office of Institutional Compliance

A subgroup was formed to address issues that arise in the context of research initiatives conducted abroad. The subgroup included representatives from the IRLC (Gail Klatt, Peter Hudleston, and Lynn Zentner) as well as three Office of the Vice President for Research representatives (Pamela Webb, SPA; Moira Keane, Research Subjects Protection Program; and Michele Chin-Purcell, Research Integrity and Oversight). The subgroup was primarily concerned about the protection of researchers and human subjects. With respect to safety issues, the subgroup was concerned about legal and cultural differences that could significantly impact the activities of faculty, staff, and students traveling abroad for research-related purposes. The subgroup was also concerned about the protection of human subjects in those circumstances where the research project was not submitted to the IRB for review and therefore there was no opportunity to coordinate the University’s IRB requirements with those of the foreign jurisdiction. When the Committee established tracking and the expansion of the educational focus on cultural and legal norms as its two top priorities, the issues of the subgroup were subsumed within the priorities of the larger Committee. We strongly support the recommendations listed under these priorities above. Establishing a tracking mechanism and preparing faculty, staff, and students for foreign cultural and legal contexts are foundational to supporting successful research endeavors abroad, as well as to University compliance requirements.

As noted previously in this report, SPA is currently considering revising the Proposal Routing Form to add a few questions about anticipated foreign travel and/or foreign collaboration. If this revision is adopted, once a grant is awarded, further detail can be obtained from those researchers who respond affirmatively to the international questions on the PRF.

3. International Asset Protection and Insurance

Report: Steve Pardoe, Director, Office of Risk Management and Insurance

The University’s ability to foresee overseas risks, and its capacity to educate staff and students to avoid it, cannot be perfect or complete. For events that escape proactive containment, the University may become legally liable for economic (monetary) damages. The University will also find itself in unique insurance regulatory environments that may have specific requirements concerning what is “acceptable” insurance within that jurisdiction. This section will review types of economic damages and touch on foreign insurance regulation. The focus here is on property/casualty insurance programs designed to protect the University; other programs designed to cover students’ personal liabilities or health (such as ‘Homeowners’ or CISI) are outside this section’s scope.
a. Economic Damages

Domestically and internationally, most of the University’s insurable legal obligations to third parties fall into three broad liability categories:

- General and Professional Liability – bodily injury or property damage arising out of University negligence
- Non-profit Organization Liability – Liabilities arising from employment practices and other liabilities not arising from bodily injury or property damage
- Auto Liability - bodily injury or property damage arising out of University negligence in the operation of a motor vehicle.

The University maintains insurance policies covering each of these areas. Another important area is workers compensation. The University has no insurance to cover its workers compensation obligations; claims are self-funded.

- Who is insured under the policies?
  *The Regents* are the First Named Insured on the University’s insurance policies. Generally, *staff and faculty who are employees* of the University are also considered to be insured, to the extent the action the potential liability arises from was integral to the course and scope of their University employment. *Students are not considered to be insureds* under University policies. The University does not generally accept responsibility for compensating liabilities generated by third parties.

- Tort Caps
  The University enjoys special protection under Minnesota law limiting financial responsibilities arising from lawsuits (tort liability). The common name for this protection is “tort caps”. As of this writing, the maximum amounts the University may become legally liable to pay under 2008 Minnesota Statute 3.736 are $400,000 per claim, or $1,200,000 per occurrence.

- Liability Limits
  Due to some practical considerations, the University maintains limits that are higher than the tort caps:
  - General, Professional Liability: $1MM/claim, $3MM/occurrence
  - Non-profit Organization Liability: $1MM/claim, $3MM/occurrence
  - Extra-MN Auto Liability: $6MM

- Are these limits adequate?
  The limits described above are minimal when compared to similarly sized entities, public or private. In fact, *many middle-class homeowners maintain limits greater than the $1MM/claim limit maintained by the University*. Benchmarking provided by one of our vendors suggests that our higher ed peers are protected by more robust limits, up to and exceeding $25-50MM.

- What would be the consequences of inadequate limits in a claim situation?
  If the University becomes party to an extra-territorial lawsuit and loses, and the losses exceed the limits the limits noted above, there would be an unfunded liability to contend
with. *If the judgment cannot be funded, the University’s ability to operate in the jurisdiction in the future may be imperiled.*

**Recommendation**
The University must consider additional liability limits applicable to extra-Minnesota activity where tort cap protection is not applicable. The Office of Risk Management will work over the course of the next six months to develop options for higher limits applicable to extra-Minnesota claims unshielded by tort caps. The Office of Risk Management will require assistance from the Office of International Programs in quantifying international activity so that insurers have sufficient information to offer options.

**b. Foreign insurance regulation**

Countries have differing views concerning what is considered valid insurance within their jurisdictions:
- Some countries require that the insurers operating within their borders be “admitted”; generally, admitted carriers will have met certain tests – financial, structural, procedural – and are officially recognized by the local authorities.
- Other countries will only recognize state-run or -owned insurers.

The University will be optimally served by complying with these local laws and customs. This becomes particularly true once we establish local persistence, such as permanent employees or physical assets. In a practical sense, a temporal presence, or an ongoing minimal presence, may not require country-specific action. Real estate holdings (purchase or lease) or permanent local employees are both indicators of significant presence worthy of analysis.

**Recommendation**
The University’s goal should be to establish substantial compliance with local insurance regulations in jurisdictions where we maintain a significant presence. The Office of Risk Management recommends that you consider instituting a panel of subject-matter experts to review significant country presences, including changes or additions. Activity would include review of briefs prepared by OIP outlining specific country situations, including:
- Scope of activities
- Property holdings
- Permanent staff on University payroll

Attendees could include representatives from the Office of International Programs, Office of Risk Management, and the Office of Human Resources (Payroll). Meetings would be called on an as-needed basis, but no less frequently than twice a year. Risk Management would use the country-specific data to determine appropriateness of the programs in place, and would seek locally accepted solutions in instances where there are compliance gaps.
Other Committee Actions and Deliberations

The committee has revised Table 1, the heat map of existing programs (see Appendix 3). We have corrected and updated risk levels, assigned risk levels to any cell previously listed as unknown, and split some rows into “managed by OIP” vs. “not managed by OIP.” This document should continue to be used and updated as it is a valuable resource for judging our risks and progress in addressing them.

While discussing risks and ways to garner the support of the University community in eliminating or mitigating such risks, we often cited the importance of considering both policy requirements and motivational factors (the carrot vs. the stick). This approach is considered of specific relevance in regards to the high priority of implementing a reporting/tracking requirement. Thus, as a complement to our number one recommendation to implement such a requirement, the committee saw fit to identify the second priority as expanding education and resources on cultural and legal norms in order motivate travelers to participate in the tracking system and offer them important services.

Besides identifying the top-priority risks, the committee discussed and raised other issues and concerns during the course of our meetings. We decided to add a column for dependents of international students and scholars and identified the risk levels of a few applicable concerns. We also discussed the dependent children of students, faculty and staff going abroad and decided to note them with an asterisk as they are at their own risk except as they are enrolled in University health insurance. We discussed the issue of pandemic/emergency planning as related to international risks and our charts, and noted that this is an issue that has been addressed broadly by a special University-wide task force (which included some IRLC members). This task force does not seem to be currently active. We suggest that this group would be the most appropriate to address the pandemic issues and we support efforts to revive its activities, and to incorporate IRLC members.

We are including as Appendix 4 an article that Gail Klatt recommended as an excellent resource for OIP and/or the IRLC committee when attention turns to a comprehensive look at addressing risks of setting up major new programs overseas (also found at http://www.nacubo.org/x10665.xml?ss=pf).

Conclusion and Disposition

We recommend that the University units/groups addressing these six priority issues be given 6 to 9 months to make some progress and then report back to you. We suggest that as these groups attend to their work, they be advised to capture the elements of their work that apply to new programs, so that we can get a head start when you charge the IRLC or another appropriate group with assembling a toolkit for establishing new international programs.
We want to reiterate that tracking travel abroad clearly stood out as the number one priority because it is connected to almost all of the University risks inherent in international activities. We recommend that action be taken soon in this area, particularly because with the current financial issues faced by the University, including potential increased scrutiny of expenses, and the ongoing modifications to the EFS system, now may be an opportune time to establish a tracking system and requirements.

We suggest that the IRLC remain a standing committee, but not meet again until the action groups have had time to make progress and you reconvene the committee. The Committee can then refocus on identifying the next set of priorities and/or helping ensure coordination and communication among the action groups. In order to maintain this group as a standing committee, membership should be staggered such that members join for a regular two-year term (see Appendix #5 for suggested membership configuration).

In June 2008, the Board of Regents affirmed the University’s commitment to internationalizing the University by adopting a new policy on international education and engagement. The policy states that “The president or delegate shall administer policies that, in compliance with all applicable laws and regulations, effectively promote and encourage a comprehensive program of international education and engagement...”. When developing policies and procedures to address the recommendations in this risk and liability report, the committee feels it is important to invoke this new policy, both in its promotion of comprehensive international engagement, but also in implementing it with a keen eye to laws, regulations, and risks that are inherent in such engagement.
I.  Travel Approval

The University of Minnesota encourages its students to participate in education experiences abroad. To minimize health and safety risks, University policy requires students, or faculty leading students, traveling to countries on the U.S. Department of State’s travel warning list to seek special permission.

The Education Abroad Suspension Committee will review requests to travel to these countries. Applicants are encouraged to apply early. The committee review process commonly takes 6 to 8 weeks.

II.  Education Abroad Suspension Committee

The Education Abroad Suspension Committee is comprised of the Associate Vice President for International Programs, the General Counsel, the Senior Vice President for System Academic Administration, and the Senior Vice President for Health Sciences. The Assistant Vice President for Public Health will serve on the committee whenever a decision is being considered for public health reasons.

In deciding whether to approve a program in a country with a travel warning, the Committee will consider the following factors:

- The academic purpose of the opportunity;
- Whether the opportunity is for undergraduate, graduate, or professional development;
- The educational, research, or professional development importance of the opportunity in relation to the students' academic program;
- The political and physical conditions in the site country;
- The level of risk to students' health and safety;
- Travel conditions and the ability to evacuate students, if necessary; and
- The manageability of legal risk to the University.

The Education Abroad Suspension Committee is also responsible for deciding whether to suspend an education abroad opportunity sponsored by the University when a significant health or safety concern is raised regarding the opportunity.
III. Individual Students

Students who wish to participate in an education abroad opportunity in a country on the State Department warning list should begin by contacting the study abroad office on their campus.

- Crookston: Contact UMC Study Abroad Office
- Duluth: Contact International Education Office
- Morris: Contact Study Abroad at UMM
- Rochester: Contact Student Services Office
- Twin Cities: Contact Shelly Kippa, Learning Abroad Center, at 612-626-7134 or kippa017@umn.edu

IV. Faculty and Departments Leading Programs Abroad

Faculty or departments that are organizing a program to bring students abroad are highly encouraged to work with the Learning Abroad Center or the education abroad office on their campus for assistance with these health and safety arrangements:

- seeking permission to travel to countries on the State Department warning list through the Education Abroad Suspension Committee
- releases and waivers
- medical insurance
- emergency plans
- more

If you do NOT work with the Learning Abroad Center or the education abroad office on your campus, you must handle these arrangements on your own. Contact Stacey Tsantir, Office of International Programs, at 612-625-5107 or stsantir@umn.edu with any questions.

V. Official University Policy and Procedure

- Policy: Education Abroad Opportunities: Addressing Health & Safety Risks
- Procedure: Preparing for Education Abroad Opportunities

VI. International Health Insurance

All students, staff, and faculty approved for travel by the Education Abroad Suspension Committee are required to carry international health insurance approved by the University of Minnesota.
Audit Committee

May 6, 2009

Agenda Item: Internal Audit Update

☐ review  ☐ review/action  ☐ action  ☑ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☑ oversight  ☐ strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations.

Outline of Key Points/Policy Issues:

- Since our last follow-up for the February 2009 meeting, 33% of the outstanding recommendations rated as “essential” were implemented by University departments. This percentage is slightly less than our expected implementation rate of 40%. An updated control evaluation chart is included for each audit to show progress made on the “essential” items. Ten units fully implemented all their remaining “essential” recommendations.

- Four audit reports containing twenty recommendations rated as “essential” were issued in the last three 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.
Internal Audit Update
University of Minnesota Regents Audit Committee
May 6, 2009

This report includes:
• Audit Observations/Information/Status of Critical Measures/Other Items
• Status of “Essential” Recommendations & Bar Charts Showing Progress Made
• Audit Activity Report
• Audit Reports Issued Since February 10, 2009

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 “snapshot” status report on work performed by the Office of Internal Audit.

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 2009 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.
Our progress towards completion of our FY 2009 annual audit plan has slowed slightly since our last update in February. Factors contributing to this include continued investments in re-tooling our audit processes and procedures due to implementation of the new Enterprise Financial System, a vacancy in one senior auditor position, and preparations for our peer review. The retirement of two Audit Managers at the end of January, and the planned replacement of only one of those positions, has also impacted the FY 2009 audit time available. We will be analyzing the impact these actions have on the accomplishment of our plan and will notify senior management and the Audit Committee of any necessary changes.
Status of "Essential" Recommendations as of April 24, 2009

<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>Implemented</th>
<th>Partially Implemented</th>
<th>Not Implemented</th>
<th>Overall Progress Towards Implementation*</th>
<th>Any Individual Issues With &lt; Satisfactory Progress?</th>
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<tbody>
<tr>
<td>Jan-05</td>
<td>A Review of Education Abroad Programs</td>
<td>4</td>
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<td>Intercollegiate Athletics</td>
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<td>Apr-07</td>
<td>University Stores</td>
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<td>Ticketing System - Phase 1 Review</td>
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<td>Central Authentication Services</td>
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<td>Epidemiology &amp; Community Health</td>
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<td>School of Physics &amp; Astronomy</td>
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<tr>
<td>Jul-07</td>
<td>Department of Psychology</td>
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<tr>
<td>Aug-07</td>
<td>UM - Morris Campus</td>
<td>12</td>
<td>10</td>
<td>4</td>
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<td>Un satisfactory</td>
<td>(a)</td>
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<td>Aug-07</td>
<td>School of Mathematics</td>
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<td>University Press</td>
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<td>Department of Central Security</td>
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<td>Office of the Vice President for Equity and Diversity</td>
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<td>Active Directory Administration Managed by OIT</td>
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<td>College of Biological Sciences</td>
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<td>M Key Two-Factor Authentication</td>
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<td>University of Minnesota Bookstores</td>
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<td>College of Food, Agricultural, &amp; Natural Resources Sciences</td>
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<td>Molecular and Cellular Therapeutics</td>
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<td>OvGym &amp; Women's Health</td>
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<tr>
<td>Sep-08</td>
<td>Review of Capital &amp; HEAPR Proj. Funded by '06 State G.O. Debt</td>
<td>3</td>
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<td>Sep-08</td>
<td>Department of Mechanical Engineering</td>
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<td>7</td>
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<td>Dept. of Biomedical Engineering &amp; the Inst. for Eng. in Medicine</td>
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<td>Oct-08</td>
<td>College of Education &amp; Human Development</td>
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<td>Nov-08</td>
<td>UMD Housing &amp; Residence Life</td>
<td>3</td>
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<td>Jan-09</td>
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</table>

Total: 263 132 44 70 18

(a) Risks identified in the Morris audit continue to be a concern and actions taken to date have not significantly changed their overall risk profile. Progress has been reported within the last month with the implementation of an institution-wide system for their Burns operations. Also, conversations with senior management indicate plans are being developed/implemented to address many of the Morris concerns. From a system perspective, plans are underway to have Morris use a system which also supports Twin Cities and Duluth facilities management system needs. Management is also holding discussions with the Twin Cities bookstore regarding use of their system and potentially having the Twin Cities manage the Morris store (as is done by the Crookston campus).

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

**Essential** Recommendation Implementation Trends

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td># of Essential Recommendations Receiving Follow-up</td>
<td>132</td>
<td>179</td>
<td>144</td>
<td>157</td>
<td>102</td>
<td>96</td>
<td>91</td>
<td>114</td>
<td>122</td>
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<tr>
<td># of Recommendations Considered Fully Implemented</td>
<td>44</td>
<td>53</td>
<td>57</td>
<td>35</td>
<td>31</td>
<td>32</td>
<td>29</td>
<td>48</td>
<td>46</td>
<td>42</td>
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<tr>
<td>Implementation Percentage</td>
<td>33%</td>
<td>30%</td>
<td>40%</td>
<td>22%</td>
<td>30%</td>
<td>37%</td>
<td>30%</td>
<td>53%</td>
<td>40%</td>
<td>34%</td>
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</table>

### Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented

<table>
<thead>
<tr>
<th>Audit/Report Date</th>
<th>Status-Partially Implemented (P) or Not Implemented (N)</th>
<th>Senior Management Contact</th>
<th>Summary of the Issue/Risk Involved</th>
<th>Current Comments From Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Review of Education Abroad Programs Jan-05</td>
<td>P</td>
<td>E. Thomas Sullivan, Meredith McQuaid</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>Per the Office of International Programs, they originally were told that the new information system would be completed by June 15, 2009, but recently the date has been moved to the end of October 2009. At the last status meeting on April 9th, this time frame was confirmed, which should make the new system functional for Spring 2010. Auditor's Note: This information system initially experienced significant delays due to the need for programmers to work on higher priority projects such as EFS. A recent desired enhancement to the functionality of the system has resulted in some additional delays to project completion.</td>
</tr>
<tr>
<td>OVPR-Central Units Supporting Research Nov-06</td>
<td>P</td>
<td>Tim Mulcahy, Michele Chin-Purcell, Moira Keane</td>
<td>The OVPR should consider moving towards maintaining one single database for research activities. The database could be divided into different compliance modules with access restrictions for control purposes. The database should have reporting capabilities which would identify trends and track identified issues and their resolutions.</td>
<td>FY09 central funding ($500k) has been secured. The RCM project is on OIT’s 6-year work plan and resources/OIT work planning is in process for resources post-RFP. We do not expect any implementation work to begin until the end of calendar 2009. The RCM team has received RFI responses from multiple vendors, reviewed the results, and is preparing for demos from the leading vendors. The team is also conducting integration sessions with the business areas involved to determine essential business requirements. In the next few weeks the team will work with the RCM Steering Committee to outline the essential business requirements and prepare for issuing a RFP.</td>
</tr>
<tr>
<td>Ticketing System Phase 1 Implementation Review May-07</td>
<td>P</td>
<td>Steve Cawley, Amin Qazi</td>
<td>Steps should be taken to establish an effective program change management process. Access rights should be assigned to establish appropriate segregation of duties. Only authorized and tested changes should be permitted to be moved from the test to the production environment. The vendor, consultants, and project manager should not have update access to the production code, database, and/or application. Processes should be established for effective testing and migration of code changes which will only be needed in future phases of the project.</td>
<td>Currently staff in the OIT-Server Support group are testing an open source software application to provide an enhanced level of auditing and control of the code change process. This software should provide adequate enhancement of the change control process. This software is scheduled to be put into production by June 28th, 2009. Auditor's Note: An alternative software solution was selected since the 2008 target date for resolution. The alternative software solution is a product being used to manage changes to other applications by OIT, which should be more cost effective.</td>
</tr>
<tr>
<td>Audit/ Report Date</td>
<td>Status—Partially Implemented (P) or Not Implemented (N)</td>
<td>Senior Management Contact</td>
<td>Summary of the Issue/Risk Involved</td>
<td>Current Comments From Management</td>
</tr>
<tr>
<td>-------------------</td>
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<td>----------------------------------</td>
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</table>
| Central Authentication Services May-07 | P | Steve Cawley Amin Qazi | The following process improvements should be put into place:  
• The test environment should be physically separated from the production network, and no production data should be stored on the test system.  
• No change should be moved into production without a record of management approval.  
• A process should be put in place to ensure that all changes have peer and management review before being approved and a process should be established to ensure approved changes are moved into production without tampering.  
• Detailed test plans, including testing for success and failure, should be developed for system changes.  
• Detailed back out plans should be developed for system changes.  
• Any change to the production environment should be well-planned and documented before implementation. | Central Authentication Services will be using OIT's central change control software, (ITG), to help ensure that all changes have management approval, and to track approved changes that are moved into production.  
Central Authentication Services has begun transitioning to ITG, and expects that after July 1, 2009 all changes and testing will be tracked in ITG. |
| Internet Services | P | Steve Cawley Amin Qazi | Internet Services should continue to develop and maintain current documentation for all functions of these systems, and keep copies offsite with the disaster recovery plans. | Central Authentication Services has identified key documentation to be updated, and intends to complete the required updates by July 1, 2009. |

# of Items: 2

Total: 6
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 February 2009, 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.
University Press (September 2007)

Department of Central Security (November 2007)

Legend:
- Green: Adequate Control
- Yellow: Significant Control Level
- Red: Critical Control Level
- Blue: Potential Over-Control
<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Monitoring</th>
<th>Information &amp; Communication</th>
<th>Risk Assessment</th>
<th>Internal Service Organizations</th>
<th>Sponsored Projects</th>
<th>Information Systems</th>
<th>Disbursements</th>
<th>Cash Receipts</th>
<th>Controlled Substance/Lab Safety</th>
<th>Payroll</th>
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<tr>
<td>Adequate Control</td>
<td>Critical Control Level</td>
<td>Significant Control Level</td>
<td>Potential Over-Control</td>
<td>Adequate Control</td>
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### College of Biological Sciences (February 2008)

### Natural Resources Research Institute (February 2008)

### Original Report Evaluation

### Current Quarter Evaluation

### Previous Quarter Evaluation
OIT Security & Assurance (February 2009)

Previous Quarter Evaluation

Current Quarter Evaluation

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

Enterprise Imaging System (April 2005)

Previous Quarter Evaluation

Current Quarter Evaluation

Department of Intercollegiate Athletics (August 2005)

- Control Environment
- Monitoring
- Risk Awareness
- Information & Communication
- Application Functionality
- Infrastructure Controls
- Controls Over System Upgrades
- Controls Over Imaging Process

- Control Environment
- Monitoring
- Risk Awareness
- Information & Communication
- Application Functionality
- Infrastructure Controls
- Controls Over System Upgrades
- Controls Over Imaging Process

- Control Environment
- Monitoring
- Risk Awareness
- Information & Communication
- Application Functionality
- Infrastructure Controls
- Controls Over System Upgrades
- Controls Over Imaging Process

- Control Environment
- Monitoring
- Risk Awareness
- Information & Communication
- Application Functionality
- Infrastructure Controls
- Controls Over System Upgrades
- Controls Over Imaging Process

- Control Environment
- Information Systems
- General Financial Mgmt
- Disbursements
- Payroll
- Non-Ticket Office Cash Receipts
- General Financial Mgmt
- Information Systems

- Control Environment
- Information Systems
- General Financial Mgmt
- Disbursements
- Payroll
- Non-Ticket Office Cash Receipts
- General Financial Mgmt
- Information Systems

- Control Environment
- Information Systems
- General Financial Mgmt
- Disbursements
- Payroll
- Non-Ticket Office Cash Receipts
- General Financial Mgmt
- Information Systems

Legend:
- Adequate Control
- Significant Control Level
- Critical Control Level
- Potential Over-Control
Audit Activity Report

Scheduled Audits

• Completed audits of: Department of Concerts & Lectures, the Center for Magnetic Resonance Research, and UMD Stores. Details are shown on the following charts.

• Began/continued audits of: Effort Certification (University-wide), University Data Management Services, Fleet Services, Sub-awards (University-wide), the School of Dentistry, Energy Management, the Office of Student Finance, Academic Advising (University-wide), the Department of Medicine, the Department of Dermatology, the UMD College of Education and Human Service Professions, and OIT Data Base Administration.

Non-Scheduled Audits

• Issued a report for an audit of the Academic Health Center database “Time and Study Collection System” (TASCS), which helps support and manage the clinical trial budgeting and billing process. Details are shown on the following charts.

Investigations

• Performed investigative work on nine issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

Special Projects

• Provided consulting services related to: data security, disaster recovery planning, code change management, and University payroll exception testing.

• At the request of UMD Human Resources we conducted a review of cash handling procedures in a UMD clinic, and results were provided to management.

• At the request of the Vice President for Research we are part of a team that is reviewing research and human subject processes in the Department of Psychiatry.

Other Audit Activities

• Participated in the following:
  - HRMS PeopleSoft Steering Committee
  - Fairview Health Systems Audit Committee
  - University of Minnesota Foundation Audit Committee
  - Enterprise Financial System Executive Steering Committee
  - Research Compliance Committee
  - Executive Compliance Oversight Committee
  - Institutional Conflict of Interest Committee
  - NCAA Self-Study Committee
  - Search Committee for Director of Accounting Services
  - International Risk Advisory Committee
  - Information Technology Collegiate Leaders Audit Finding Taskforces
  - OSH Steering Committee
  - University Enterprise Laboratories, Inc. Task Force
Concerts and Lectures has established an effective control environment that addresses most of their significant risks. The department continues to be proactive in updating their ticketing services and processes provided to their customers, and was the first University ticket office to implement the AudienceView ticketing system. We identified issues relating to fundraising, revenue streams, community & academic mission, expanding offerings, AudienceView system reports & access rights, and credit cards.

Center for Magnetic Resonance Research

Overall, the results of our audit tests indicate that the majority of the activities are very well controlled, in compliance with University policies and operating in an effective and efficient manner. We identified issues related to deficit balances, effort certification, accounting for vacation and sick leaves, and nepotism for which resolution is considered essential to minimizing existing operational, compliance, and financial risks.
UMD Stores

This department operates the bookstore, computer store, and gifts/art supplies/convenience stores at UMD. In our opinion, the operational and financial controls within UMD Stores are strong, and UMD management and staff displayed an awareness of the risks facing their operation. We feel that attitude is consistent with the overall improvement in the work environment since our previous audit in 2003. We identified issues rated as "essential" relating to oversight of void transactions and computer equipment management.

Clinical Trial Budgeting and Billing Control Evaluation

The AHC Database “Time and Study Collection System” (TASCS) application was modified and its purpose substantially expanded to address the budgeting and billing needs associated with services acquired from UMPhysicians and Fairview Health Systems for clinical trials. The TASCS update is an improvement over the manual process previously used, however, the controls in the TASCS must be improved for management to ensure the integrity of the process and have substantial confidence in the research billing process. The issues associated with the TASCS include concerns associated with: (1) system infrastructure, (2) system design, and (3) process, training, and documentation.
Audit Committee  May 6, 2009

Agenda Item: Information Items

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To report engagements with auditing firms that do not require prior approval by the Board.

To provide the Audit Committee with the Semi-annual Controller’s report.

Outline of Key Points/Policy Issues:

Report on Engagement with Auditing Firms
The Goldstein Museum of Design entered into an engagement with Larson Allen to provide an audit of the financial position of the Goldstein Museum of Design as of June 30, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. The fees for this engagement are not to exceed $9,000 plus out of pocket expenses. This audit is being performed to meet the requirements of the State Arts Grant Board, which provides funds to the Museum. This engagement did not impair the independence of Larson Allen as related to the University’s external audit and was approved by the Controller’s Office in conformance with Board policy.

The Community University Health Care Center (CUHCC) entered into an agreement with Larson Allen to assist in the preparation of the CUHCC Medicare reimbursement report for the year ending June 30, 2008. The fees for this engagement are not to exceed $5,340 plus out of pocket expenses. This engagement did not impair the independence of Larson Allen as related to the University’s external audit and was approved by the Controller’s Office in conformance with Board policy.

Semi-annual Controller’s Report
The semi-annual Controller’s report presents a summary of activities completed by the Controller’s Office in the last six months that enhance financial accounting and reporting, strengthen internal controls, reduce financial or compliance risks to the University, and improve efficiencies and services.
Background Information:

Engagements with external auditors that do not require prior approval by the Board of Regents are reported after the fact to the Audit Committee as information items, in conformance with Board of Regents Policy: Audit Committee Charter.

The Controller’s report is prepared semi-annually and presented to the Regents Audit Committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE

SEMI-ANNUAL CONTROLLER’S REPORT
MAY 6, 2009

This report presents a summary of activities completed by the Controller’s Office in the last six months that have improved financial reporting, enhanced internal controls, reduced financial risks, improved services to the University community, or created efficiencies in financial operations.

I. Accounting and Financial Reporting Matters

The Controller’s Office adopted two new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB). The adoption of these standards for fiscal year 2009 resulted in additional liabilities being recorded as well as changes to the footnote disclosures to comply with the requirements. In addition, two additional standards are being evaluated for implementation in subsequent fiscal years. These standards and the related implementation dates are as follows:

**Adopted Effective June 30, 2009**
- GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB 52, *Land and Other Real Estate Held as Investments by Endowments*

**To Be Adopted Effective June 30, 2010**
- GASB 51, *Accounting and Financial Reporting for Intangible Assets*

The following is a brief summary of these new standards.

**GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations** - The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. The statement provides that, once any of the defined obligating events has occurred, the University would be required to estimate the expected pollution remediation outlays and determine whether such outlays should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. This statement will be effective for the University’s fiscal year ending June 30, 2009.

This statement addresses the recognition of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Additionally, it establishes a specified-conditions approach to recognizing intangible assets that are internally generated. GASB Statement No. 51 provides guidance on determining the useful life of intangible assets when contractual or legal provisions limit the length of their life. This statement is effective for the fiscal year ending June 30, 2010, and the provisions of this statement generally must be applied retroactively for fiscal years ending after June 30, 1980.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* —

Accounting Standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. This statement establishes consistent standards for the reporting of land and other real estate as investment by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Public entities also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for fiscal year ending June 30, 2009.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* — The statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. It will require the University to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value. In addition, disclosure requirements will provide a summary of the government’s derivative instrument activity and the information necessary to assess the University’s objective for derivative instruments, their significant terms, and the risks associated with the derivative instruments. This statement is effective for the fiscal year ending June 20, 2010.

II. Efforts Undertaken by Controller’s Office Departments to Enhance Service, Productivity, and Efficiency and to Improve Internal Controls

Risk Management & Insurance

Risk Management is implementing a new pharmacy plan for workers compensation. This new plan will provide an easier and cheaper way for employees to receive prescriptions that are part of a workers compensation treatment plan. Under the new plan, participating injured employees will no longer have cash out-of-pocket expenses for work comp-related drugs, and will not have the burden of claiming reimbursement for those expenses. Similarly, the internal administrative cost and burden for the handling of invoices and payments will be substantially eliminated due to the transfer of processing activities to a third party. Based on historical workers compensation drug expenditures of around $150,000 to $180,000 to per
year, the University will net recurring annual savings in the range of $30,000 to $60,000. We have a targeted roll out date of May 1, 2009.

III. Enterprise Financial System Post-Implementation Activities

The new enterprise financial system went live on July 1, 2008. The new system consists of 14 modules that have replaced the previous central financial systems, and have impacted every financial process at the University.

Post-implementation support continues to dominate the priorities for the Controller’s Office. Since the last report to the Audit Committee and the Board, progress has been made in the following areas:

- Reporting – the reports that were delivered with the implementation of the system were not as user-friendly or accessible as was originally hoped. Consequently, 11 new financial reports (3 for nonsponsored activity, 8 for sponsored research activity) have developed and rolled out in a user-friendly environment. While these reports have been well received, we continue to receive suggestions for improving them. We will continue to monitor their usage, and incorporate suggestions for improvements into the plans for future enhancements (see below).
- System stabilization – Based on data related to system outages, many elements of the system have begun to stabilize. However, high-volume processes continue to experience irregular instability. These issues are being addressed as they occur. Improvements are also being made to the overall support processes, to minimize unplanned problems.

For May and June of FY 2008-09, the Controller’s Office will be dedicated to supporting the system and the user community through budget preparation and fiscal year end close. Both of these are new processes in PeopleSoft that the user community has not yet experienced, and it is expected that there will be challenges and stress. In conjunction with Training Services (from the Office of Human Resources), hands-on workshops involving collegiate and central staff to prepare each of the colleges and administrative units (43 in all) have been planned for fiscal year end. While this process is extremely labor-intensive, experience suggests it is the best approach to preparing the user community.

Finally, we are beginning to prioritize and plan for addressing those business processes that are inefficient, difficult, or annoying to end users. A broad-based group of end users will be closely involved with these efforts. They are now assisting with the prioritization process, and will be used to validate that any proposed enhancements will have the desired improvements. Enhancements to the system and the business processes will occur as rapidly as priorities and resources allow us to execute them. At this time, plans call for enhancements to be implemented in monthly batches through December of 2009, but plans are being assessed to determine if the current level of resources will meet that timeline.