



Audit & Compliance Committee

May 2017

May 11, 2017

1:15 p.m. - 2:45 p.m.

West Committee Room, McNamara Alumni Center

AUD - MAY 2017

1. Information Technology Audit Outcomes and Cost of Compliance

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

May 11, 2017

AGENDA ITEM: Information Technology Audit Outcomes and Cost of Compliance

Review Review + Action Action Discussion

This is a report required by Board policy.

PRESENTERS: Bernard Gulachek, Interim Vice President & Chief Information Officer
Brian Dahlin, Chief Information Security Officer

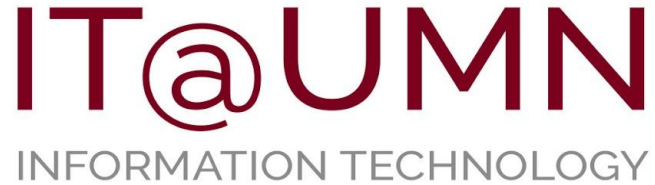
PURPOSE & KEY POINTS

The purpose of this item is to discuss the cost of information technology (IT) compliance and compliance cost drivers. The Vice President & Chief Information Officer is responsible for nine IT administrative policies that guide technology management activities across the University.

The discussion will include an overview of the legal and regulatory environment of IT as well as other factors driving IT costs. These environmental factors account for activities that a professional technology organization must employ to ensure the continuing operations of an enterprise with the scope and size of the University.

BACKGROUND INFORMATION

The Audit & Compliance Committee receives a regular report that includes the rate at which IT audit findings are remediated. At the May 2016 meeting, the committee discussed strategies for remediating IT audit findings and suggested that the cost of IT compliance return as a topic to a future meeting.



**COST OF COMPLIANCE
AUDIT COMMITTEE DISCUSSION**

May 11, 2017



**The University of
Minnesota**

- Defining IT Compliance
- IT Cost Compliance Elements
- Dynamic Environmental Drivers
- Conclusion / Discussion

Agenda

Legal or regulatory-driven
requirements related to
IT systems, processes,
and resources.

Defining IT Compliance

Direct Costs:

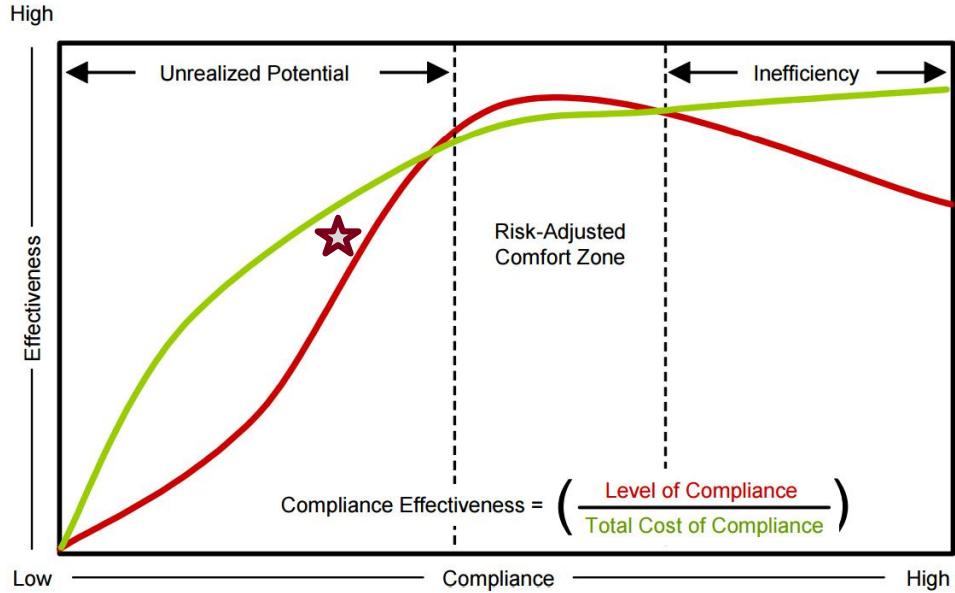
- Security Risk Assessment Program
- IT Compliance Function Staff Member
- Internal IT Auditors

**IT Cost
Compliance
Elements**

Indirect Cost Examples:

- Encryption
- Patch Management
- Intrusion Detection
- Denial of Service Attack Mitigation
- Threat Monitoring
- System Log Management
- IT Staff Effort / Time
- Information Security Program

IT Cost Compliance Elements



Source: IBM Consulting's "Risk and the Economics of Regulatory Compliance" and Gartner (June 2006)

138098-5

Compliance Advancement

Dynamic Environmental Drivers

- Increased Capability / Functionality
- Threats
- Business Continuation
- Contractual Obligations
- IT System Obsolescence



Conclusion / Discussion

- Direct Costs are intended to evaluate compliance
- Indirect costs are driven by many other factors
- Indirect IT compliance costs are marginal when IT is performed operationally well



THANK
YOU



The University of
Minnesota



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

May 11, 2017

AGENDA ITEM: Review of External Auditor Relationships & Services Provided

Review Review + Action Action Discussion

This is a report required by Board policy.

PRESENTERS: Sue Paulson, Interim Controller

PURPOSE & KEY POINTS

To review audit and non-audit services provided to the University of Minnesota by external audit firms and the related fees paid for those services during FY 2016.

External Auditor Review

Total Deloitte & Touche LLP (Deloitte) contracted audit and non-audit fees were \$2,382,812 for FY16 engagements, with actual fees of \$2,396,540 paid to Deloitte. All FY16 engagements have been completed and final billed. A summary of management’s evaluation of Deloitte’s performance for FY16 is also provided.

Summary of Audit and Non-Audit Services and Fees (Schedules A & B)

Total fees of \$2,502,360 have been paid for FY16 engagements to three different public accounting firms for a variety of audit and non-audit services. A description of the services is included in the docket. All audit and non-audit services were reviewed by the Controller’s Office for audit independence, and approved by or reported to the Audit & Compliance Committee in compliance with Board of Regents Policy: *Audit Committee Charter*.

BACKGROUND INFORMATION

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

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 11, 2017**

**EXTERNAL AUDITOR REVIEW AND SUMMARY OF EXTERNAL AUDITOR
RELATIONSHIPS AND SERVICES PROVIDED**

Background

The Board of Regents is responsible for engaging and overseeing the University's independent external auditors, for reviewing the work of the auditor, and periodically reviewing the fees paid to the audit firm. Effective governance practice recommends that the Audit & Compliance Committee of the Board should conduct such a review at least annually. The Audit & Compliance Committee conducted its last review of audit services and fees in May 2016.

The Controller's Office presents the information below and on the accompanying schedules for the Audit & Compliance Committee's 2017 review of audit, audit related, and non-audit services fees paid to Deloitte & Touche, LLP (Deloitte), the University's independent external auditor. Also included is management's assessment of Deloitte's performance for the FY 2016 engagements.

**Section I - Annual Review of External Auditor Relationship and
Performance – Deloitte & Touche**

University management and the Deloitte engagement management team met on March 8, 2017 to review Deloitte's services and performance during the FY 2016 audit. The overall conclusion was that Deloitte did an excellent job during the FY 2016 audit.

Each year of the Deloitte contract, both the University and Deloitte have identified opportunities for improvement and have implemented those improvements. As a result, both sides felt the audit was efficient and the overall process was well managed by both.

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

- Management felt that the continuity of key Deloitte team members from the prior years' audits contributed to the efficiency of the audit;
- Deloitte's audit approach was consistent to prior years;
- Many of the prior year's recommendations were incorporated into the audit processes, and as a result, efficiencies were seen by both Deloitte and the University staff
- Deloitte has done an excellent job of managing audit fees and costs. Annual audit fees have been within the contract and budget amounts.

Both the University team and the Deloitte team agree that we need to continue to focus on the improvements that have been made including:

- Continued focus on identifying and completing testing of items earlier in the audit process
- Continue to ensure communications between both teams and all audits are consistent and timely.

Review of Fees Paid to Deloitte & Touche, LLP

The accompanying schedule presents a summary of fees paid to Deloitte for the various FY 2016 audits and other services. The top portion of the fee schedule represents fees paid for the University's annual institutional audits and audit-related engagements. The contract amounts reported on the schedule are consistent with the amounts agreed to in the fiscal 2016 engagement letters and the firm's fixed price contract for FY 2016. The total audit fees paid to Deloitte for FY 2016 were \$23,971 less than the contract amounts in total, and represent less than expected actual expenses. These amounts are final.

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

Services performed by Deloitte during FY 2016 that were not part of the annual audits and NCAA agreed-upon-procedures of the University included:

- Deloitte was engaged to perform agreed-upon procedures to assist the University's Student Fees Committee and the Office of Student Affairs in determining the proper record keeping and use of the University fees that are allocated to student organizations. Deloitte reviewed thirty-five organizations that received University fees and performed the agreed-upon procedures as outlined by the University Fees Committee and Office of Student Affairs. The related engagement letter was reviewed by the Controller's Office and signed by the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.
- Deloitte was engaged to perform procedures in connection with the University's Bond Offering documents. The related engagement letters were reviewed by the Controller's Office prior to its finalization, consistent with Board Policy. As this engagement was solely to perform attest procedures in connection with the bond offerings, it did not present an independence issue with regard to Deloitte.
- Deloitte was engaged to provide due diligence services for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system. The engagement was reviewed by the

Controller's Office and approved by the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.

- Deloitte was engaged by the University's Parking and Transportation Services to perform examination services of the financial forms submitted to the National Transit Database for fiscal year 2016. The engagement was reviewed by the Controller's Office and reported to the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.
- Deloitte was engaged by the University's Academic Health Center to provide agreed upon procedures in regards to the University's compliance with the Laws of Minnesota for the Mayo Partnership in Regenerative Medicine award expenditures. The engagement was reviewed by the Controller's Office and reported to the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.
- Deloitte was engaged in fiscal year 2015 to perform analysis, advice and recommendations related to the University's Asset Management program. The majority of expenses for this engagement were incurred in fiscal year 2015, with the balance in fiscal year 2016. The total fees paid to Deloitte for this engagement were \$161 less than the contract amount. The engagement was reviewed by the Controller's Office and approved by the Board of Regents. This engagement did not present an independence issue with regard to Deloitte.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 11, 2017
Schedule I - Fees Paid To Deloitte & Touche, LLP
FY 2016 Engagements**

	<i>FY 2016 Engagements</i>			<i>Total FY 2015</i>
	<i>Contract Amount</i>	<i>Billed Amount</i>	<i>Over/(Under) Budget</i>	<i>(prior year)</i>
<u>Annual Institutional Audit and AUP Engagements</u>				
University Financial Statement Audit	\$ 408,000	\$ 390,529	\$ (17,471)	\$ 401,296
RUMINCO Financial Statement Audit	24,000	23,400	(600)	23,500
Compliance Audit (OMB A-133 and MOHE)	121,000	115,000	(6,000)	112,000
NCAA Agreed-Upon-Procedures	15,200	15,300	100	15,200
Total Fees for Institutional Engagements	<u>\$ 568,200</u>	<u>\$ 544,229</u>	<u>\$ (23,971)</u>	<u>\$ 551,996</u>
<u>Other Audit, Audit Related, and Non-audit Fees</u>				
Student Organization Agreed-Upon Procedures	\$ 75,000	\$ 75,000		\$ 75,000
Consent procedures related to Bond Offerings	17,000	17,000		5,000
Due Diligence - Integration of Fairview Health Services & UMP	1,500,000	1,538,360	38,360	
Parking and Transportation – Examination Services	10,000	10,000		
Regenerative Medicine Agreed-Upon Procedures	17,500	17,000	(500)	
Enterprise Asset Management Analysis	195,112	194,951	(161)	2,166,154
HIPAA Security				293,000
Student Group Investigation				32,441
Total Other Audit, Audit Related, and Non-Audit Fees	<u>\$ 1,814,612</u>	<u>\$ 1,852,311</u>	<u>\$ 37,699</u>	<u>\$ 2,571,595</u>
Total Fees	<u>\$ 2,382,812</u>	<u>\$ 2,396,540</u>	<u>\$ 13,728</u>	<u>\$ 3,123,591</u>

Section II - Review of Fees Paid to All Other Auditing Firms

In addition to the audits performed by Deloitte & Touche, LLP (the University's independent external auditors), other accounting and auditing firms performed a variety of audit and non-audit services at the University during FY 2016. These services were:

- Bradley P. Mickelson, CPA (dba DuluthCPA.com) was engaged by the Tweed Museum of Art to perform a yearly report on the Tweed budgets for FY 2016, to be included in an application for Minnesota State Arts Board Grant funds. This contract was previously reported to the Audit Committee
- Bradley P. Mickelson, CPA (dba DuluthCPA.com) was engaged by KUMD, the Duluth campus radio station, to perform attest services in FY 2016 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting. This contract was reported to the Audit Committee in May 2017.
- Bradley P. Mickelson, CPA (dba DuluthCPA.com) was engaged by UMD's College of Continuing Education to conduct an audit of the Peace of Mind grant as required by the Minnesota Job Skills Partnership (MJSP) program. This contract was previously reported to the Audit Committee.
- CliftonLarsonAllen was engaged by the University to assist with facilitation of the internal processes necessary to effectively reach the Definitive Agreements for the restructuring of the relationship between the University of Minnesota, University of Minnesota Physicians, and Fairview Health Services. This contract was previously reported to the Audit Committee.

The Office of the Controller reviewed all of the contracts detailed on the attached schedule, consistent with Board policy. None of these engagements resulted in an impairment of independence, in fact or in appearance, for any of the firms.

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 11, 2017**

**Schedule II - Report of Fees Paid To All Audit Firms for FY 2016 Engagements
(through April, 2017)**

<u><i>Audit Firm</i></u>	<u><i>FY 2016 Engagements</i></u>			<u><i>FY 2015</i></u>
	<u><i>Audit Fees</i></u>	<u><i>Non-Audit Fees</i></u>	<u><i>Total Fees</i></u>	<u><i>Total Fees Paid</i></u>
Bradley Mickelson, CPA (dba DuluthCPA.com)	\$ 7,950		\$ 7,950	\$ 2,000
CliftonLarsonAllen, LLP		\$ 97,870	97,870	13,025
Deloitte & Touche, LLP	544,229	1,852,311	2,396,540	3,123,591
Licari Larsen & Co., LTD				5,200
Total Fees Paid	<u><u>\$ 552,179</u></u>	<u><u>1,950,181</u></u>	<u><u>\$ 2,502,360</u></u>	<u><u>3,143,816</u></u>



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

May 11, 2017

AGENDA ITEM: External Audit Plan

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Michael Volna, Associate Vice President & Interim Assistant CFO
Katherine Knudtson, Partner, Deloitte & Touche LLP
Judi Dockendorf, Senior Manager, Deloitte & Touche LLP

PURPOSE & KEY POINTS

The external audit plan sets forth the audit scope, objectives, and approach to be used by Deloitte & Touche LLP (Deloitte) for conducting the University's FY 2017 financial and compliance audits. Members from the Deloitte engagement team will provide an overview of the audit plan, including the firm's assessment of audit risks, testing approach, and timelines for the FY 2017 audits.

BACKGROUND INFORMATION

This report assists the Audit & Compliance Committee with its oversight responsibilities, and is prepared and presented annually in conformance with Board of Regents Policy: *Audit Committee Charter* and Board of Regents Policy: *Board Operations and Agenda Guidelines*.



The University of Minnesota
2017 Audit service plan



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April 17, 2017

The Board of Regents Audit and Compliance Committee
University of Minnesota
1300 South Second Street
Minneapolis, MN 55455 USA

Dear Members of the Board of Regents:

We are pleased to present Deloitte & Touche LLP's fiscal 2017 audit service plan for the University of Minnesota (the "University"). First and foremost, we value our role as your independent auditor. We understand our responsibility to you as the Board of Regent's chosen representative of the University, and we have developed an audit plan that is specific and candid and focused on two elements: providing a distinctive level of client service and delivering a high quality audit effectively.

Our client service plan leverages a strategy that covers specific actions we will take to address and respond to the feedback the audit committee and management have given us throughout the year and through our service quality assessment process. We understand your expectations for high-quality client service and attention, and our team is committed to delivering on those expectations.

Our audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence. Our audit addresses financial statement and internal control risks through targeted procedures that are responsive to the nature of the risks, including changes in the University, the business environment, and the regulatory landscape. The plan also outlines Deloitte's seamless approach to audit delivery and how our investments in transformative audit innovation will be applied to your audit through new technologies, big-data analytics, and enhanced audit delivery processes. We also describe the protocols for communication with the audit committee and management and other permissible services we perform for the University.

We appreciate the opportunity to serve the University. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.

Please contact Katie Knudtson, lead client service partner, at +1 612 397 4183 if we can be of assistance in any way.

Yours truly,

cc: Management of the University of Minnesota

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Executive summary

We are pleased to present an overview of our plan to serve the University. We have prepared this document to assist the Audit and Compliance Committee in fulfilling its role in overseeing the financial reporting and disclosure process and the performance of the external auditor.

First and foremost, we value our role as your external auditor. The foundation of our relationship is based on this important role and responsibility to you, as the Board of Regents' chosen representatives of the University. Our primary responsibility is to plan and perform the audit of the University's consolidated financial statements to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and whether the consolidated financial statements are free of material misstatements. It is our professional responsibility to challenge significant management assumptions and estimates and to employ an appropriate level of professional skepticism to evaluate them, including related audit evidential matter. We also perform certain permissible services that further develop our understanding of your business; we can leverage this understanding to improve our audit procedures.

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

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

The Deloitte Audit

As your external auditor, we are responsible for gaining a thorough understanding of the applicable auditing standards and for executing our audit in accordance with those standards. The University's consolidated audit is conducted under the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A critical facet of our audit approach is the risk assessment process. We design the audit to identify and address significant audit risks so that we can conclude whether the consolidated financial statements present fairly, in all material respects, the financial position and the results of operations and cash flows of the University. Our audit approach is designed to

Our reputation is based on:

Doing the right thing

- A high degree of integrity
- Our ability to recognize and act in accordance with our professional responsibilities
- A commitment to objectivity and independence

Technical excellence

- Ongoing training in technical matters for all professionals
- Intensive case-based programs for audit partners and managers each year
- A consultative approach to resolving accounting, internal control, auditing, and reporting issues
- Assessment of the quality of our performance against our objectives, service goals, and client service standards
- Dedication to employing the best and serving the best
- Effective systems for monitoring independence

A robust audit approach

continuously respond to the challenges and risks the University is facing on a real-time basis.

Responding to University-specific, industry, and economic conditions, we continually align our efforts to the scope and scale of the University's operations to perform an audit in the most efficient and effective risk-based manner.

Designing our audit plan begins with a reassessment of risk areas from our fiscal 2016 audit. Updating our risk assessment is an iterative process performed throughout the audit, and includes consideration of changes in your business objectives and structure, management's risk assessment results, results of procedures related to internal control over financial reporting, and the current state of higher education and the economy.

As a result of this process, we have identified the areas of significant risk for our fiscal 2017 audit. Our professional judgment is central to the application of due care and professional skepticism in these areas of significant risk.

Engagement team

Our engagement team is led by Katie Knudtson, lead client service partner. Katie is responsible for all services provided to the University and will be supported by a team that includes Scott Erickson, advisory partner, and Chris Terhark, engagement quality control review director.

Significant risk areas

Based on our risk-based audit approach and the updated fiscal 2017 risk assessment discussed above, the following preliminary areas of significant risk have been identified:

- Alternative investments valuation
- Management override of controls

See the Risk Assessment section for further discussion of identified risks of material misstatement and related audit responses.

Committed to quality

We take our responsibilities to the users of the financial statements and our role as your independent auditor seriously, and we are dedicated to building confidence in the independent audit process. The intent of our quality report, **Audit Quality: Our Responsibility, Our Commitment** (dated December 2016 and found at www.deloitte.com), is to provide investors, audit committees, regulators, and other market participants with information that will help them understand our commitment to audit quality. The report includes, among other things, information about the steps we have taken in recent years to transform our audit practice, our improved inspection results, actions we are taking to innovate and further strengthen the quality of our audits, and our perspectives on current audit reform proposals.

We hold ourselves to very high standards, and take pride in the important public interest role entrusted to us. To continuously raise the bar on audit quality, we have made substantial, comprehensive investments in our audit practice. Through a combination of these investments, the diligence and dedication of our partners and professionals, and constructive engagement with our regulators, we have made significant, sustained progress toward the achievement of our audit quality objectives. We now have objective evidence that the significant audit quality investments we have made are achieving desired outcomes.

D&T Peer Review: In 2014, Grant Thornton LLP (GT) completed the most-recent triennial peer review of D&T's system of quality control for our accounting and audit practice applicable to engagements not subject to PCAOB inspection for the year ended March 31, 2014. GT issued a report with a peer review of rating of "pass". A peer review report with a rating of "pass" means that D&T's system of quality control for the accounting and auditing practice applicable to engagements not subject to PCAOB inspection has been suitably designed and complied with to provide D&T with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. GT is currently performing the 2017 peer review with results to be released upon completion of the review.

Audit quality remains our number one priority. As we look forward, we will continue institutionalizing the audit process enhancements we have made throughout our system of quality control to ensure they endure.

Our commitment to audit quality encompasses the entire range of organizational motivations and behaviors: how we define our role and excellence in auditing; the mindset and mission of the auditor; and the specific capabilities, tools, methods, and standards we apply in conducting audits and managing our practice.

2017 Audit plan

Engagement team

The engagement team assembled to serve the University represents individuals who have been specifically chosen to meet your expectations and needs. We strive to provide continuity along with a balance of fresh perspective so we can offer high-quality, competent audit and professional personnel who will provide services with quality and distinction.

Engagement team leadership

Our engagement team is led by Katie Knudtson, lead client service partner. Katie is responsible for all services provided to the University and is in her third year as the lead client service partner for the University. Katie will ensure Deloitte provides a high quality audit, is consistently focused on client service, and communicates in a direct and transparent manner. We encourage you to call on Katie for any needs that arise throughout the year.

Scott Erickson, advisory partner, will work closely with Katie and will serve as a resource to management, the Audit and Compliance Committee, and our Deloitte team. Annually, Scott will meet with the Chair of the Audit and Compliance Committee as well as members of management. In addition to providing advice, insights, and perspectives based on his extensive experience, Scott will provide access to other specialists and industry leaders.

Chris Terhark, your engagement quality review director, will be responsible for evaluating and concurring with the significant judgments made by our team and the overall conclusion of the audit, as well as acting as Katie's primary consultation resource. When a matter requires review at a higher level, Katie will work with our national office. Katie will expedite the resolution of matters that require consultation with our national office, providing immediate access to experienced technical specialists.

Use of specialists

We recognize the importance of sharing our accounting, reporting, and industry knowledge and experience, and we will provide an enhanced level of skill for the specialized risks and industry issues affecting the University. The Deloitte Audit is distinguished by the use of a broad range of industry and functional specialists who are integral to the audit team and carry a deeper understanding of specific topics. These specialists augment the core audit engagement team in understanding business processes and related risks, and help the audit engagement team apply an appropriate level of professional skepticism to challenge significant management assumptions.

For the University's fiscal 2017 audit, we will use specialist resources to assist in performing our audit procedures for:

- Assessing the design and implementation of information technology and security controls
- Auditing income tax exemption
- Auditing estimates that involve actuarial calculations, such as the pension liability
- Auditing fair value of alternative investments
- Analyzing journal entries to address management override of controls

Our specialists have been actively involved in the planning and risk assessment process, and will be available to the audit team and the University's management year-round to discuss ongoing risk assessment, accounting and financial reporting issues, industry developments, and other matters of interest. These specialists will regularly update management on technical accounting, industry, and other matters that affect the University to minimize surprises and provide timely information to improve your understanding and ability to respond when new standards are issued or accounting developments occur.

See Our Client Service Team Section for more information on the University's engagement team.



Scope of services

Our responsibility under generally accepted auditing standards will be described to you in our engagement letter. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, is to express an opinion on the fairness of the presentation of the University's consolidated financial statements for the year ending June 30, 2017, in conformity with accounting principles generally accepted in the United States of America, in all material respects. We consider the University's internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's ICFR. Accordingly, we will not express an opinion on the effectiveness of the University's ICFR.

We will also issue certain other reports as described below:

Reports on financial statement audits

- University of Minnesota Consolidated Financial Statements
- RUMINCO, Ltd (performed by Deloitte Bermuda)

Compliance reports

- Federal Award Programs (Office of Management and Budget Uniform Grant Guidance)
 - Schedule of Expenditures of Federal Awards
 - Report on Internal Control and Compliance Related to Financial Reporting
 - Report on Internal Control and Compliance Related to Major Programs
- Examination of Management's Assertion of the University's Compliance with the Minnesota Office of Higher Education Audit Guide

Agreed-upon procedures

- National Collegiate Athletic Association (NCAA) Agreed-Upon Procedures
- Office of Student Affairs and Fees Committee Agreed-Upon Procedures for student groups
- Federal Drug Administration Agreed-Upon Procedures for Cost Recovery of 131-MIBG Therapy

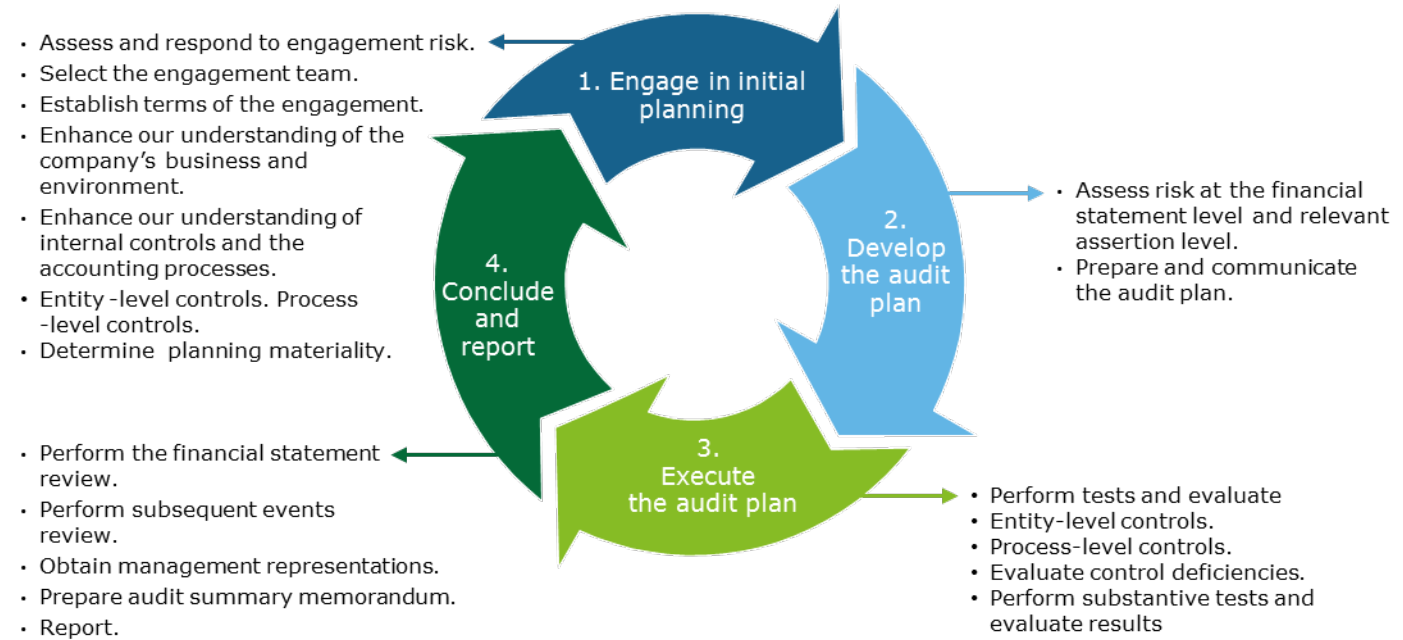
Should you require additional attest and compliance-related services, we will work closely with the University to scope such services appropriately.

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

The Deloitte audit approach

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

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



Our risk-based approach drives the way we audit, from financial statement line items and disclosures through the internal controls and substantive procedures we perform. Professional standards and our policies require an audit response for each material account and relevant assertion. Performing our risk identification at this level helps us pinpoint risk and develop a well- tailored, integrated response for both significant and normal risk areas.

This means that even at a detailed level, we audit more efficiently by putting more time into the most important areas. Our audit involves using the right resources at the right time to tailor our response to the risks of material misstatement that have been identified.

The Deloitte audit difference	
Partner and manager involvement in risk assessment and the identification of the underlying risk of material misstatement for significant account balances and disclosures	Improved design of control and substantive tests: <ul style="list-style-type: none"> • Tailored procedures for the University • Direct linkage between identified risks of material misstatement, controls that respond those risks, and substantive testing • Focus on risks of material misstatement and the elimination of testing that offers little additional audit assurance • A risk-based sampling methodology that enables us to perform appropriate audit procedures • On-the-job training, enhancing our professionals' ability to make well-reasoned professional judgments

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

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

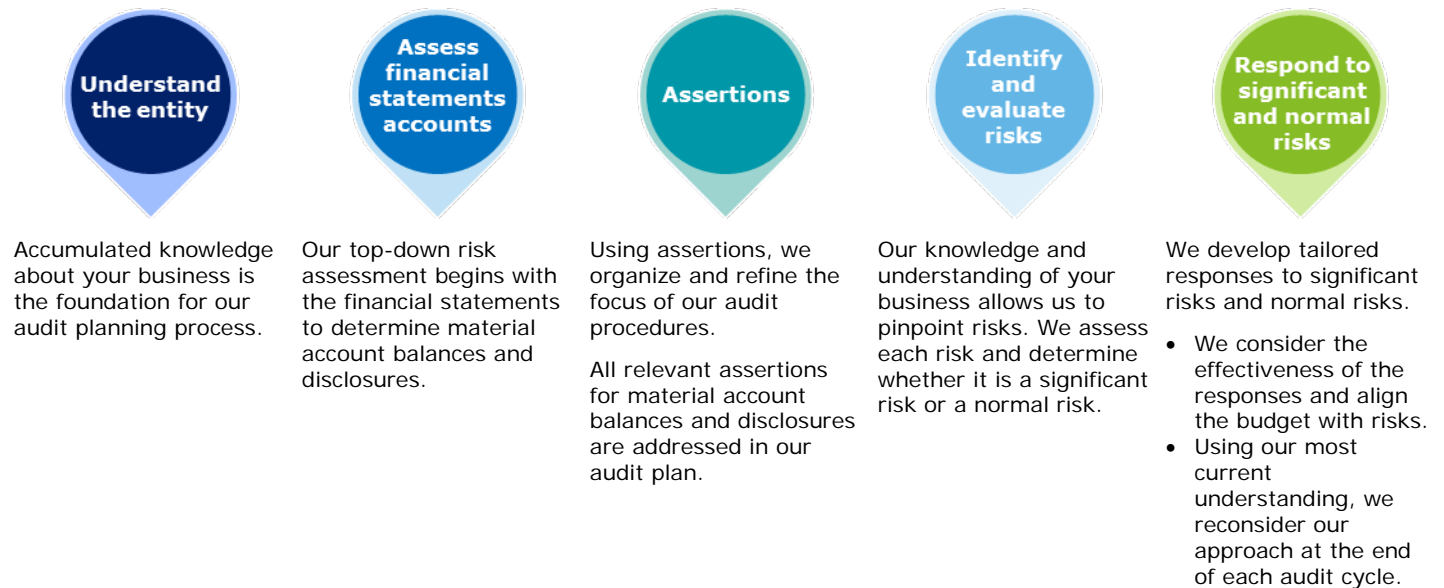
We recognize that the quality of our audit depends on providing a robust challenge to management’s significant assumptions, coupled with unambiguous and direct communication. That does not mean the process needs to be cumbersome or tedious. We will focus our service approach on what matters most by providing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

Our plan of action includes:

- Avoiding surprises
- Responding to your questions promptly
- Identifying and communicating key issues in a timely manner
- Working with you directly to manage deadlines
- Providing our broader views and perspectives on the University’s operations and internal controls, not just in the areas of accounting and financial reporting, but also in the University’s operations and other activities as identified during our audit.

The results of our audit procedures will be analyzed, with conclusions drawn based on applicable professional standards. Before rendering our reports, we will conclude whether the scope of the audit was sufficient to support our opinions; the misstatements identified, if any, have caused the consolidated financial statements to be materially misstated; and the control deficiencies identified, if any, represent material weaknesses that would result in the conclusion that ICFR is ineffective.

Deloitte audit planning process



The Deloitte audit includes our year-round involvement, the use of specialists, and a focus on continuous communication with management and the Audit and Compliance Committee throughout the audit process. The fundamentals of our audit approach are rooted in professional standards, but what differentiates our audit practice is the depth of perspective and professional judgment we bring in tailoring our audits to each client's business and risks. We listen carefully to what our clients and the accounting profession indicate are important criteria for enhancing audit quality, and we continuously improve our approach with this understanding to increase the effectiveness of our procedures and achieve an efficient audit process. With this approach, we maximize audit quality while appropriately controlling your audit costs.

Our focus on continuous improvement and our commitment to professional standards come together in the careful planning and knowledgeable execution that characterize the audit. In applying our audit approach and methodology for the University audit, we will:

- Conduct a partner-led planning process that enhances risk identification and assessment and promotes an appropriate response in controls testing and substantive procedures
- Leverage our investments in technology to increase productivity through the scalability and flexibility of our audit tools and ease of access to comprehensive accounting and financial disclosure literature

- Deliver additional value-added services by using the knowledge we gain from the audit to provide business process and industry insights and identify specialist resources who can help address your areas of interest.

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

- The constant availability of partners, specialists, and staff
- Meetings with key members of management and the Internal Audit function
- Analysis and auditing of large or complex transactions timely as completed

Partner-led audit planning and execution—The Deloitte culture emphasizes the role of our partners in the execution of our services. Experience tells us that an audit plan developed at the direction of engagement leaders yields an audit that has clarity of purpose and is tailored to the University's business. Katie will guide the upfront planning and execution of the audit, using her deep understanding of your organization, your industry, and the professional literature to drive quality throughout the process. She will be assisted by experienced partners and senior managers as needed.

In the current year, we will leverage our experienced personnel at the senior management level in an effort to drive internal development throughout the entire engagement team. Katie will guide the engagement team in identifying risks of material misstatement by considering what could go wrong in significant account balances and disclosures. She will be involved in the detailed audit execution, including assessing which procedures are most responsive to the identified risks, the level of testing required, and the timing of the testing. Katie will continuously challenge the procedures performed to deliver an effective audit.

Under the leadership of Katie, our audit team will anticipate issues, address potential barriers to appropriate financial reporting, and help minimize surprises in the audit—all of which will bring significant value to the University. When issues are identified and warrant discussion with the Audit and Compliance Committee and management, Katie will provide prompt communication of significant developments and findings.

Open communication—We are committed to anticipating issues and avoiding surprises. One aspect of our professional responsibility is to bring issues to the attention of management and the Audit and Compliance Committee. We will consult with management and the Audit and Compliance Committee openly and candidly.

Plan the audit

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

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

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

Responding to the changing risk environment

Although our audit plan generally involves a sequential process from planning to performing to concluding, the stages in this process are flexible and adaptable. For example, once the plan has been developed and is being executed, we may become aware of new risks that were unknown during the planning process and require a change in audit scope. Based on new information, we will reassess previous planning activities and adjust the audit plan accordingly. These adjustments will be communicated to management through our weekly audit status updates as well as at Audit and Compliance Committee meetings in May, December, and February, unless other timing is warranted.

A laser focus on your most significant risks

Our approach is distinguished by a refined view of risk that pinpoints what could go wrong to cause a material misstatement for significant account balances and disclosures. Applying this lens to the University's audit, we will spend time on the areas that matter most and limit testing in areas that provide little or no additional audit assurance. In short, we will perform appropriate, but not excessive, audit procedures. We will develop our audit plan for the University at the financial statement level and relevant assertion level for accounts and disclosures, and craft an audit plan that targets the risks of material misstatement in each area.

Benefits of pinpointing risk

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

Our service

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

Quality

- Focuses our specialists by identifying and addressing areas of significant risk
- Facilitates the identification of more effective audit methods

Efficiency

- Creates a targeted response for significant risk areas and normal risk areas, aligning audit effort with risk

Customized procedures

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

The Risk Assessment sections includes our preliminary detailed risk assessment and our responses to these risks. As we perform our audit procedures, we will update our risk assessment and inform the Audit and Compliance Committee and management of any significant changes.

Execute the audit plan

The performance of the audit plan includes evaluating the design and implementation of controls and performing substantive audit procedures.

Testing design and implementation of controls and evaluating deficiencies

An integral part of our audit approach is the consideration of the control environment, which encompasses both manual and automated controls. Our consideration of controls is based predominantly on an analysis of the key business cycles that constitute management's financial accounting and reporting process.

We consider the University's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we will not express an opinion on the effectiveness of the University's internal control over financial reporting.

We will report significant deficiencies and material weaknesses identified in internal controls and issue a management letter when opportunities for improvements or efficiencies come to our attention during the audits and a letter to the Audit and Compliance Committee and management summarizing the results of our audits.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances; these procedures are designed to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. We apply a professional level of skepticism to the evidential matter provided by management to support their assertions in the consolidated

financial statements. To obtain this assurance, we accumulate factual and estimated misstatements that were identified while performing substantive auditing procedures and consider those misstatements in relation to the consolidated financial statements as a whole.

Misstatements above a certain threshold will be reported to the Audit and Compliance Committee and management.

Fraud-related procedures

There is continued emphasis on the auditor's responsibility to detect material misstatements resulting from fraud. Our audit procedures related to fraud include evaluating the design and implementation of management's processes for identifying and responding to the risk of material misstatement resulting from fraud, and the programs and controls that management has established to mitigate that risk. In addition, we perform the following audit procedures to address fraud risks:

- Identify unusual trends in account balances and ratios
- Perform tests of journal entries exhibiting possible characteristics of management override of controls, identified using electronic data interrogation techniques
- Evaluate the University's fraud risk assessment and internal controls to mitigate the risks identified
- Consider the potential for bias in judgments and estimates, including performing retrospective analysis
- Evaluate the business rationale for significant unusual transactions
- Engage in periodic fraud discussions with certain members of senior management and others, including the Audit and Compliance Committee
- Evaluate identified audit adjustments (recorded and passed) for potential fraud
- Consider the impact of the results on financial statement and internal control opinions

Evaluating management override and antifraud programs and controls

Professional standards require us to plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or fraud. Our audit procedures include discussing the risk of fraud with various parties to obtain an understanding of fraud risk and the University's programs to prevent fraud. Our inquiries will encompass members of the Audit and Compliance Committee; executives such as the President, chief financial officer, and general counsel; and individuals in the controller's organization and the internal audit function.

In addition to these inquiries, we obtain a database of journal entries for all transactions throughout the year and perform various analyses to detect those entries that have characteristics that indicate a greater likelihood of fraud. We test a selection of these journal entries to determine if there is sufficient evidence to support the entry and assess that there is an absence of management override or fraud. Finally, throughout our audit procedures, we challenge management's assumptions and estimates and apply an appropriate level of professional skepticism in evaluating evidential matter supporting and opposing management's assertions.

Evaluate financial statement presentation and disclosures

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

Perform subsequent-events review and obtain management representations

Our subsequent-events review will cover the period from June 30, 2017, through the date of our report on the consolidated financial statements. This review is performed to identify any significant matters that would require adjustment of year-end amounts or disclosure in consolidated financial statements.

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

Continuous communication and coordination

In the course of the audit issues will be reported to Katie for discussion with the University's management.

Our coordination plan features:

- Onsite supervision of fieldwork by our international partners
- Regular status meetings conducted by Katie throughout the year
- Meetings with your professionals in areas other than finance to continue to build our understanding of your business and further develop our audit procedures.

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

Consideration of the University's use of information technology

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

Technology tools for the University audit

The tools described in the accompanying table help us determine audit scope, prepare consistent audit workpapers and files, conduct analytical procedures, select data for testing, accumulate audit results, and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of the University's own technologies to gain further efficiencies.

We are keenly aware of the importance of scaling our audit to the University's size and complexity. To do this, Deloitte uses a package of proprietary audit tools, which are discussed later in this section. These tools can be tailored to the specific attributes of companies and the unique accounting and auditing requirements of the University's industry. We will leverage our proprietary tools and programs to tailor our audit plan for the University.

Technology	Description	Benefits
Engagement Management System	Deloitte's automated workpaper system, incorporating audit-specific templates, reference materials, support documents, and management insights	Rapid and effective electronic transfer of information among audit team members, and real-time progress and status updates on audit results and findings
Deloitte Optix	Next generation application that applies analytical techniques to client's datasets to identify transactions with characteristics of audit interest.	Leverages data analytical techniques to uncover unusual trends, patterns, and anomalies in large data sets. Helps audit teams focus more effectively on high-risk areas for fraud in journal entry testing analysis; reduces the time necessary to perform profiling and allows for testing that could not have been conducted manually
Deloitte Audit Plus	An integrated suite of tools, applications, knowledge, content, and industry information that empowers our auditors to respond to the University's unique environment and circumstances	Facilitates easier sharing of knowledge; integrates tools, content, and other resources; connects Deloitte people with specialists around the world; delivers enhanced research and search capabilities; and provides content that is scalable to the University engagement
Audit Command Language (ACL)	Market-leading technology for data inquiry, analysis, and reporting	Allows unconstrained analysis of your data files

Technology	Description	Benefits
Control Audit Tool (CAT)	A proprietary, real-time, web-based tool that will be tailored specifically for the University engagement to assist in managing the scope, performance, and documentation of our ICFR procedures	Creates significant efficiencies in the deployment, review, reporting, and overall conclusion on ICFR at the corporate level; CAT is workflow-enabled, which allows for timely communication and the resolution of issues with local management and provides us with continuous visibility regarding the status of our ICFR testing and issue resolution
Deloitte Technical Library	A comprehensive online compilation of accounting and financial disclosure literature that allows Deloitte and the University to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our interpretations and guidance; this subscription service, which is unique to Deloitte, provides a natural mechanism for integrating our positions into the University's research on accounting matters and helps achieve a high degree of synergy between our organizations	Contains extensive accounting and reporting guidance; supports the quick and efficient research of complex accounting matters by allowing the University access to our accounting information
Deloitte Connect	A secure web-based portal that provides a clear view into audit status	Provides a secure workspace to coordinate and share information and utilizes dashboards that provide real-time tracking of information requests, and online logs that provide transparency into audit issues and findings and can facilitate timely resolution

Conclude and report

The results of the audit procedures performed throughout fiscal 2016 will be analyzed and conclusions will be drawn based on our work performed. Before rendering our reports, we will conclude whether the scope of the audit was sufficient to support our opinions; the misstatements identified, if any, have caused the consolidated financial statements to be materially misstated; and the control deficiencies identified, if any, represent material weaknesses.

To obtain this assurance, we accumulate factual and estimated misstatements, if any, that were identified while performing our procedures and consider such misstatements in relation to the consolidated financial statements as a whole. Material misstatements that are identified by us and uncorrected misstatements identified by us or the University will be reported to the Audit and Compliance Committee and management.

Risk assessment

Risk assessment is a critical facet of our audit approach and scoping process. We identify risks of material misstatement associated with the University, material account balances and disclosures, assertions, and related controls. We design all phases of the audit to identify and address risks associated with the University and to enable us to respond to the business, regulatory, and economic environment in which the University operates.

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

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

For each risk of material misstatement we identify, we perform substantive procedures to address that risk. Our audit approach is grounded in our understanding of your business accumulated from our experience. We begin by gaining a comprehensive perspective on your operations and business objectives, as well as material financial statement accounts and disclosures.

We also consider the knowledge we gained from previous audits, walkthroughs of the University's business processes, inquiries with management, our reviews of your integrated business plan, management's risk management processes, and the risk assessment performed by the internal audit function. We brainstorm, discuss, and evaluate the inherent risks. By performing the analysis in this manner, we focus our testing on material risks of misstatement and the controls that mitigate those risks.

The initial risk assessment will be revisited throughout the audit process. Our monitoring activities are performed in conjunction with our interim review procedures and in our frequent interactions with management. Our team will respond to changes in our risk assessment and implement appropriate audit procedures to respond to the change in risk, as necessary. In addition, our team will address non routine transactions throughout the year. We will inform the Audit and Compliance Committee and management of significant changes to our risk assessment or audit scope as we perform our work.

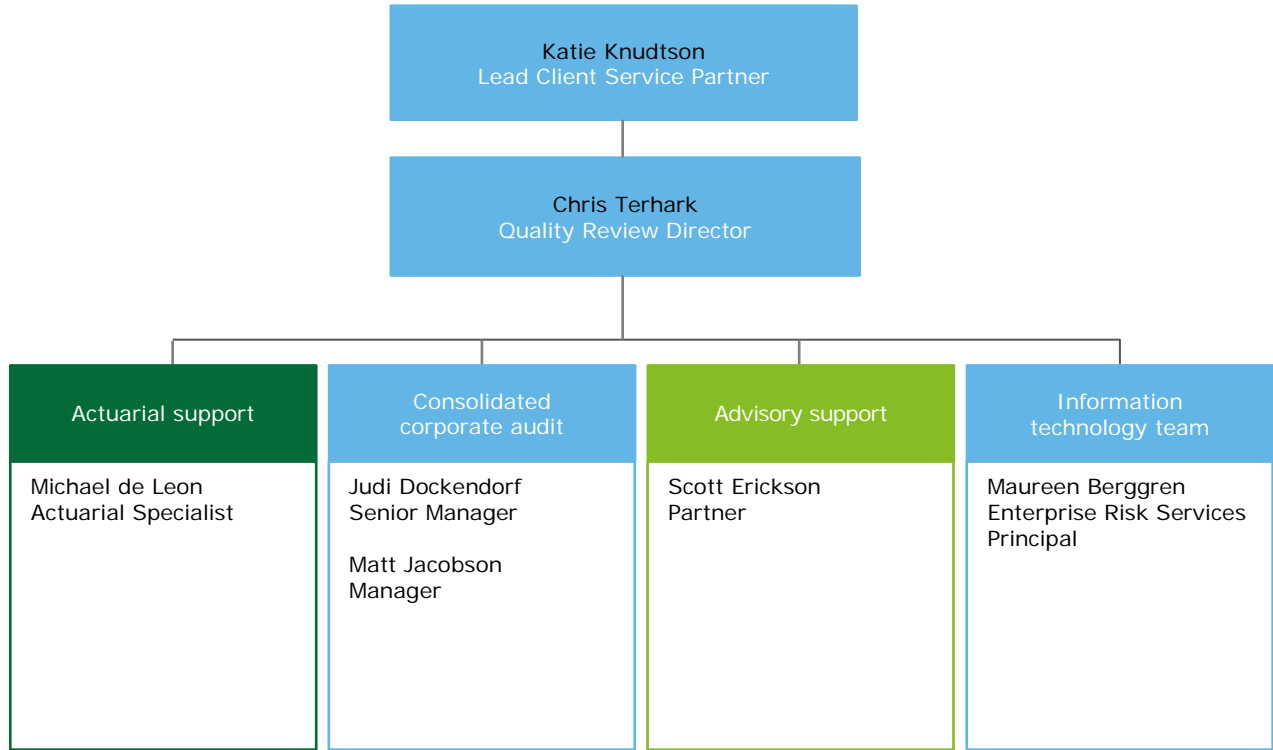
Areas of audit focus for 2017

Based on our risk-based audit approach and the updated 2017 risk assessment, we have preliminarily identified the following significant risks, including fraud risks:

- Fair value of investments that are not readily marketable and illiquidity in money market accounts
- Management override of controls

Audit focus areas	Description	Planned audit response
Cash and cash equivalents Investments (significant risk)	<ul style="list-style-type: none"> • Fair value of investments, particularly those that are not readily marketable • Illiquidity in cash accounts, specifically money market accounts 	<ul style="list-style-type: none"> • Evaluate management’s methodology and process for valuing alternative investments • Test the design and implementation of internal controls surrounding alternative investments • Review support for the valuation of alternative investments for potential impairment • Confirm alternative investment balances with the fund manager and the record-keeper • Obtain and examine the underlying agreements related to alternative investments • Obtain and review the most recent audited financial statements for the alternative investments • Perform substantive analytical detail procedures to test the fair value measurements from the date of the most recent audited financial statements to June 30, 2017 • Obtain and review the most recent unaudited financial statements for the alternative investments • Consult with Deloitte professionals with specialized knowledge of auditing alternative investments in designing our audit plan and reviewing the results of our audit • Perform audit procedures surrounding the disclosures included in the consolidated financial statements
Management override of controls (significant risk)	<ul style="list-style-type: none"> • Inherent significant risk under professional standards 	<ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of consolidated financial statements • Obtain an understanding of the business rationale of significant unusual transactions we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment • Test areas of critical management judgment and estimates • Hold discussions regarding the risk of fraud and management override with members of management and the Audit and Compliance Committee

Our client service team



Audit timeline

The performance of audit procedures, and consistent with this audit plan, will be based on the anticipated timing outlined below.

	Monthly activity													
	M	A	M	J	J	A	S	O	N	D	J	F	M	
University consolidated audit														
Audit planning and risk assessment	•	•	•	•										
Interim audit work		•	•											
Final audit work				•	•	•								
Conclude and report						•								
Compliance audits														
Planning and risk assessment		•	•	•										
Compliance requirements testing		•		•	•									
Conclude and report		•		•	•									
NCAA agreed-upon procedures				•		•								
Student Fees agreed-upon procedures							•	•						
Communication and coordination	•	•	•	•	•	•	•	•	•	•	•	•	•	•



Recent accounting and industry matters

Recent GASB Accounting Standards

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*—effective for FY2018

This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits, as well as for certain nonemployer governments that have a legal obligation to provide financial support for other postemployment benefits provided to employees of other entities.

GASB Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*—effective for **FY2017**

This statement addresses certain issues that have been raised related to GASB No. 67, GASB No. 68, and GASB No. 73, specifically issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements.

Recent GASB project updates 1

Lease Accounting—Reexamination of NCGA Statement 5 and GASB Statement 13

The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance. This project will provide a basis for the Board to consider whether operating leases meet the definitions of assets or liabilities. Current guidance is provided by National Council on Governmental Accounting (NCGA) Statement 5, Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments, GASB Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Statement 62 incorporates the provisions of FASB Statement No. 13, Accounting for Leases, as amended and interpreted, into the GASB's authoritative literature. The GASB issued an exposure draft in January 2016 and anticipates issuing final guidance in December 2016.

Independence

Independence encompasses integrity, professional skepticism, intellectual honesty, and objectivity—freedom from conflicts of interest. No entity or circumstance is compelling enough for us to compromise our ability to serve the public interest or our reputation.

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

- The commitment of our leaders and a culture that stresses the importance of independence
- Consultation and monitoring processes
- Clearly communicated, comprehensive independence policies and guidance on areas including, but not limited to, personal financial interests, scope of services, business relationships, employment matters, and partner rotation
- A chief ethics and compliance officer who makes presentations regarding compliance to the University's President and the Board of Regents
- Mandatory training for all partners, principals, and professionals
- A searchable global database of restricted entities, including information about the corporate entity tree and affiliates
- A system to facilitate the electronic tracking of personal financial holdings, including a program designed to enable holdings in brokerage accounts to be automatically imported and updated in the system
- At least annual representations from partners, principals, and employees
- An internal inspection and audit process to evaluate personal compliance with independence policies
- An internal inspection process for compliance with preapproval and scope-of-services policies
- A disciplinary process for noncompliance
- Policies to document the preapproval of any permissible services by the Audit and Compliance Committee, among other matters that might bear on independence
- Regular communications regarding independence matters
- Resources available to answer any independence-related questions.

Center for Corporate Governance

Expectations for good governance continue to increase as the focus on corporate risk, integrity in financial reporting, and regulatory compliance intensifies. Deloitte's **Center for Corporate Governance** is a resource to assist executives, boards of directors, and the governance community in fulfilling their fiduciary responsibilities. The center focuses on providing thought leadership and activities, including those described in the following section, which provide audit committee members with insights on relevant corporate governance issues. We would be happy to discuss your needs or any additional resources we can provide.

Deloitte's Center for Corporate Governance encourages dialogue and knowledge-sharing and provides thought leadership on governance issues to advance collaboration among corporations, board members, the accounting profession, academia, investors, and regulatory bodies.

The Center for Corporate Governance website includes the latest corporate governance thought leadership by Deloitte professionals and leading third-party organizations. Many of our complimentary publications are housed on the website, including:

- **Audit Committee Brief**—This monthly publication provides recommendations and overviews on corporate governance, regulatory and legislative topics, and technical updates affecting audit committees.
- **Audit Committee Resource Guide**—This overview of audit committee regulatory requirements covers common practices and specific steps for audit committees to consider. It also provides relevant tools and resources, such as an audit committee calendar of activities to help with planning and a financial literacy assessment tool.

Governance thought leadership and resources

Research and thought leadership by the Center for Corporate Governance focus on issues relevant to boards of directors and governance leaders. The Deloitte Digest—Board of Directors is a monthly Deloitte communication, that consolidates board-related content into a single, succinct email.

The center also focuses on developing and maintaining strong relationships with third-party organizations and public policy groups. Collaborations include conference sponsorships, contributing authorships, and peer exchange roundtables.

Deloitte's Governance & Risk Dbriefs webcasts feature Deloitte leaders and guest presenters who provide information on timely governance issues and trends.

Board and audit committee education programs

Our permissible and customized board development education programs cover topics such as the role of the board, setting the strategic agenda, talent management and succession planning, executive compensation, risk oversight, ethics and compliance, regulatory updates, the economic outlook, cyber risk, FCPA and anti-money laundering, and board composition, to name a few. We offer education sessions specific to the audit committee, including audit committee leading practices, risk oversight, interaction with internal audit, anti-fraud programs and controls, enterprise compliance, the tax landscape, technical accounting activity, mergers and acquisitions, and valuation.



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

May 11, 2017

AGENDA ITEM: Compliance Risk Assessment Initiatives

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Boyd Kumher, Chief Compliance Officer

PURPOSE & KEY POINTS

The purpose of this item is to discuss the University's compliance efforts with the Chief Compliance Officer (CCO). The discussion will address the implementation of a new process for performing compliance risk assessments.

A written report including the following items is included in the docket:

- Specific compliance-related matters.
- Compliance-related training and education.
- Monitoring initiatives.
- UReport statistics for the period of July 1, 2016 through December 31, 2016.

Compliance Risk Assessment Initiative

Office of Institutional Compliance



UNIVERSITY OF MINNESOTA
Driven to DiscoverSM

Elements of an Effective Compliance Program

According to the U.S. Sentencing Commission

1. Standards and Procedures
2. Organizational Leadership and Culture
3. Reasonable Efforts to Exclude Bad Actors from Managerial Ranks
4. Training and Education
- 5. Risk Identification and Prioritization**
- 6. Monitoring, Auditing and Evaluating**
7. Performance Incentives and Disciplinary Measures
8. Appropriate Remedial Action

Risk Identification and Prioritization

Annually:

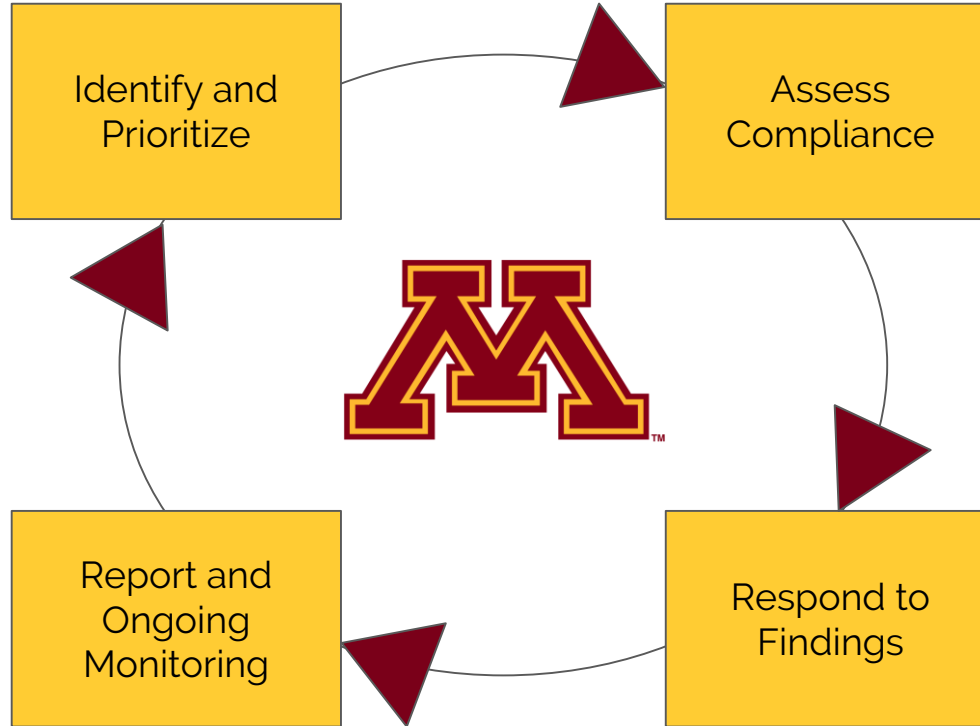
- Evaluate
 - Audit results (internal/external)
 - Hotline reports
 - Other reports made to the Office of Institutional Compliance and compliance partners
 - Industry enforcement trends
 - Litigation or settlements
- Mitigate
 - Design, implement, or modify program elements to reduce risks

Compliance Risk Assessments

- New approach
- Collaborative
- Cross educational
- Frequency determined by nature of risk
- Action plan to address gaps

Monitoring, Auditing, and Evaluation

- OIC engages leadership and stakeholders to select risk areas for gap analysis.



- OIC and stakeholders perform compliance gap analysis.

- Findings reported to EOCC, President, and Audit Committee of BOR.

- Develop mitigation strategies for identified compliance gaps.

**REPORT OF THE CHIEF COMPLIANCE OFFICER, OFFICE OF INSTITUTIONAL COMPLIANCE, FOR THE AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD OF REGENTS ON THE UNIVERSITY COMPLIANCE PROGRAM
MAY 11, 2017**

INTRODUCTION

This report addresses the following: (I) Significant Matters; (II) Previously Reported Matters; (III) Compliance-related Training/Education (IV) Monitoring Initiatives, and (V) UReport Statistics for the Period July 1, 2016 through December 31, 2016. Additional information regarding the University's Office of Institutional Compliance is available on the Office's website. Links to relevant resources are also provided.

<http://www.compliance.umn.edu/complianceHome.htm>.

I. SIGNIFICANT MATTERS

A. Failure to Meet Clery Act Reporting Deadline

Summary: The University of Minnesota Crookston published and distributed its Annual Security and Fire Safety Report (ASFSR) on or about Friday, October 14, 2016, two weeks after the October 1 deadline established under the Clery Act. Noncompliance with a requirement under Clery can lead to a fine of up to \$35,000 and additional audit action by the Department of Education.

Action: The Clery Compliance Coordinator will regularly follow-up with the University of Minnesota Crookston administrator responsible for distribution of its ASFSR to ensure that the October 1st deadline is met.

II. PREVIOUSLY REPORTED MATTERS

A. GOOGLE APPLICATIONS ACCESS FOR ALUMNI

Summary: The University currently provides Alumni with free continued access to their Google email account and applications, including email history and documents. Alumni include former students, retired faculty and staff, and students who choose to have a break in enrollment for up to six semesters. The continued access to documents that may include data subject to federal or state law (e.g. HIPAA, MN Data Protection Act, and the Family Educational Rights and Privacy Act) imposes risk on the University, particularly for units such as Boynton Health Service, AHC, Records Management, HIPAA Office, and the Compliance Office. Because of this risk, Boynton Health Services is delaying their planned transition from Outlook to Google until this matter is resolved.

Update: Based on recommendations from a cross-functional work group convened by the Office of Institutional Compliance, Boynton is developing procedures to address the risk, including de-provisioning practices, and can serve as a model solution for the rest of the University.

B. LAWSUIT FILED BY THREE FORMER FEMALE COACHES AT UMD ALLEGES GENDER DISCRIMINATION

Summary: In September 2015, three former athletics coaches at the University of Minnesota, Duluth filed suit in federal court alleging discrimination on the basis of sex, sexual orientation, national origin, and age.

Update: The University has denied the allegations of discrimination, and filed a motion for summary judgment that will be heard by the court on May 25, 2017. Any claims that survive the motion will be addressed at trial in the Fall.

III. COMPLIANCE-RELATED TRAINING/EDUCATION

The University has conducted or developed the following trainings during this reporting period.

- **OGC Records Management** – conducted Data Practice Act training with the compliance partners, Office of Student Affairs, and Board of Regents staff. Conducted Record Retention training for the Financial System User Network.
- **Health Information Office** – new HIPAA training rolled out to over 10,000 employees, including all clinical service employees and other employees required to complete training.
- **Human Resources** – Disciplinary Process at the U (AHC); Respectful Workplace (AHC).
- **Office for Equity and Diversity** - Equity and Diversity Certificate Program courses (Athletics); Implicit Bias in Search Process (AHC), Incorporating Equity & Diversity into Search Process (AHC); Discipline Termination in the Public Sector (AHC); Sexual Harassment Training (AHC School of Nursing).
- **Information Security** – updated Public Jobs/Private Data training required for new faculty and staff.
- **Department of Public Safety** – added new compliance training for their staff in the areas of 1) Missing Person Policy; 2) Communication with Disabled Persons; 3) Brady Law Review; and 4) Patrol Online Course Certification.

The Office of Institutional Compliance (OIC) is working with the compliance partners to update the inventory of compliance trainings/courses.

IV. MONITORING INITIATIVES

In the Report of the Chief Compliance Officer to the Audit Committee of the Board of Regents on the University Compliance Program dated May 12, 2016 it was stated that some administrative units have robust monitoring programs in place while others are currently in the process of implementing a more formal process. The new chief compliance officer is in the process of implementing a new approach to monitoring and assessing compliance risk. This new approach will replace the previous legal compliance reporting review process and institute a systematic process for identifying compliance risks and performing in-depth analysis of compliance efforts related to those risks.

V. UREPORT STATISTICS AND TRENDS

UREPORT STATISTICS: JULY 1, 2016 THROUGH DECEMBER 31, 2016

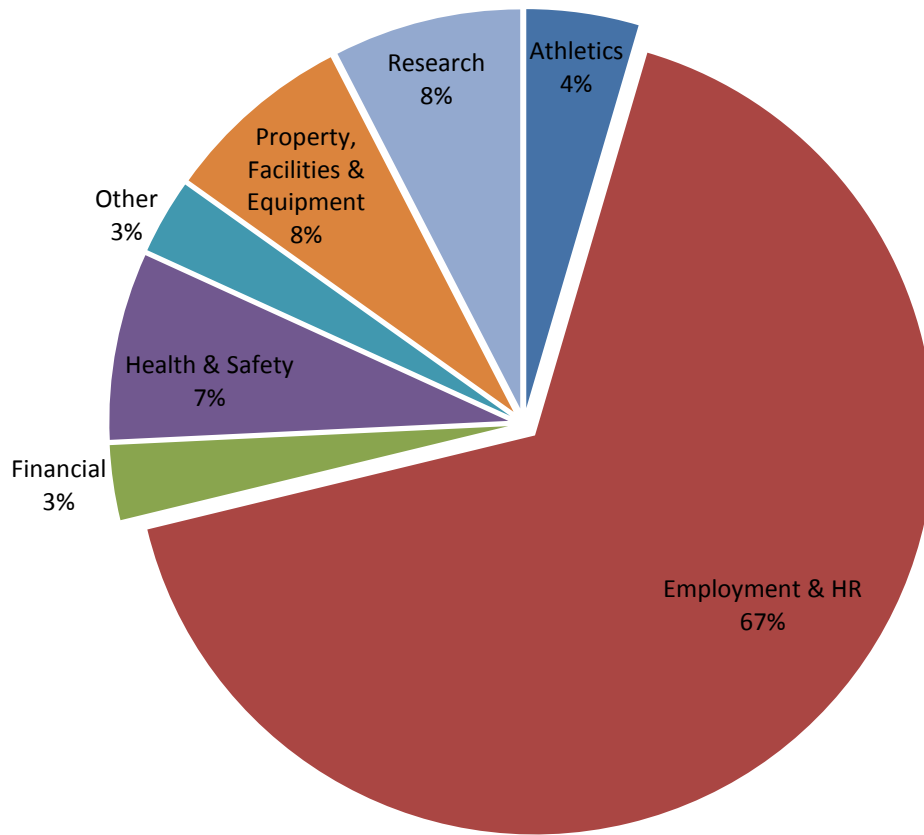
UReport is the University’s anonymous web-based reporting service. This reporting service is provided by Navex Global, an independent company that provides similar services for hundreds of companies and universities. UReport is intended to be used to report allegations of local, state and federal law as well as violations of University policy. In most circumstances this reporting system is not intended to be used for employment concerns that do not involve legal or policy violations. Reporters may submit reports by either a toll-free phone number or via the web. UReports can be submitted anonymously. Individuals who submit reports are expected to report good faith concerns and to be truthful and cooperative in the University’s investigation of allegations.

There were 70 UReports submitted during the period of July 1, 2016 through December 31, 2016; four of those are still active investigations. During this period 80% of the reports were made anonymously. Over 74% of the reports involve claims regarding:

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

	Running Total from Launch (August 2005)	July 1, 2016 to December 31, 2016
Total Reports	1604	66
Report Sources:		
Internet	89%	94%
Call Center	11%	5%
Other	<1%	<1%
% Anonymous	74%	80%
% Substantiated		27%

Ureports by Category





BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

May 11, 2017

AGENDA ITEM: Update on Remediation of Intercollegiate Athletics Audit Findings

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Mark Coyle, Director, Intercollegiate Athletics
Michael Volna, Associate Vice President & Interim Assistant CFO

PURPOSE & KEY POINTS

The purpose of this item is to discuss progress related to the remediation of findings from internal audits of Intercollegiate Athletics (ICA):

- Athletics administration – December 2015
- Men’s and Women’s Basketball – May 2016
- Athletics Finance and Operations – June 2016

A financial oversight group has been working with ICA to ensure that appropriate financial controls are in place; ensure that policies and procedures are understood and adhered to by department personnel; strengthen the culture of financial compliance through training and education; and strengthen processes and procedures related to the procurement of alcohol for events and related hospitality. These issues were raised in the three internal audits issued during FY 2016.

The work of the oversight group has been guided by a work plan developed in December 2015 and adjusted after completion of the May 2016 and June 2016 audits. The work plan has nine priority areas of focus:

1. Align ICA’s policies with University financial policies.
2. Evaluate and address purchasing audit findings.
3. Evaluate and address purchasing card (P-card) audit findings.
4. Develop and deliver education and training to ICA staff.
5. Address “pain points” in University financial policies.
6. Evaluate and address contract management audit findings.
7. Implement Elevation, a financial software tool, to better track and manage financial information.
8. Create administrative policy requiring annual financial certification.
9. Review other internal financial controls as appropriate.

In addition, the oversight group has developed an audit action plan scorecard that tracks progress on the specific “significant” and “essential” findings of the audits.

The oversight group continues to make progress on their 9-point work plan and resolution of the Internal Audit “essential” findings. Internal Audit completed follow-up verification testing in January 2017 related to the status reported to the committee at its December 2016 meeting; the oversight group has also reviewed those results.

As a result of that testing and discussions with Internal Audit, the oversight group adjusted the status of three recommendations. Some purchasing issues regarding coach contracts, hospitality, travel, and employee reimbursement transactions were not yet fully remediated, so two items previously reported in December 2016 as “complete” have been reclassified to “partially complete” and one item previously reported as “complete” has been reclassified to “not complete.”

Regarding implementation of remediation activities on the essential audit findings:

- 17 have been resolved.
- Three have been partially resolved.
- One is not resolved.

Regarding the status of the oversight group’s work plan:

- Four items are complete.
- Four are in progress with some portions completed.
- One has been started but no portion has been completed.

BACKGROUND INFORMATION

In December 2015, the Board of Regents received the results of an internal audit of financial management practices within ICA related to expenses incurred and/or authorized by senior department officials from 2012-2015.

In February 2016, the committee received an update on the implementation of recommendations related to the December 2015 internal audit and the external review.

In May 2016, the Office of Internal Audit issued a sport-specific audit of men’s and women’s basketball covering the 2014-15 school year.

In June 2016, the Office of Internal Audit issued an audit that included a review and assessment of current financial and operating controls and procedures within ICA, primarily focused November 2014-October 2015.

The committee received updates on the remediation of audit findings at its September 2016 and December 2016 meetings.

**ATHLETICS FINANCIAL OVERSIGHT COMMITTEE
WORKPLAN IMPLEMENTATION SCORECARD
MAY, 2017**

	Oversight Committee Work Plan Items	Status	Lead	Comments
1.	Align Athletics' policies with University policies	✓	McFarland	Completed spring FY 2016
2.	Evaluate and address purchasing audit findings	○	McFarland	Audits identified travel and coaches' contract areas required additional work
3.	Evaluate and address purchasing card audit findings	✓	McFarland	Awaiting Internal Audit validation that recommendations have been addressed
4.	Develop and deliver education and training to Athletics' staff	✓	Athletics & Controller's Office	Completed September 2016
5.	Address "pain points" in University financial policies	○	Controller's Office	Pain points identified; policy changes to address them are in process.
6.	Evaluate and address contract management audit findings	○	McFarland	
7.	Implement "Elevation" financial software for use by Athletics	✓	Athletics & Controller's Office	Completed November 2016
8.	Create administrative policy requiring annual financial certification	∅	Volna	Surveyed other institutions for certifications implemented elsewhere
9.	Review other financial internal controls as appropriate	○	Athletics Oversight Committee	Working with OGC to revise language for future coaches contracts

Key:

- ✓ - Item has been completed. Remediation of Internal Audit findings have been submitted to Internal Audits for validation.
- - In process; some items have been completed.
- ∅ - In process; all items started but no items complete.

**ATHLETICS FINANCIAL OVERSIGHT COMMITTEE
PROGRESS TOWARDS RESOLUTION OF ESSENTIAL INTERNAL AUDIT FINDINGS
MAY, 2017**

Audit Committee Follow Up Reports	# 1615 - Athletics Finance & Operations (June 2016)			# 1610 – Operational and Compliance Audit, Basketball (May 2016)			# 1606 - Athletics Administration (December 2015)		
	Number Complete	Number Partially Complete	Number Not Complete	Number Complete	Number Partially Complete	Number Not Complete	Number Complete	Number Partially Complete	Number Not Complete
May, 2017	6	1	0	7	0	0	4	2	1
December, 2016	3	4	0	5	2	0	7	0	0
September, 2016	1	4	2	5	1	1	4	2	1

Note:

The data above represents the Athletics Financial Oversight Committee’s assessment of the status of findings, based on review of changes and improvements made by Athletics’ finance team, and are subject to validation by Internal Audits as they conduct follow-up testing (See comment below).

Comments on Audit #1606 – Athletics Administration

Internal Audit performed follow up testing on remediation of the audit findings for this report during January 2017. As a result of discussions with Internal Audits’ regarding their testing, the Oversight Committee agreed that some issues were not yet remediated regarding hospitality, travel, and employee reimbursement transactions. Consequently, items previously considered resolved as of December have been reclassified for the May update to “Partially Complete” or “Not Complete”.



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

May 11, 2017

AGENDA ITEM: Information Items

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Gail Klatt, Chief Auditor

PURPOSE & KEY POINTS

To report engagements with external auditors, as required by Board policy.

Engagements Less Than \$100,000 Requiring After-the-Fact Reporting

- The University of Minnesota Duluth entered into an agreement with Bradley Mickelson, CPA to provide an audit of the financial statements of KUMD radio station as of June 30, 2016. This audit is being performed as a requirement for receiving grant funding from the Corporation for Public Broadcasting. The fees for this engagement are not to exceed \$4,200. This engagement does not impair the independence of Bradley Mickelson, CPA as related to an external audit of the University and was approved by the Controller’s Office in conformance with Board policy.

BACKGROUND INFORMATION

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