Audit & Compliance Committee

October 2019

October 11, 2019

8:00 a.m.

Boardroom, McNamara Alumni Center
1. Internal Audit Update
   Docket Item Summary - Page 3
   Internal Audit Update - Page 4

2. Enterprise Risk Review
   Docket Item Summary - Page 28
   Presentation Materials - Page 29

3. University Ethics Program and Values Update
   Docket Item Summary - Page 41
   Presentation Materials - Page 42

4. Information Items
   Docket Item Summary - Page 54
   Semi-Annual Controller's Report - Page 56
   Semi-Annual Chief Compliance Officer's Report - Page 59
   Institutional Conflict of Interest Report - Page 62
Audit & Compliance

AGENDA ITEM: Internal Audit Update

☐ 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 Internal Audit activities, results, and observations to help the committee fulfill its fiduciary responsibilities.

- Since the last follow-up, at the June 2019 meeting, 38% of the outstanding recommendations rated as “essential” were implemented by University departments. This is slightly less than our expected implementation rate of 40%. Three units fully implemented all their remaining “essential” recommendations.
- An updated control evaluation chart is included for each audit to show progress made on the “essential” items.
- Eleven audit reports containing 27 recommendations rated as “essential” were issued in the last four months.

Other summary information important for the oversight of the internal audit function is also included.

BACKGROUND INFORMATION

This report is prepared three times per year and is presented to the committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
This report includes:
- Audit Observations/Information/Status of Critical Measures/Other Items
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since June 2019
- SNAP Audit Summary

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

Audit Observations/Information

Status of Critical Measures

As part of our on-going efforts to provide the Audit and Compliance Committee with critical information in as concise a format as possible, we have developed the following three charts to present a quick overview of work performed by the Office of Internal Audit.

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

The second chart, entitled “Progress Towards Annual Audit Plan Completion,” is our assessment of how we are progressing towards completion of the FY 2019 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (e.g., insufficient staff resources; increased time spent on non-scheduled audits or investigations).

The final chart, “Time Spent on Non-Scheduled Activities,” provides a status report on the amount of time consumed by investigative activities, special projects and other management requests. Our annual plan provided an estimated budget for this type of work, and the chart will indicate whether we expect that budget to be sufficient. Continued readings in the yellow or red may result in seeking Audit and Compliance Committee approval for modifying the Annual Audit Plan.
Other items:

- The Institute of Internal Auditors’ (IIA), the international governing body for internal audit, requires an external quality assessment be performed at least every five years. In accordance with this requirement we began a quality self-assessment to evaluate conformity with IIA Standards, assess the efficiency and effectiveness of the internal audit activity, and identify opportunities for improvement. As part of this self-assessment, we will soon be surveying senior leadership and Audit and Compliance Committee members regarding the services we provide. The results of our quality self-assessment will be reviewed by an outside team of audit professionals who will validate the assertions and conclusions made in the self-assessment report. We expect this assessment will occur early in calendar year 2020, with subsequent reporting of its results to the Audit & Compliance Committee.

- This November the Office of Internal Audit will be celebrating its 90th year anniversary serving as the University’s independent, objective assurance and advisory service designed to add value and improve the University operations. We will be marking the occasion with an on-campus staff retreat that will include prior Internal Audit alumni, speakers, and other activities.
## Status of Essential Recommendations

### Project Overview

<table>
<thead>
<tr>
<th>Audit</th>
<th>Year.. Month.</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions, Office of FY18</td>
<td>2017 October</td>
<td>Completed</td>
</tr>
<tr>
<td>AHC-IS FY19</td>
<td>2018 December</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Athletics IT FY17</td>
<td>2017 May</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Employment Eligibility Verification FY19</td>
<td>2018 August</td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Family Medical Leave Act Review FY18</td>
<td>2018 May</td>
<td>Completed</td>
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<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Global Programs and Strategy Alliance FY18</td>
<td>2018 April</td>
<td>Completed</td>
</tr>
<tr>
<td>Libraries, FY19</td>
<td>2019 January</td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Public Health IT, School of FY18</td>
<td>2018 January</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Public Safety, Department of FY18</td>
<td>2018 January</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Residency Determination, FY19</td>
<td>2019 January</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Review of ROC &amp; REPA Processes, FY19</td>
<td>2019 January</td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Technology Commercialization, Office for F..</td>
<td>2019 April</td>
<td>Completed</td>
</tr>
<tr>
<td>UMC, FY19</td>
<td>2019 January</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not Implemented</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>UMD Fine Arts, School of FY19</td>
<td>2019 March</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not Implemented</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>UMDPD, FY19</td>
<td>2019 January</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>University Information Security FY18</td>
<td>2018 May</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>Veterinary Medicine, College of FY19</td>
<td>2019 May</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not Implemented</td>
</tr>
</tbody>
</table>

### Current Period Metrics

- **Total Recommendations:** 60
- **Completed Recommendations:** 23
- **Recommendation Completion Percent:** 38%

### Past Completion Percent

- **Feb 2019:** 41%
- **June 2019:** 42%
<table>
<thead>
<tr>
<th>Audit/ Report Date</th>
<th>Status- Partially Implemented (P) or Not Implemented (N)</th>
<th>Senior Management Contact</th>
<th>Summary of the Issue/Risk Involved</th>
<th>Current Comments From Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Athletics IT</td>
<td>Not Implemented</td>
<td>Rhonda McFarland</td>
<td>Athletics should implement processes to obtain logs for AHMS to ensure that the system captures all pertinent user access and activity as required by HIPAA and University policy. Athletics should implement patient record view monitoring for the AHMS system to demonstrate compliance with HIPAA requirements regarding audit controls. Athletics should implement procedures to review all such activity on a regular basis and notify the Health Information Privacy &amp; Compliance Office in the event the monitoring indicates that any patient records are being viewed without patient authorization or for purposes other than treatment, payment or health care operations.</td>
<td>Two recommendations for issue #3 from the 2017 Intercollegiate Athletics IT audit remain open. Athletics is in the process of replacing its health management system by switching to Fairview’s Electronic Medical Record system (EPIC). While this system is expected to provide the most effective controls and be the most efficient for Athletics staff, the migration has been delayed due to the lengthy contract negotiations between the University and Fairview. As of August 22, 2019, ICA Athletic Trainers were granted EPIC account access. The majority of the staff have discontinued use of the previous AHMS system and the remaining trainers will be transitioned soon. Athletics IT has been provided a logging and monitoring report that will be part of a monthly review process to monitor patient view and critical user activity in the system. ICA staff has worked with members of the University’s IT staff to identify potential methods to store historical data appropriately. ICA will evaluate the storage options and work with University IT, Internal Audit and Compliance staff to ensure that the method selected and implemented is HIPAA compliant.</td>
</tr>
</tbody>
</table>

# of Items: 2

Total: 2
Essential Recommendation Follow-up Notes

Risk Acceptance

As expressed in the Office of Internal Audit Charter, “The Chief Auditor, in the discharge of his/her duties, is accountable to the Board of Regents Audit & Compliance Committee and the President to... [report] the acceptance of risk by the administration, as appropriate."

The following units had essential recommendation(s) identified in their audit reports, which were not fully remediated but were closed this reporting period due to leadership’s acceptance of the associated residual risk.

Admissions
One essential item in the Admissions report, related to data consistency between Slate (the admissions’ record management tool) and PeopleSoft (the system of record for all applicants), was closed but not fully remediated. Beginning for Fall 2019 Twin Cities undergraduate applicants, admission decisions are based on applicants’ self-reported transcript and standardized test information. Applicants’ self-reported information is verified by Admissions only for admitted applicants who have confirmed they will be attending, who then provide official transcripts and submit standardized test scores for review. Test scores are automatically recorded in both systems. However, when errors or other updates are identified by Admissions related to H.S. rank or GPA the updated data are only entered in Slate without being updated in PeopleSoft. This results in some data discrepancies between the systems. PeopleSoft is the overall system of record and the source for all reporting related to admission data.

Per Admissions, this impact is relatively small as there were approximately .1% of confirmed admitted applicants whose application contained errors impacting the admission decision. In addition, external reporting related to either GPA or H.S. rank is limited and it is believed the relatively small number of errors would have minimal impact on this reporting.

The risk associated with these admission data discrepancies was accepted by the Executive Director of Admissions and the Vice Provost of Undergraduate Education. In addition, the Office of Institutional Research confirmed the discrepancies have no known negative impact on external reporting.

University Information Security
One essential item in the University Information Security report, related to a monitoring control, was closed but not fully remediated. After evaluating options, resources are instead being focused on preventative security controls to reduce the risk. Some of these preventative controls have already been implemented, reducing the risk, and some are in the process of being implemented.

Internal Audit was provided with evidence that the SVP for Finance and Operations has agreed to accept the residual risk associated with this issue after consultation with the VP for IT and Chief Information Officer, and the Chief Information Security Officer.
The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential." The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and the current status of the "essential" recommendations only (those bars that have red segments). The chart in the center column displays the status as of June 2019, while the chart on the right represents the current status. Charts are not presented for investigations. Charts for those units having implemented all "essential" recommendations during the current quarter are shown at the end of this report.

Original Report Evaluation

Previous Quarter Evaluation

Athletics IT (May 2017)

Current Quarter Evaluation

School of Public Health IT (Jan 2018)
<table>
<thead>
<tr>
<th>Area</th>
<th>Original Report Evaluation</th>
<th>Previous Quarter Evaluation</th>
<th>Current Quarter Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Environment</td>
<td></td>
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<td></td>
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<tr>
<td>Monitoring</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Information &amp; Communication</td>
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<td></td>
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<tr>
<td>Risk Assessment</td>
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<tr>
<td>IT Governance</td>
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<tr>
<td>Logical Access</td>
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<tr>
<td>Change Management</td>
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<td></td>
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<tr>
<td>System Operations</td>
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<td></td>
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<tr>
<td>Infrastructure Management</td>
<td></td>
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<td></td>
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<tr>
<td>EGMS System Review</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
University of Minnesota, Crookston (Jan 2019)

Control Environment
Monitoring
Information & Communication
Risk Assessment
Administration
Admissions
Athletics
Compliance/Clery Act
Dining Services/Sodexo
Disbursements/Purchasing
External Sales
Information Systems
Payroll
Revenue & Operations
Safety of Minors

UMD Fine Arts (Mar 2019)

Control Environment
Monitoring
Information & Communication
Risk Assessment
Administration
Admissions
Athletics
Compliance/Clery Act
Dining Services/Sodexo
Disbursements/Purchasing
External Sales
Information Systems
Payroll
Revenue & Operations
Safety of Minors

NO PREVIOUS CONTROL EVALUATION CHART
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Office of Admissions (Aug 2017)

Global Programs and Strategy Alliance (Apr 18)
Audit Activity Report

Scheduled Audits

Completed Audits Of:

- Weisman Art Museum
- Athletics Other Revenue
- Review of Hospitality & Other Special Expenses (Systemwide)
- Presidential Transition Review
- UMD Stores
- 2019 Advancing Human Research Protections
- Department of Psychiatry and Behavioral Sciences
- Facilities Management Districts
- Athletic Compliance - Football
- CFANS Plant Sciences and BBE Division
- College of Veterinary Medicine - Dean Transition Review

Details are shown on the following charts.

Began/Continued Audits Of:

- UMD Admissions
- Disaster Recovery
- Business Continuity and Emergency Preparedness
- OIT Account Management
- Office of Student Finance
- Institute for Social Research & Data Innovation
- Internal/External Sales Organizations

- Finalized results of gift testing for reporting to the UMF Committee in compliance with the Memorandum of Understanding between UMF and the University.
- Continued a collaborative review of University Mental Health services with the Provost’s Office.
- Completed one SNAP Audit on “Excused Paid” Leave; results are summarized in the SNAP Audit Summary

Investigations

- Performed investigative work on 10 issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

Special Projects

- Provided consulting services related to University payroll exception testing.
- Provided technology consulting in several areas including: HIPAA security, system logging and monitoring, account management, and the IT security framework and policies.
- Continued management requested review of faculty research support and course assignments at UMD’s Swenson College of Science and Engineering.
- Began self-assessment in support of the periodic external quality assessment review required by the Institute of Internal Auditor (IIA).
Other Audit Activities

Participated in the following:

- President’s Cabinet
- Senior Leadership Group
- President’s Policy Committee
- Policy Advisory Committee
- Board of Regents Policy Committee
- Executive Compliance Oversight Committee
- Institutional Conflict of Interest Committee
- University of Minnesota Foundation Audit Committee
- Fairview Health Systems Audit Committee
- IT Leadership and Operational Excellence Committees
- HRPP Advisory Committee
- Research Compliance Committee
- GDPR Consultation Committee
- Use Case Categorization Scheme Committee
- P & A Senate
- SVP Senior Leadership Academy
- Data Center Co-Location Initiative
- Data Storage Council
- Security Vulnerability Task Force
- VP HR Search Committee
- Accounting Services Search Committee
- Mental Health Group
- Metropolitan Council Audit Committee
Audit Reports Issued Since June 2019

Weisman Art Museum

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Monitoring</th>
<th>Information &amp; Communication</th>
<th>Risk Assessment</th>
<th>Administration</th>
<th>Inventory Processes</th>
<th>Accession/Deaccession</th>
<th>Cash Receipts, ISO/ESO</th>
<th>Disbursements/Purchasing</th>
<th>Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
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</table>

Report # 1926 Issue Date Jun-19
# of Essential Recs. 9 Total # of Recs. 20
Overall Assessment Adequate Adequacy of MAP Satisfactory

The Weisman Art Museum (WAM) originated in 1934 and is a teaching museum for the University. We believe WAM’s control environment and system of internal controls is adequate, with improvements needed as it relates to inventory security and management and accession/deaccession processes. Results of the employee survey indicated that employees share a negative view of management and improvement is warranted. These results will be revisited after the upcoming leadership turnover is complete.

Athletics - Other Revenues

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Monitoring</th>
<th>Information &amp; Communication</th>
<th>Risk Assessment</th>
<th>Administration</th>
<th>Rental-Athletic Events</th>
<th>Rental- Special Events</th>
<th>Championships Bowl</th>
<th>Championships NCAA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
</tr>
</tbody>
</table>

Report # 1927 Issue Date Jun-19
# of Essential Recs. 1 Total # of Recs. 5
Overall Assessment Good Adequacy of MAP Satisfactory

The University of Minnesota athletic facilities are used for a variety of events in addition to Gopher Sports events. The facilities are available for rent by University departments and by groups outside the University. Events can range from small meetings or celebrations in a conference room to the entire TCF Bank Stadium for concerts. Renting out the facilities allows Intercollegiate Athletics (ICA) to earn additional income and maximize facility usage. In the 12 month period under audit, ICA received approximately $3.0 million in rental fees excluding flow-through expense amounts such as staffing and security. Based on the results of the audit work performed, we believe the operational and financial attributes and processes related to ICA's other revenues are generally well controlled, but some facility rental revenue controls need improvement.
Hospitality and Other Special Expenses

A control evaluation chart was not developed for this report.

<table>
<thead>
<tr>
<th>Report #</th>
<th>Issue Date</th>
<th># of Essential Recs.</th>
<th>Total # of Recs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Overall Assessments:
- Compliance with Policy Assessment = Good
- Adequacy of MAP = Satisfactory
- Ability to Monitor Assessment = Needs Improvement

In July 2018, Purchasing Services divided the Hospitality and Other Special Expenses policy into two policies, one dedicated to employee activities and the other devoted to spending related to nonemployees. The change is intended to guide employees based on the appropriate type of expense, and to better ensure good stewardship and the efficient use of University funds. For the expenses we could confirm to be related to hospitality, we found hospitality and other special expenses at the University to generally be in compliance with University policies and procedures, and units are providing good stewardship of University resources. This is a category of spending that is currently difficult if not impossible to monitor without a document by document review. These expenses are discretionary in nature and the ability to exercise some degree of monitoring would seem appropriate to ensure compliance with written policies, and strong stewardship of scarce resources.

Presidential Transition Review

Due to the audit not resulting in any issues considered either "essential" or "significant" a control evaluation chart was not developed for this report.

<table>
<thead>
<tr>
<th>Report #</th>
<th>Issue Date</th>
<th># of Essential Recs.</th>
<th>Total # of Recs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Overall Assessment = Good
Adequacy of MAP = NA

From the results of the audit work performed, we believe the activities of President Emeritus Eric Kaler reflect a prudent use of University resources and thoroughness in the necessary administrative functions required for a smooth transition for the new administration. Interviews indicate that there were no financial or employment-related off-book commitments, no larger than expected salary increases to direct reports, no significant new/increased deferred compensation agreements of which President Gabel is not aware, no large financial transfers into the former president’s new unit beyond those required to fund the logistics of his move and those related to the terms of former President Kaler's employment agreement approved by the Board of Regents. Administratively, all expense reports, vacation leaves, performance appraisals, and Reports of External Professional Activities submissions of direct reports have been completed and approved.
UMD Stores operates three on-campus stores on the UMD campus: their primary store, a “street level” store, and an Express Store. UMD Stores is the only system campus bookstore not operated by UMN Bookstores. The UMD Print Shop and UMD U Card Office also report to UMD Stores director. UMD Stores has developed a control environment and system of internal control that addresses most major business and compliance risks. Management attention is needed to improve controls over UMD Stores’ IT systems, and due to UMD Stores’ relatively small staff size, there are a number of separation of duty concerns. In addition, some operational processes should be improved. However, the risks posed by these issues is partially reduced as we found no significant financial errors in our review, and in many cases UMD Stores has mitigating controls in place that would likely detect material errors and/or fraud.

The University launched a major initiative to enhance its human research protection program through a set of specific program and policy reforms referred to as AdvancingHRP. This is the third and final audit to assess specific AdvancingHRP initiatives undertaken and their resultant outcomes. Though the University continues to strengthen its human research protections and establish a program that could serve as a national model, the specific steps to accomplish this may change. And as the culture continues to evolve, certain steps may no longer be necessary. Currently there is not a governance process for identifying, evaluating, and approving changes to the implementation plan commitments. The creation of such a process would be helpful to units such as the HRPP in its efforts to keep research participant safety practices current and relevant.
Due to the audit not resulting in any issues considered either “essential” or “significant” a control evaluation chart was not developed for this report.

<table>
<thead>
<tr>
<th>Report #</th>
<th>Issue Date</th>
<th># of Essential Recs.</th>
<th>Total # of Recs.</th>
<th>Overall Assessment: Adequacy of MAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Sep-19</td>
<td>0</td>
<td>0</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

From the results of the audit work performed, we believe the activities of Former CVM Dean, reflects a prudent use of University resources and thoroughness in the necessary administrative functions required for a smooth transition for the Interim Dean. Interviews with the CVM Finance Director and CVM HR Director, and a review of HR and financial data, indicate that there were no financial or employment-related off-book commitments, no larger than expected salary increases to direct reports, no significant new/increased deferred compensation agreements, and no large financial transfers into the former Dean’s new unit. Administratively, all expense reports, vacation leaves, performance appraisals, and Reports of External Professional Activities submissions of direct reports have been completed and approved.

### Football Compliance and Operations

- **Control Environment**: Adequate Control
- **Monitoring**: Adequate Control
- **Information & Communication**: Adequate Control
- **Risk Assessment**: Adequate Control
- **Student Athletes**: Adequate Control
- **Coaches and Staff Members**: Adequate Control
- **Academics**: Adequate Control
- **Financial Review**: Adequate Control
- **Compliance Processes**: Adequate Control

<table>
<thead>
<tr>
<th>Report #</th>
<th>Issue Date</th>
<th># of Essential Recs.</th>
<th>Total # of Recs.</th>
<th>Overall Assessment: Adequacy of MAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Sep-19</td>
<td>0</td>
<td>1</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

Sport compliance and operational audits are conducted at the request of, and in conjunction with, the Office of Athletic Compliance. Based on the results of the audit work performed, we believe the football program, Office of Athletic Compliance, and Athletics Business Office have developed a control environment and a system of internal control that address major business and compliance risks within the football program. The football program’s commitment to NCAA compliance was evidenced through our detail testing as we did not note any substantial deficiencies. However, one significant recommendation was included to ensure proper controls over reporting for coaching staff who participate in camps.
Facilities Management District Operations

Control Environment
Monitoring
Information & Communication
Risk Assessment
Administration
Work Order Processing
Contracts
Training/Safety Compliance
Disbursements
Payroll
Revenue

Facilities Management is a unit within University Services, which is divided into three main areas of service: central services, energy management, and district operations, also including sustainability. Our audit focused on FM’s largest service area, FM district operations (DO), which is broken down into five districts: East Bank, Health Sciences, North Campus, St. Paul and West Bank. From the results of the audit work performed, we believe there are opportunities to better utilize DO’s documented internal procedures and operational data in managing its work force and activities.

CFANS - Plant Sciences/Bioproducts and Biosystems Engineering (BBE)

Control Environment
Monitoring
Information & Communication
Risk Assessment
Administration
Sponsored Projects
ISO/ESO
Payroll
Disbursements
Safety of Minors

Our audit included the following departments within CFANS: Agronomy and Plant Genetics, Bioproducts and Biosystems Engineering, Horticultural Sciences, and Plant Pathology; all report up to one financial cluster. It was noted by the units that the shared services financial cluster is working well and has proven to be efficient, provides a higher level of support, and has reduced the risks associated with staffing shortages. From the results of the audit work performed, we believe Plant Sciences/BBE’s control environment and system of internal control is good and addresses most major business and compliance risks. Two issues considered “essential” were noted related to background checks and receiving proper approval from Risk Management and Office of the General Council for charter bus rentals.
Psychiatry’s research enterprise and processes have been heavily scrutinized and reviewed by internal and external parties in the past decade and a half to ensure the safety of human participants in research. Results of tests performed in this audit to confirm continued compliance with the Advancing Human Research Protection (Advancing HRP) implementation plan noted that recommendations unique to Psychiatry have generally been implemented. However, a process has not been established for making changes to the implementation plan as the landscape of human participant research and the internal environment continue to evolve. Some recommendations in the external report create a burden that was deemed necessary at the time, especially for the Department of Psychiatry. Over time, the Department (and other University units involved) may determine that less burdensome practices can provide equal or greater value. Currently, there is no governance process for who can approve changes to the plan on behalf of the institution. Lack of such a process has resulted in changes being made to the plan with consensus from CTSI leadership, but without a clearly designated institutional authority. While this directly impacts the Department, its resolution is beyond the Department’s scope. We will be raising the need for a more formalized process with the Vice President for Research and the Dean of the Medical School who were the joint developers of the original implementation plan.
SNAP Audit Summary

SNAP audits are highly-focused reviews conducted on a single University process or activity. These audits are designed to be completed quickly, and often leverage data analytics to minimize unit disruptions. They are intended to provide prompt results to business process owners so that potential problems can be addressed prior to formal audit reviews. The following is a summary and associated result of the Snap audit we conducted this reporting period.

“Excused Paid” Leave

There were approximately 2800 employees who took “Excused Paid” leave between April 2018 and March 2019. In a judgmental sample of 25, we found 68% of the “Excused Paid” usage was unallowable. In addition, 90% of the samples that were required to deduct sick or vacation leave for the "Excused Paid" time failed to do so. The monetary result of all inaccurate uses of "Excused Paid" time in our sample of 25 was approximately $219,200.

These issues were likely caused in part by job aids provided by the Office of Human Resources (OHR) containing information contradictory to policy, and by a lack of system controls preventing ineligible individuals and job types from being marked as “Excused Paid.”

We suggested OHR systematically restrict the use of “Excuse Paid,” institute additional central monitoring, and improve consistency and clarity of communication and guidance.
BOARD OF REGENTS
DOCKET ITEM SUMMARY

Audit & Compliance October 11, 2019

AGENDA ITEM: Enterprise Risk Review

☐ Review ☐ Review + Action ☐ Action X Discussion

☐ This is a report required by Board policy.

PRESENTERS: Karen Hanson, Executive Vice President and Provost
Brian D. Burnett, Senior Vice President

PURPOSE & KEY POINTS

The purpose of this item is discussion with the committee on incorporating an enterprise risk management approach to mitigating reputational risks. Committee input will be solicited regarding the proposed approach/plan and outcomes desired.

BACKGROUND INFORMATION

The Audit & Compliance Committee developed an Institutional Risk Profile in 2014 based on work from February 2011 to May 2014. During five meetings between September 2017 and May 2018, the committee reviewed and discussed a revised set of institutional risk principles, examined the institutional risk profile, and considered mitigation plans for the various risks. The committee continued work in 2018-19 to take deeper dives into various institutional risks and compliance risk.
Enterprise Risk Review

Brian Burnett, Senior Vice President
Karen Hanson, Executive Vice President and Provost

Audit & Compliance Committee

October 11, 2019
Board of Regents Prior Work on Risk 2011-2019

- Audit & Compliance Committee developed an Institutional Risk Profile in 2014 based on work from February 2011 to May 2014.
- Audit & Compliance Committee held a five-part series in 2017-18 on institutional risk and mitigation plans for these risks.
- Audit & Compliance Committee continued work in 2018-19 to take deeper dives into various institutional risks and compliance risk.
## 21 Institutional Risks – June 2018

<table>
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<th>Category</th>
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<td>U</td>
<td>Sexual Misconduct – Prevention, Training, &amp; Response</td>
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Focus on Enterprise Risk

Of the 21 institutional risks identified by the administration and the Board in 2017-18, two involve the active management of reputational risk:

1 – Brand and Reputation Management
2 – Crisis Management

These risks come into play most often when another risk has manifested itself, requiring prompt action by the University.
Focus on Enterprise Risk

- Brand/Reputation Management and Crisis Management operate in an “umbrella” capacity for all the other risks.
- They involve and require:
  - 1) prompt assessment of an emerging situation
  - 2) quick identification of who needs to be at the table to respond to the situation
  - 3) agreement on the appropriate decision makers and actions
Enterprise Risk Prevention and Mitigation

University’s emergency management utilizes NIMS (National Incident Management System) approach to addressing incidents:

• Preparedness
• Communications and Information Management
• Resource Management
• Command and Management
• Ongoing Management and Maintenance
Risk Management Requires Agility

Each time the University experiences a manifestation of a risk, some set of senior leaders needs to engage in the mitigation process. Examples:

• Faculty accused of research misconduct
  – VP for Research, Provost, General Counsel, VP of University Relations

• Coach involved in recruiting infractions
  – Director of Athletics, General Counsel, VP of University Relations

• Staff accused of sexual misconduct
  – VP for Equity and Diversity, General Counsel, VP of Human Resources

• Financial misconduct discovered in a unit
  – SVP for Finance and Operations, Provost (if college), VP of ACA (if clinical), VP of Research (if sponsored funds involved)
Enterprise Risk Mitigation Process

• No matter the situation or the risk, an institutional “point person” needs to own the process:
  – Identify the needed set of senior leaders to convene
  – Develop a plan and identify resources to move the mitigation forward
  – Consult with University Relations in developing a communication plan, both internal and external as warranted
Currently, the management of risk is distributed among numerous senior leaders.

An established enterprise-wide process would more consistently guide senior leaders as they tackle and mitigate these risks.

Under President Gabel’s leadership, we are considering a more centralized concept.
Questions?
## 21 Institutional Risks – June 2018

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AGENDA ITEM: University Ethics Program and Values Update

☐ 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 progress on the development and implementation of an ethics program within the Office of Institutional Compliance.

The discussion will include background on this topic, progress to date, and an overview of planned next steps.

BACKGROUND INFORMATION

The committee first discussed this topic at the December 2018 meeting.
Adding an Ethics Program to the University’s Office of Institutional Compliance

Audit and Compliance Committee of the Board of Regents
October 11, 2019
Boyd Kumher, Chief Compliance Officer
Objectives

• Provide the background regarding the addition of an ethics program to the Office of Institutional Compliance.

• Share the process and progress of the effort to develop and implement the ethics program.
Background

• August 2015 the President charged the Chief Auditor, the General Counsel, and the President’s Chief of Staff to assess the current compliance structure and make recommendations for realigning or restricting it to achieve greater effectiveness and visibility on both compliance and ethics-related activities.
Background

• May 2016 Institutional Compliance Function Review provided to University of Minnesota President identifying 6 categories of recommendations:
  1. Reporting and Authority
  2. University Ethics Programming
  3. Executive Oversight and Responsibility
  4. Decentralization
  5. Staffing and Resources
  6. Organizational Placement of the Conflict of Interest Program
Background

- Finding and recommendation regarding University ethics programming:
  - The University is an outlier among its peers in not having any formal institutional programming around ethics.
  - The University should establish a new ethics program within the OIC, tasked with reinforcing an ethical culture by creating new programming components and leading their implementation. Further defining the scope and core activities of this program should be among the first tasks of a new CCO.
Background

• Defining Scope and Core Activities
  – In 2017 developed Ethics Program framework through:
    • Internal: Discussions with the President, the Chair of the Audit and Compliance Committee of the Board of Regents, the General Counsel, the AVP of Internal Audit, the President’s Chief of Staff, and the Executive Oversight Compliance Committee (EEOC).
    • External: Discussions with peers in compliance organizations, including the Minnesota Chief Compliance Officer Network, the Big Ten Chief Compliance Officer Network, the Society of Corporate Compliance and Ethics, and contacts at other Universities.
    • Review of literature and documents: Both University resources, such as a review of guiding principles and values, as well as external publications on topics of institutional compliance programming.
Background

• March of 2018: Obtained charge from EOCC to establish a University ethics program.

• Elements to implement:
  – Define “ethics” as behaving in a manner consistent with our values.
  – Identify and define 4-5 values to guide ethical decision-making and ethical behavior.
  – Promote values through employee training, messaging, etc.
  – Assess and monitor ethical culture.
  – Establish “Office of Institutional Compliance and Ethics” as a University resource center.
Values

• Identify 4-5 values that would be used to guide ethical, or values-based, decision making.
• Consult with University stakeholders, including:
  – Faculty Consultative Committee
  – Dean’s Council
  – Professional and Administrative Consultative Committee
  – Civil Service Consultative Committee
  – Compliance Partner Network
  – Post Doctoral Association
  – Survey of 1000 random faculty members
  – Survey of 1000 random students
  – Survey of 1000 random staff members
Next Steps

• Wrap up the consultation phase.
• Share consultation feedback with the EOCC, including the results of the random sample surveys, and make a recommendation to President Gabel.
• Under consideration of EOCC’s recommendation, President Gabel will select the ethical decision-making values.
Next Steps

• Establish the “Office of Institutional Compliance and Ethics (OICE)” as a University resource center.

• Promote values
  - Develop and implement a values awareness campaign, utilizing leadership and compliance partner networks within the University.
  - In partnership with appropriate University partners, begin process of developing and delivering training on ethical decision-making.
Next Steps

• 2020 and beyond.
  – OICE maintains itself as a University resource and continues to promote values-based decision making through training and education.
  – OICE, in partnership with appropriate University partners, develops and implements processes and procedures for assessing and monitoring the University’s ethical culture.
The semi-annual Controller’s Report provides information regarding recent activities in University financial operations that have strengthened financial reporting, enhanced internal controls, improved the management of financial risks, provided better services to the University community, and maximized the institution's financial resources. Highlights include:

- A new partnership with University Bookstores and UMarket.
- An overview of an eCommerce service pilot.
- A discussion of new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB), which the University has not implemented at this time. Management is currently determining if these standards apply to the University, as well as the likely impacts on the University's accounting and reporting.

The semi-annual Chief Compliance Officer’s report provides information on work activities within the Office of Institutional Compliance that monitor and enhance the University's culture of compliance. The report includes:

- Compliance risk assessment summaries
- UReport statistics

The purpose of this report is to inform the Board on institutional conflict of interest matters as required by Board of Regents Policy: Institutional Conflict of Interest and Board Operations and Agenda Guidelines.
BACKGROUND INFORMATION

The Semi-Annual Controller’s Report and Semi-Annual Chief Compliance Officer’s Report are presented to the committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
Since the June 2019 Semi-Annual report, the Controller’s Office has continued our work to maximize the institution’s financial resources and enhance financial operations. This report presents a summary of activities completed to enhance internal controls, assess and implement new accounting and reporting standards, and better manage financial risks.

I. Activities to enhance internal controls, better manage financial risks, reduce costs, and improve services to the University community

U Market - University Bookstores

In June, 2019, University Bookstores was added as a supplier in U Market. Departments can now shop the full online Bookstores catalog and receive their 20% discount. This provides online approval and documentation for departmental purchases, streamlines the process for departmental orders, and offers departments delivery service through U Market.

Financial Reports and Data

The upgraded version of the Budget Status by Budget Account for Non-Sponsored Funds financial report was released for systemwide use. The UM Analytics version of this report, along with the seven reports already converted from UM Reports, represent 75% of the 1.655 million financial reports generated annually.

University Finance’s strategic reporting plan is to collaboratively evaluate and convert over 50 existing financial reports to UM Analytics and create new financial reports and dashboards based on consumer need. This collaboration by finance leaders in central units, colleges, system campus leaders, systemwide report consumers, and the Office of Information Technology continues to create better, more efficient financial reports with additional functionality for generating and viewing reports or exporting the data.

eCommerce service pilot - eStore

A new ecommerce service, the eStore, was piloted with three departments. The eStore expands the options available to departments for receiving payment and provides a self-service web store with shopping cart functionality. Customers may add items to a shopping cart and pay for them with credit/debit card. The eStore:

- Is a cloud-based solution hosted by a third-party;
- Provides departments a method of accepting credit/debit card payments without the need to separately establish and maintain an ecommerce web site;
- Helps departments meet customer demand to make payment via credit/debit card;
- Reduces the number of merchant accounts that need to be set up and maintained;
- Reduces PCI DSS compliance efforts;
• Streamlines the collection of payments and recording these transactions to the general ledger.

During the pilot phase, over 500 orders were processed for over $50,000 in revenue. Additional stores will be added to the service this fall as implementation efforts continue.

II. Accounting and Financial Reporting Matters

The Governmental Accounting Standards Board (GASB) issued the following accounting and reporting standards. Management is in the process of determining if they apply to the University and if so, what impact they may have. These standards and the related implementation dates are explained below.

• In November 2016, the GASB issued Statement No. 83 (GASB 83), Certain Asset Retirement Obligations. This addresses certain asset retirement obligations (AROs), a legally enforceable liability associated with the retirement of a tangible capital asset. It establishes the criteria for recognition of a liability and corresponding deferred outflow of resources, as well as requiring disclosure of information related to AROs. This statement is effective for the fiscal year ending June 30, 2019.

There are no financial obligations recorded that affect the University’s financial statements per the requirements set forth in GASB 83.

• In January 2017, the GASB issued Statement No. 84 (GASB 84), Fiduciary Activities. This establishes criteria for identifying when (1) the University is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria apply to fiduciary component units and postemployment benefit arrangements. An activity meeting the criteria will require the University to present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 also provides guidance for recognition of a liability to the beneficiaries in a fiduciary fund when the University is obligated to disburse fiduciary resources. This statement is effective for the fiscal year ending June 30, 2020.

• In June 2017, the GASB issued Statement No. 87 (GASB 87), Leases. This establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. It requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the fiscal year ending June 30, 2021.

• In April 2018, the GASB issued Statement No. 88 (GASB 88), Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This improves information that is disclosed in the notes to the financial statements related to debt and clarifies which liabilities the University should include when disclosing information related to debt. It requires essential information related to debt be disclosed, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default.
and/or termination events with finance-related consequences and significant subjective acceleration clauses. GASB 88 also requires that existing and additional information for direct borrowings and direct placements of debt be disclosed separately from other debt. This statement is effective for the fiscal year ending June 30, 2019.

The University is reviewing enhancements to the long-term debt footnote to address the University’s responsibilities related to significant events or termination clauses.

- In June 2018, the GASB issued Statement No. 89 (GASB 89), Accounting for Interest Cost Incurred before the End of a Construction Period. This requires interest cost the University incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. As a result, this interest cost will no longer be included in the historical cost of a capital asset. This statement is effective for the fiscal year ending June 30, 2021.

- In August 2018, the GASB issued Statement No. 90 (GASB 90), Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61. This defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the University’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held for fiduciary purposes or in an endowment. This statement is effective for the fiscal year ending June 30, 2020.

- In May 2019, the GASB issued Statement No. 91 (GASB 91), Conduit Debt Obligations. This provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice. These objectives are achieved by clarifying the definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for the fiscal year ending June 30, 2022.
INTRODUCTION

This report addresses the following: (I) Compliance Risk Review Summaries; (II) UReport Statistics.

Additional information regarding the University's Office of Institutional Compliance (OIC) is available on the OIC website http://www.compliance.umn.edu/complianceHome.htm.

I. COMPLIANCE RISK REVIEW SUMMARIES

The CRR process is designed to be a collaborative, cross-functional, and cross-educational strategy for the oversight of the management of significant compliance risks. The process involves detailed research into compliance topics, working with stakeholders to develop and implement topic specific compliance risk review tools, and providing support for stakeholders to take action on identified opportunities for compliance risk reduction. Currently there are 3 topics under review. It is anticipated that information on the reviews of these topics will be included in a future report to the Audit and Compliance Committee of the Board of Regents. The topics under review are:

- Animal Welfare
- Disabilities and Accommodations
- Occupational Safety

Summary of recently completed reviews:

Donors and Gifts

The University of Minnesota Foundation (UMF) engages external service providers to perform an annual financial audit, an internal control audit at least every three years, and periodic cybersecurity, Payment Card Industry (PCI) data security, and Protected Health Information (PHI) reviews. These reviews include protection of private data, compliance with donor intent, and expenditure of funds. The UMF has 213 staff (173 in development and 40 in operations) who are engaged in compliance related activities, and receive training on Donor Management System, data privacy, and cybersecurity.

The Minnesota Landscape Arboretum Foundation (MLAF) spends $17,000 for audit services. The University of Minnesota covers the costs for Payment Card Industry Standards and Scanning Penetration Testing on Computer Devices. The MLAF has 31 full time employees engaged in foundation activities (3 Donor Services, 10 development officers and staff, 4 directors, 3 finance, 3 membership sales, 3 information technology, and 5 guest services). Compliance related activities are carried out by 60 MLAF employees, who receive training...
on Payment Card Industry compliance, record retention, data privacy, and cybersecurity. It is suggested that OGC review the current memorandum of understand in place with MLAF.

Intellectual Property and Technology Transfer

Technology Commercialization (TC) employs three staff members dedicated to patent administration and federal reporting and two staff members dedicated to contracts. For the three staff working in patent administration and federal reporting, 70% of their time is spent on compliance activity (72 hours out of 120 per week). For the contracts team this percent is 25% (20 hours out of 80 per week). In addition, four finance staff members spend approximately 30% of their time on compliance activities and a General Counsel liaison spends approximately 30% of their time on compliance activities.

TC has an effective program that commercializes and develops technology invented at the University while complying with intellectual property laws and government rules and regulations. Processes are in place for reviewing disclosures, drafting agreements, and tracking activity. The department has a team in place dedicated to working with start-up companies to license University technology to meet the Bayh-Dole requirement of having a preference towards small businesses. At the time of the review the department was in the process of adding an invention reporting module to the Responsible Conduct of Research curriculum that will include when and how to disclose inventions to TC. The department uses a database specifically created for monitoring technology transfer activity. This helps TC staff ensure that reports are timely filed with funding agencies. In response to the NIH’s Statement on Protecting the Integrity of U.S. Biomedical Research, it is suggested that TC should coordinate with the Conflict of Interest Program and Sponsored Projects Administration to assess any gaps in our processes. It is suggested that TC should assess the benefit of adding a monitoring system for material transfer agreements. Finally, it is suggested that the department continue to monitor the occurrence of human error on the large volume of licenses and patents and consider adding staff and resources where necessary.
II. UREPORT STATISTICS

A. Statistics: January 1, 2019 through June 30, 2019

UReport is the University’s confidential web-based reporting service. This reporting service is provided by an independent company that provides similar services for other companies and universities. UReport is intended to be used to report violations of local, state and federal law as well as violations of University policy. This reporting system is not intended to be used to report concerns or issues for which the University is not responsible. Reporters may submit reports by either a toll-free phone number or via the web. UReports can be submitted anonymously. Those who submit reports are expected to report good faith concerns and to be truthful and cooperative in the University’s investigation of allegations.

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<thead>
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<th>Category</th>
<th>January 1, 2019 to June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Reports</td>
<td>75</td>
</tr>
<tr>
<td>Reviews Completed</td>
<td>69</td>
</tr>
<tr>
<td>Substantiated</td>
<td>7 (9.5%)</td>
</tr>
<tr>
<td>Unsubstantiated</td>
<td>62 (83.5%)</td>
</tr>
<tr>
<td>Reviews Pending Completion</td>
<td>6 (7%)</td>
</tr>
</tbody>
</table>

UReports by Category (January 1, 2019 – June 30, 2019)

- Research & Academic Misconduct: 4
- Privacy & IT Security: 7
- Other: 8
- Health & Safety: 3
- Financial: 3
- Employment & Human Resources: 19
- Discrimination, Harassment, Sexual Misconduct: 26
- Conflict of Interest & Commitment: 4
In 2019 the Conflict of Interest (COI) Program received 97 Financial Disclosures for University Officials (FDUO), a 100% compliance rate.

The COI Program conducted its annual review of financial relationships the University has with business entities that fall into two or more of the following areas: technology commercialization licenses, gifts to the University of Minnesota Foundation, vendor contracts, and sponsored research. The COI Program did not identify any relationships that compromise the integrity of University research, teaching, outreach, and other mission-related activities.

The Institutional Conflict Review Panel (“Panel”) has held three meetings this year. The Panel reviewed one conflict matter involving a University Official who proposed to serve as principal investigator (PI) for a company sponsored research project while also receiving remuneration and stock options from the company for his consulting services. The Panel recommended that the conflict be eliminated, which was accomplished through the transfer of the PI role to a qualified faculty member.

The Panel also revised three conflict management plans involving Phase I clinical trials following the PI’s departure from the University, and approved another management plan enabling a Phase I trial to be conducted at the University. These plans were established pursuant to University Institutional Conflict of Interest policy and procedure, which presumes that research involving evaluation of University licensed technology which poses "more than minimal" risk to human participants will not be conducted at the University, absent a determination by the Institutional Conflict Review Panel (“Panel”) that compelling circumstances warrant conducting the trial at the University.