



# Audit & Compliance Committee

September 2019

September 13, 2019

9:45 a.m. - 10:45 a.m.

Boardroom, McNamara Alumni Center

## AUD - SEP 2019

### 1. 2019-20 Committee Work Plan

Docket Item Summary - Page 3

2019-20 Committee Work Plan - Page 6

### 2. Overview of Financial Statements Review

Docket Item Summary - Page 8

Financial Statements Review - Page 9

### 3. University Cybersecurity Program: Overview and Work Plan

Docket Item Summary - Page 11

Presentation Materials - Page 13

### 4. Internal Audit Charter

Docket Item Summary - Page 25

Office of Internal Audit Charter - Page 26

### 5. Information Items

Docket Item Summary - Page 30

Summary of Recent Audits of Federal Sponsored Awards - Page 32



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**September 13, 2019**

**AGENDA ITEM:** 2019-2020 Committee Work Plan

- Review
  Review + Action
  Action
  Discussion
- This is a report required by Board policy.

**PRESENTERS:** Regent Darrin Rosha  
Gail Klatt, Chief Auditor

## PURPOSE & KEY POINTS

The purpose of this discussion is to review and discuss the committee’s 2019-20 work plan.

## BACKGROUND INFORMATION

Board of Regents Policy: *Board Operations and Agenda Guidelines* describes the role of the Audit & Compliance Committee as follows:

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

- promoting the development of an effective, efficient, and continuously improving control environment, in concert with the administration, to achieve the institution's objectives through an appropriate system of risk assessment and internal control;
- overseeing the University's integrated framework of internal control, risk management practices, and institutional compliance program to ensure that the administration executes the provisions of Board of Regents Policy: Internal Control;
- serving as an informed voice on the Board by relaying the audit and compliance perspective when related issues are brought before the Board and its standing committees; and
- providing a direct channel of communication to the Board for the chief auditor and the independent public auditor.

Consistent with Board of Regents Policy: *Reservation and Delegation of Authority* Article I, Section X, the Board reserves to itself authority to adopt policies regulating the audit function; approve selection of external public accountants and the chief auditor; review audit plans; and

evaluate the performance of the independent auditor and, jointly with the president, the performance of the internal audit function.

Specific duties of the Audit & Compliance Committee include the following:

(a) Oversight of the Independent Auditor. The independent auditor reports directly to the Board through the Audit & Compliance Committee. The committee shall recommend for Board approval the engagement and related fees of the independent auditor to perform the annual financial statement and federal compliance audits. The committee shall approve in advance all audit and non-audit services provided by the independent auditor with a value greater than \$100,000 or that may impair the audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in the United States General Accounting Office Government Auditing Standards. Engagements not requiring approval by the Board shall be reported to the Audit & Compliance Committee at the next scheduled meeting of the committee. The committee shall annually review and evaluate the independent auditor's performance, independence, and effectiveness of coordination with other assessment activities, including internal audit.

(b) Oversight of the Internal Audit Function. The Audit & Compliance Committee shall recommend for Board approval (1) the appointment or removal of the chief auditor, (2) changes to the Office of Internal Audit's charter, and (3) any material revisions to internal audit plans or budgets. In consultation with management and the chief auditor, the committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.

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

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

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

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

(g) Approval of Engagements of Audit Firms Other Than the University's Principal External Auditors. The Audit & Compliance Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than \$100,000 or that may impair the audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in (a) of this

section. Engagements not requiring approval by the Board shall be reported to the committee at the next scheduled meeting of the committee.

(h) This committee provides additional oversight of compliance initiatives and enterprise risk management processes, including risk identification and mitigation.

This committee also reviews:

- The annual financial statements, prior to issuance.
- Semi-annual controller reports.
- The independent auditor's annual audit and management letter.
- The chief auditor's annual audit plan.
- Responses to questions regarding audit issues, reports on enterprise systems, administrative program reviews, investigations conducted under administrative policy, and other items relevant to the audit function.
- Semi-annual institutional compliance reports.
- The institutional conflict of interest report.
- External auditor engagements not requiring approval by the Board. Any engagements shall be reported to the Audit & Compliance Committee at the next scheduled meeting of the committee.

**Audit & Compliance Committee  
2019-20 Work Plan**

Date	Topics
<b>2019</b>	
September 12-13	<ul style="list-style-type: none"> <li>• <b>2019-20 Committee Work Plan</b> The committee will discuss the work plan agenda items for the 2019-20 meetings. A brief overview of the committee charge will also be included in the discussion.</li> <li>• <b>Overview of Financial Statements Review</b> The committee will receive an overview of the annual financial statements and audit report review process. The item will prepare committee members for the October review of the FY 2019 audited financial statements.</li> <li>• <b>University Cybersecurity Program: Overview and Work Plan</b> The committee will receive information on the University's program to identify, address, and remediate the cyber security risks. An updated maturity model will be provided and discussed as well as the work plan for continuing to advance the program's maturity in light of the ever changing landscape of cyber security risks.</li> <li>• <b>Internal Audit Charter</b> The committee will review the Office of Internal Audit Charter.</li> </ul>
October 10-11	<ul style="list-style-type: none"> <li>• <b>Internal Audit Update*</b> This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations.</li> <li>• <b>Reputational Risk Mitigation</b> Plans for incorporating an enterprise risk management approach to mitigating reputational risks will be discussed with the committee. Committee input will be solicited regarding the proposed approach/plan and outcomes desired.</li> <li>• <b>University Ethics Program and Values Update</b> The committee will receive an update and provide input on the work underway to develop a University-wide ethics program, including values for ethical decision making.</li> <li>• <b>Information Items:</b> Institutional Compliance Officer Semi-Annual Report* Institutional Conflict of Interest Report* Semi-Annual Controller's Report*</li> </ul> <hr style="border-top: 1px dashed black;"/> <ul style="list-style-type: none"> <li>• <b>Review of Annual Financial Statements</b> <i>The committee is required to review the annual financial statements prior to their finalization in mid-October. The committee will review the financial statements outside of the meeting and provide feedback to the chair.</i></li> </ul>

2020	
February 13-14	<ul style="list-style-type: none"> <li>• <b>External Auditor Report and Review of Completed Audit Work*</b> The purpose of this item is to communicate and discuss the results of the FY 2019 external financial statement and federal award audits.</li> <li>• <b>Review of External Auditor Relationship and Services Provided</b> This item will communicate and discuss the scope of work and fees paid for all engagements of external auditors for the last fiscal year, and a review of the University’s official external auditor’s performance.</li> <li>• <b>External Audit Plan</b> The external audit firm will present its proposed plan for FY 2020 audit engagement including the financial statement audit and the federal uniform audit.</li> <li>• <b>Research Participant Protection Program Update</b> The committee will be updated on the status of the University’s commitments for improving the protection of the human participants in research studies.</li> <li>• <b>Internal Audit Update*</b> This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations.</li> </ul>
May 7-8	<ul style="list-style-type: none"> <li>• <b>Undue Foreign Influence Risk Mitigation</b> Federal guidance provided to universities to protect against undue foreign influence will be shared with the committee. The item will also include an overview of the actions taken by the University to mitigate this risk while still providing a mutually beneficial environment for foreign scholars.</li> <li>• <b>Institutional Risk Profile Review</b> The committee will review the current Institutional Risk Profile and discuss whether changes should be considered. Additional information will be provided by the administration on the current status of the included risks.</li> <li>• <b>TBD Compliance Program Topic</b></li> <li>• <b>Information Item:</b> Institutional Compliance Officer Semi-Annual Report*</li> </ul>
June 11-12	<ul style="list-style-type: none"> <li>• <b>Internal Audit Plan*</b> The committee will review and discuss the internal audit work plan for FY 2020.</li> <li>• <b>Internal Audit Update*</b> This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations.</li> <li>• <b>Undergraduate Admissions</b> The item will include an overview of recent national frauds associated with college admissions and the steps taken to ensure the University’s practices protect against similar occurrences. Information will also be provided on changes made to the Twin Cities campus undergraduate admissions process over the last 18 months and their outcomes.</li> <li>• <b>Information Item:</b> Semi-Annual Controller’s Report*</li> </ul>

*\*Report required by Board policy.*



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**September 13, 2019**

**AGENDA ITEM:** Overview of Financial Statements Review

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Sue Paulson, Controller

## **PURPOSE & KEY POINTS**

The purpose of this item is to provide the committee with an overview of the annual financial statements and audit report review process. The discussion will prepare committee members for the upcoming review of the FY 2019 audited financial statements.

## **BACKGROUND INFORMATION**

Advance review of the financial statements is required under Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section IV, Subd. 4, Audit & Compliance Committee Charter.

Specific duties of the Audit & Compliance Committee including:

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

**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS  
AUDIT & COMPLIANCE COMMITTEE**

**OVERVIEW OF FINANCIAL STATEMENT REVIEW  
SEPTEMBER 13, 2019**

**Background**

As a result of the Sarbanes-Oxley Act of 2002, the Audit Committee received a series of briefings and presentations on the Sarbanes-Oxley Act of 2002 in fiscal years 2002 & 2003. A series of “best practices” were recommended and adopted by the Audit Committee including reading of the financial statements for inconsistencies with your own knowledge prior to issuance to the public.

Per the *Board Operations and Agenda Guidelines, Section IV, Committees of the Board, Subd. 4, Audit & Compliance Committee Charter, Specific duties of the Audit & Compliance Committee* including:

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

**Audit & Compliance Committee Member FY19 Annual Report Timeline**

<b>Task</b>	<b>Date</b>
Summary Letter	Wednesday October 16, 2019
Draft Finalized Annual Report for review	Wednesday October 30, 2019
Meeting/call with Audit & Compliance Committee Chair & Vice Chair to field any outstanding questions or comments	Wednesday November 6, 2019
Audit Sign-off & Report Issuance	Thursday November 7, 2019

**Summary Letter** – serves as an advance summary of upcoming review and process.

**Draft Finalized Annual Report for review** – this review process is intended to support the Audit and Compliance Committee’s oversight responsibilities by providing an opportunity to ensure that all material information in the report is consistent with the information received and/or acted upon in your capacity as members of the Audit and Compliance Committee. Recommendations for targeted review will be provided and specific financial impacts highlighted.

The report is **Draft – Subject to Audit Completion**. Deloitte plans to sign off on the annual report by Thursday, November 7, 2019. To ensure that the Audit & Compliance Committee review is completed within the audit deadlines, questions or comments about the report should be directed to Regent Powell or the University Controller at any time prior to the meeting/call with the Audit & Compliance Committee Chair & Vice Chair.

There are three major report sections;

- Management’s Discussion and Analysis (MD&A) is typically about 15-20 pages in length. This is management’s opportunity to provide a narrative explanation of the financial statements that enables readers to understand the university mission and priorities via the financial statements and to provide the context within which financial information should be analyzed.
- The consolidated financial statements for the University (& RUMINCO) and significant component units (UMF & UMP) is typically 7-8 pages in length and include;
  - The Consolidated Statements of Net Position
  - The Consolidated Statements of Revenues, Expenses, and Changes in Net Position
  - The Consolidated Statement of Cash Flows
- Footnotes are typically 50-55 pages in length. There are 13 footnotes, all providing the reader detailed information about specific sections of the financial statements. What is required as content in the various footnotes is defined by Governmental Accounting Standards Board (GASB).

**Meeting/call with Audit & Compliance Committee Chair & Vice Chair** – limited to Chair & Vice Chair, discussion on any feedback received and confirmation that there are no concerns related to finalizing and issuing the report.

**Audit Sign-off & Report Issuance** – report is provided to the State of Minnesota and parts of the report are relied upon for other institutional reports (SEFA, NCAA Compliance). The report is released publically after the December Board meeting. The finalized annual report is typically provided to the full Board at the December Board meeting.



# BOARD OF REGENTS DOCKET ITEM SUMMARY

**Audit & Compliance**

**September 13, 2019**

**AGENDA ITEM:** University Cybersecurity Program: Overview and Work Plan

Review       Review + Action       Action       Discussion

*This is a report required by Board policy.*

**PRESENTERS:** Bernard Gulachek, Vice President and Chief Information Officer  
Brian Dahlin, Chief Information Security Officer

## PURPOSE & KEY POINTS

The purpose of this item is to provide a comprehensive overview of the University’s information security program. The discussion will include:

- The continuous maturation of the information security program and the cybersecurity threat landscape, including comparison to peers and private industry in the context of addressing information security challenges specific to the University and higher education in general.
- An overview of the security incident management process, including reported incidents requiring investigation.
- The information security team’s staff profile and corresponding credentials.
- Security technology management activities that range from reactive responses to proactive mechanisms, including efforts underway to move to more proactive measures. Examples of these activities, why they are operationally strategic, and how they enhance the maturity of the information security program will be discussed.
- The challenges in maturing the University’s information security program over time, including the inherent risks remediated and the residual risks that will remain as a result.

## BACKGROUND INFORMATION

The University of Minnesota implemented a comprehensive information security program in 2014 based on the National Information Standards Technology (NIST) and International Standards Organization (ISO) frameworks. A portion of the program is dedicated to risk management.

A comprehensive and defensible information security program includes:

- Governance
- Policy
- Risk Management

- Standards
- Implemented Controls

While these elements are essential to an information security program, additional components are needed to advance and mature the program. These additional components include:

- Clearly understood accountability.
- Links to the “business functions” of the enterprise.
- Support for digitization strategies.
- Continuous improvement.
- Agility in a rapidly changing threat environment.

# University Cybersecurity Program: Overview and Work Plan

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



UNIVERSITY OF MINNESOTA  
CROOKSTON



UNIVERSITY OF MINNESOTA  
DULUTH



UNIVERSITY OF MINNESOTA  
MORRIS



UNIVERSITY OF MINNESOTA  
ROCHESTER



UNIVERSITY OF MINNESOTA  
TWIN CITIES 3 of 33

# Agenda

Security Strategy, Framework & Maturity Model

Security Incident Practices

Progress in Managing Security Risks

Current Initiatives

# Top 2019 Information Security Breaches

- Georgia Tech (1.3 million records)
- Capital One (100 million records)
- Toyota (3.1 million records)
- First American (885 million records)
- Quest Diagnostics (11.9 million records)
- LabCorp (7.7 million records)
- Facebook (540 million records)

# University's Data Security Strategy

## The Charge for Information Security Program

### Strategy

Ensure the information security strategy is compatible with the University of Minnesota culture.

### Develop

Establish and maintain an Information Security Program that incorporates:

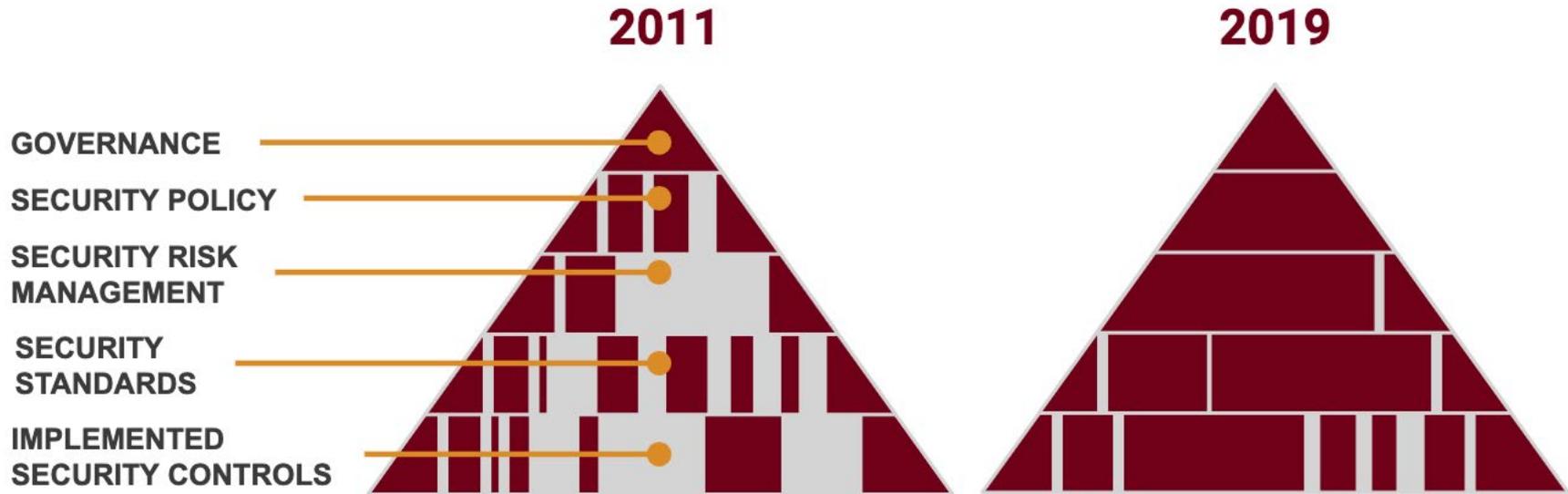
- Security Policy Management
- Security Risk Management
- Incident Management

### Maintain

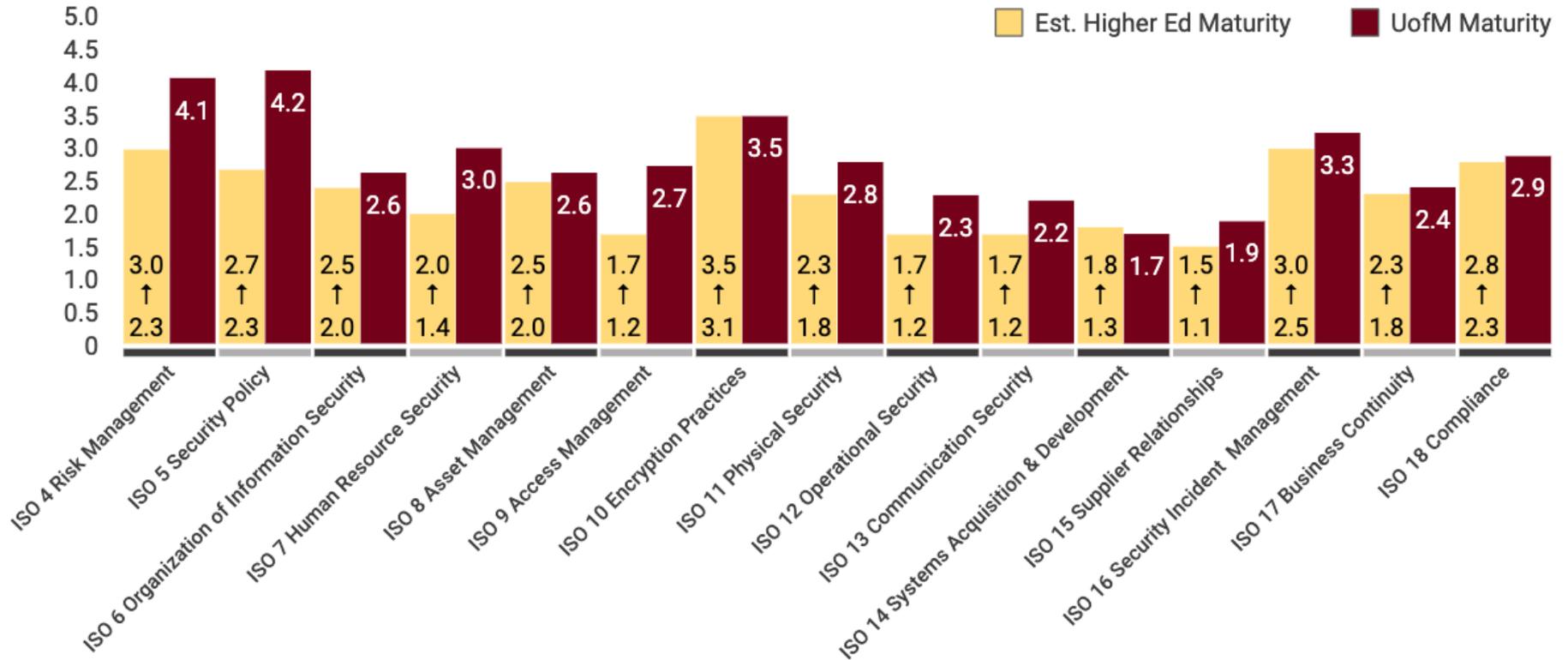
Programs support and assist meeting Information Security regulatory requirements.

- Includes responsibility for HIPAA Security Officer.

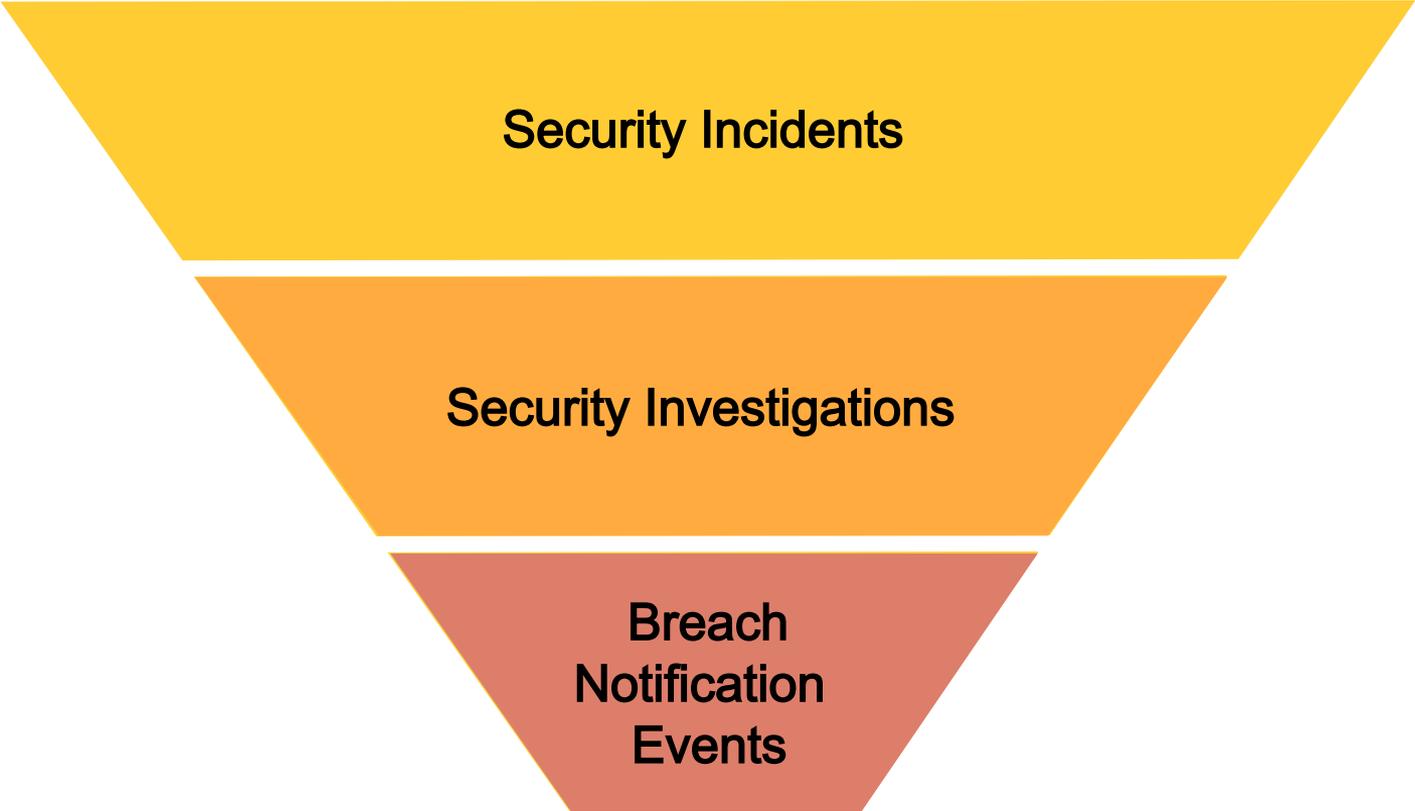
# Information Security Framework



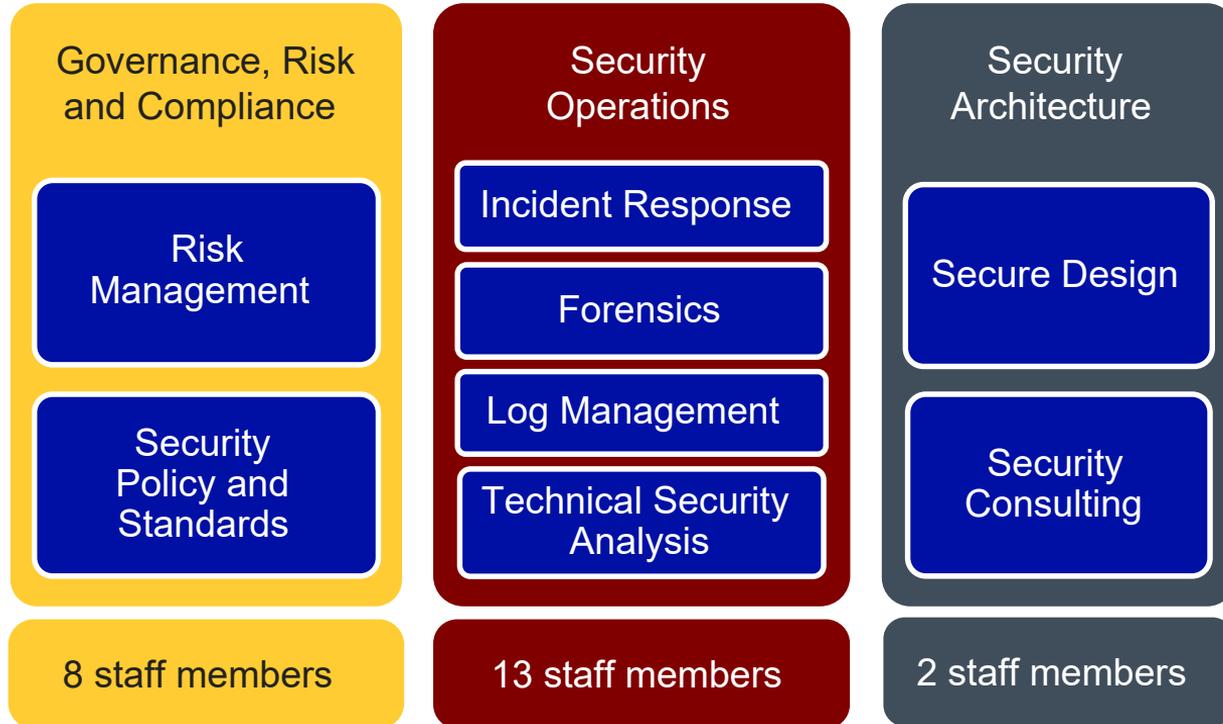
# HEISC Maturity Scores



# Security Incidents vs. Notifications



# University Information Security Team



Information Security Staff



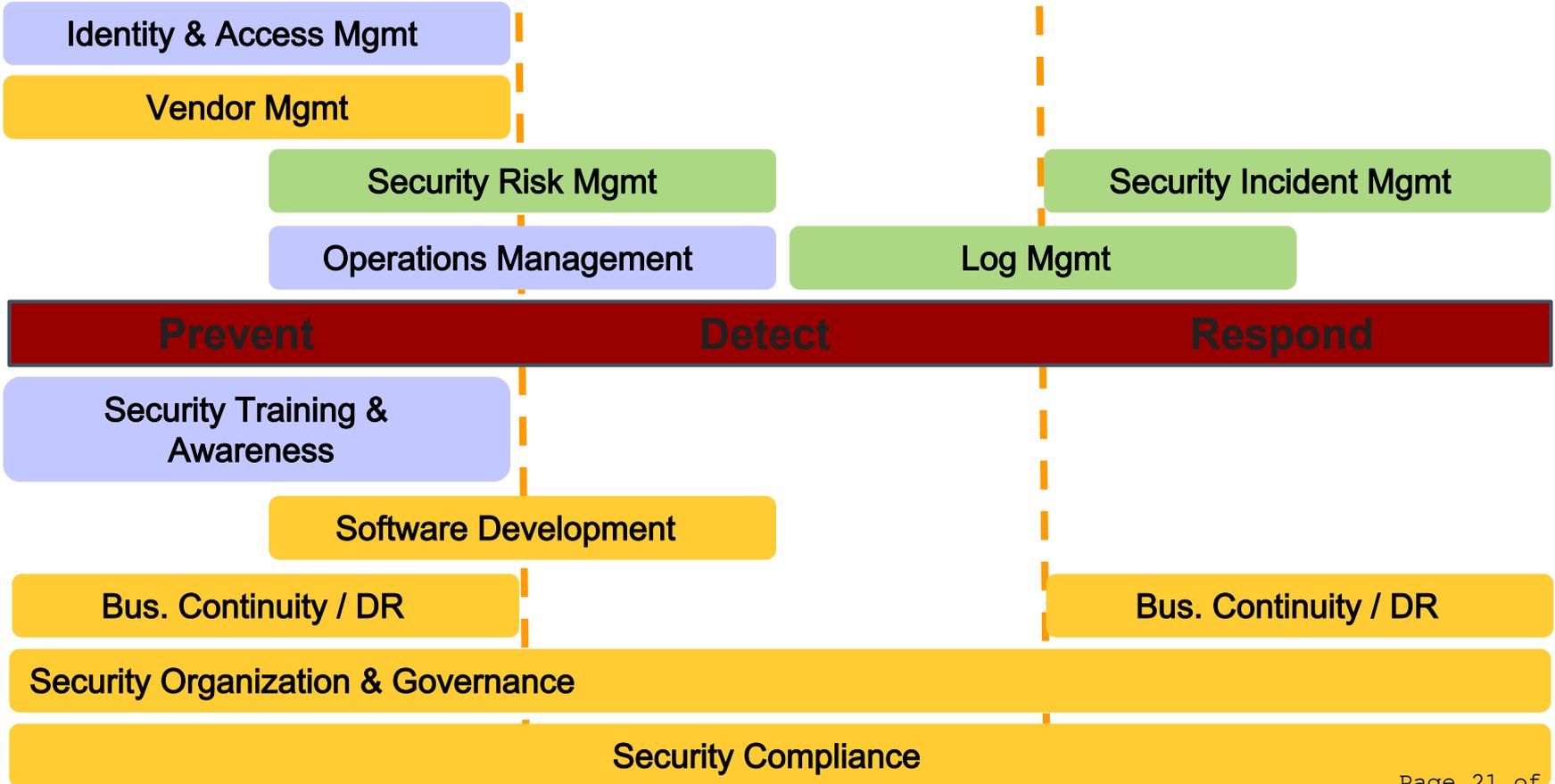
**25**

members have

**22**

accreditations

# Timeline of a Security Incident



# Progress & Current Initiatives

## Operations Management

### Progress in Managing Security Risks

- Intrusion detection & prevention
- Log management
- Firewall upgrade

### Current Initiatives

- Systems management
- Firewall management

## Security Training

- Updated security training
- Increase in security awareness efforts
- Comprehensive Policy Review

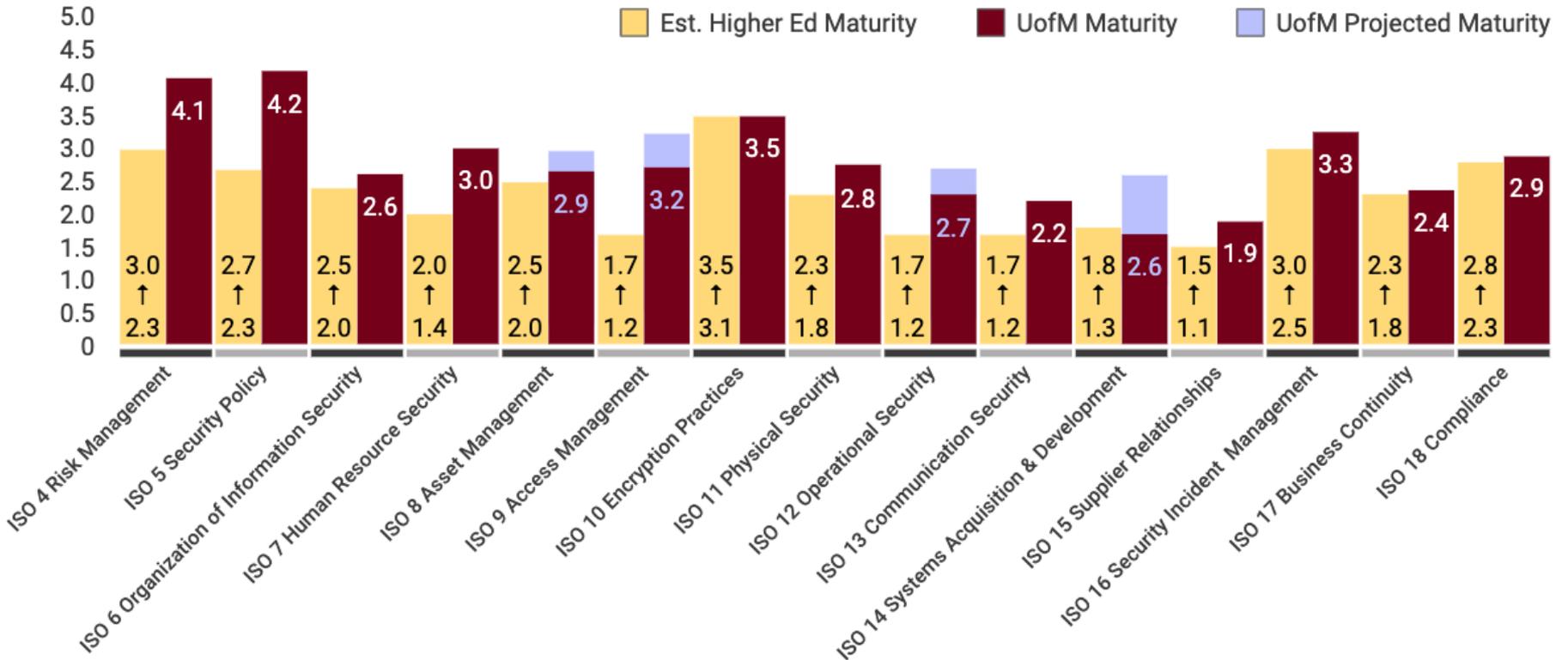
- Improve the training requirement
- Increase frequency of requirement

## Identity & Access Mgmt

- Identity Management system implementation
- Two-factor authentication (Duo Security)

- Identity & Access Management project
- Complete two-factor rollout (Duo Security)

# Projected HEISC Maturity Scores



Thank You



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**September 13, 2019**

**AGENDA ITEM:** Internal Audit Charter

Review

Review + Action

Action

Discussion

*This is a report required by Board policy.*

**PRESENTERS:** Gail Klatt, Chief Auditor

## **PURPOSE & KEY POINTS**

The purpose of this item is to discuss the Office of Internal Audit Charter. The committee is responsible for providing oversight of the University's internal audit function, including review of changes to the department charter. The charter is in alignment with professional standards and guidance and no changes are being proposed at this time. Review and reaffirmation of the charter is appropriate given the changes in committee and administrative leadership.

## **BACKGROUND INFORMATION**

The Board of Regent Policy: *Reservation and Delegation of Authority* states: "The Board reserves to itself authority to adopt policies regulating the audit function; approve selection of external auditors and the chief auditor; and evaluate the performance of the independent auditor, and, jointly with the president, the performance of the internal audit function."

The Office of Internal Audit Charter was last reviewed by the committee in September 2017.

## CHARTER

### Mission and Scope of Work

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The purpose of the Office of Internal Audit is to provide independent, objective assurance and advisory services designed to add value and improve the operations of the University of Minnesota. The mission of the Office of Internal Audit is to enhance and protect organizational value by providing stakeholders with risk-based and objective assurance, advice, and insight. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the Office of Internal Audit is to determine whether the University of Minnesota's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed to optimize the achievement of institutional strategic objectives.
- Interaction between governance groups occurs as needed.
- Important financial, managerial, and operating information is accurate, reliable, and timely.
- The results of operations or programs are consistent with established goals and objectives and are carried out effectively and efficiently.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
- Quality and continuous improvement are fostered in the University's control processes.
- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

The Office of Internal Audit considers risks broadly and includes within its scope all activity posing financial, operational, technological, regulatory or reputational risk to the University. Opportunities for improving management control, efficiency and the University's image may be identified during audits. They will be communicated to the appropriate level of management.

### Accountability

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The Chief Auditor, in the discharge of his/her duties, is accountable to the Board of Regents Audit & Compliance Committee and the President to:

- Provide assessments on the adequacy and effectiveness of the University's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues relating to the processes for controlling University activities including potential improvements to those processes.
- Report the acceptance of risk by the administration, as appropriate.
- Provide information concerning outstanding issues through their resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate efforts with other control and monitoring functions (e.g., compliance, security, legal environmental, external auditors, etc.).

## Independence

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To provide for the independence of the Office of Internal Audit, the Board of Regents delegates directly to the Chief Auditor the authorities necessary to perform the duties set forth in the mission and scope of work. The Chief Auditor will have full and free access to the Board of Regents Audit & Compliance Committee.

Additionally, the Chief Auditor is delegated administrative and operational authorities by the President of the University.

The Office of Internal Audit is to be free from undue influence in the selection of activities to be examined, the audit techniques and procedures to be used, and the reporting of its results.

## Responsibility

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The Chief Auditor and staff of the Office of Internal Audit are responsible for:

- Developing a flexible annual audit plan using an appropriate risk based methodology, including any risks or control concerns identified by management, and submitting that plan to the Audit & Compliance Committee for review and concurrence, as well as providing periodic updates as to the status of and/or changes to the plan.
- Implementing the annual audit plan, as approved, including any special tasks or projects requested by management and the Audit & Compliance Committee.
- Following up on engagement findings and corrective actions, and report periodically to the President and the Audit & Compliance Committee any corrective actions not effectively implemented.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Disclosing any impairment of audit independence or objectivity, in fact or appearance, to appropriate parties.

- Maintaining an ongoing audit quality assurance and improvement program that covers all aspects of the internal audit function which promotes the continuous improvement of the internal audit practice and includes periodic assessment by independent external resources.
- Considering the scope of, and placing reliance on, the work of the external auditors, regulators, and internal oversight units as appropriate, for the purpose of providing optimal audit coverage to the University at a reasonable overall cost.
- Issuing periodic reports to the Audit & Compliance Committee and management summarizing results of audit activities.
- Keeping the Audit & Compliance Committee informed of emerging trends and successful practices in internal auditing.
- Conducting investigations of allegations of financial and operational misconduct.

## Reporting

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The Chief Auditor will report periodically to the President and the Audit & Compliance Committee regarding:

- The Office of Internal Audit's purpose, authority, and responsibility.
- The Office of Internal Audit's plan and performance relative to its plan.
- The Office of Internal Audit's conformance with the Institute of Internal Auditor's Code of Ethics and **Standards**, and any actions to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit & Compliance Committee.
- Results of audit engagements and other audit activities.
- Resource requirements.
- The acceptance of risk by leadership.

## Authority

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The Chief Auditor and staff of the Office of Internal Audit are authorized to:

- Have unrestricted access to all University functions, records, property, and personnel, subject to state and federal law and accountability for confidentiality and safeguarding of records and information.
- Allocate departmental resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives, and report content without subordinating their judgment on audit matters to others.
- Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the institution.

The Chief Auditor and staff of the Office of Internal Audit are not authorized to:

- Perform any operational duties for the University.
- Initiate or approve accounting transactions external to the Office of Internal Audit.

- Direct activities of any University employee not employed by the Office of Internal Audit, except to the extent such employees have been appropriately assigned to audit teams or to otherwise assist the internal auditors.

## Standards of Audit Practice

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The Office of Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, The Code of Ethics, the ***International Standards for the Professional Practice of Internal Auditing***, and the Definition of Internal Auditing. The Chief Auditor will report periodically to senior leadership and the Audit & Compliance Committee regarding the Office's conformance to the Code of Ethics and the *Standards*.

\_\_\_\_\_  
Chief Auditor

\_\_\_\_\_  
President

\_\_\_\_\_  
Audit & Compliance Committee Chair

Dated \_\_\_\_\_



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**September 13, 2019**

**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**

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

The University of Minnesota - Department of Pediatrics entered into an agreement with Deloitte & Touche, LLP to perform certain agreed-upon procedures to assist the University in connection with the University's and the Food and Drug Administration's evaluation of the University's calculation for cost recovery of supplies and quality control testing costs. The fees for this engagement are not to exceed \$10,000. This engagement does not impair the independence of Deloitte & Touche, LLP as it relates to the external audit of the University and was approved by the Controller's Office in conformance with Board policy.

The University of Minnesota – Center for Farm Financial Management (CFFM) entered into an agreement with CliftonLarsonAllen to examine the description of CFFM's hosted FINPACK Application System and the suitability of the design of controls based on the criteria for a service organization's system in accordance with AICPA, Description Criteria and AICPA, Trust Services Criteria for a SOC2 report, respectively. The fees for this engagement are not to exceed \$29,000. This engagement does not impair the independence of CliftonLarsonAllen as it relates to an external audit of the University and was approved by the Controller's Office in conformance with Board policy.

**Summary of Recent Audits of Federal Sponsored Awards**

The National Science Foundation (NSF) Office of Inspector General conducted an audit to determine if costs claimed by the University on NSF awards were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions.

The Department of Health and Human Services Office of Inspector General conducted an audit to determine whether: (1) the University of Minnesota, as the pass-through entity, awarded and monitored subawards in compliance with federal regulations; and (2) expenditures for subawards

received by the University of Minnesota as a sub-recipient met NIH grant polices and Federal regulations.

**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: *Board Operations and Agenda Guidelines*.



**NSF OIG AUDIT**  
(Commenced: March 2017)

**Audit Objective**

The National Science Foundation Office of Inspector General conducted an audit to determine if costs claimed by the University on NSF awards were allowable, allocable, reasonable, and in conformity with NSF award terms and conditions and Federal financial assistance requirements. The period of the audit scope was March 1, 2014 to February 28, 2017.

**Audit Results**

More than \$4 million of the \$250.4 million of costs claimed by the University to NSF during the audit period was tested. The final audit report includes 4 findings with associated recommendations for NSF to resolve the questioned costs and to ensure that the University strengthens administrative and management controls.

	# of Transactions	\$ of Transactions	National Average \$
Total Transactions	439,114	\$250,397,177	\$206,638,194
Questioned Transactions	6	\$73,260	\$94,236
% of Total Transactions	<b>0.001%</b>	<b>0.029%</b>	<b>0.046%</b>

Types of Questioned Transactions

- Equipment (timing of purchase)
- Professional Services (period of performance)
- Publication Costs (estimates)
- Supplies (prior approval)
- “Unallowable”

**Audit Response**

The total amount of the questioned costs will be refunded to the NSF, and because the University has adequate internal controls in place, no new policies or changes to existing policies or procedures will be implemented as a result of these recommendations. Existing training has been enhanced by incorporating scenarios related to the various findings into the curriculum that is offered to purchasing initiators, research administrators, and financial transactions approvers on a regular basis.



**DHHS OIG AUDIT**  
(Commenced: January 2018)

**Audit Objective**

The Department of Health and Human Services Office of Inspector General conducted an audit to determine whether: (1) the University of Minnesota, as the pass-through entity, awarded and monitored subawards in compliance with Federal regulations; and (2) expenditures for subawards received by the University of Minnesota as a subrecipient met NIH grant polices and Federal regulations. The period of the audit scope was July 1, 2015 to December 31, 2017.

**Audit Results**

More than \$1.8 million of the \$675 million of costs claimed by the University on NIH awards, whether as the pass-through entity or as the subrecipient, during the audit period was tested. The final audit report includes 1 finding that requires the University to obtain reimbursement of the unsubstantiated amount of \$1,924 from its subrecipient, adjust its records accordingly, and then either refund that amount to NIH or, if allowed under the terms of the award, rebudget those funds to cover other allowable expenses on the award.

	PASSTHROUGH		SUBRECIPIENT	
	# of Awards	\$ of Awards	# of Awards	\$ of Awards
Total Awards	250	\$515,000,000	509	\$160,000,000
Awards with Findings	1	\$1,924	0	\$0
% of Total Awards	<b>0.4000%</b>	<b>0.0004%</b>	<b>0.00%</b>	<b>0.00%</b>

**Audit Response**

The total amount of the unsubstantiated costs will be collected from the subrecipient by the University and will be applied to other allowable expenses on the award or refunded to NIH.