



Audit & Compliance Committee

December 2020

December 10, 2020

8:00 a.m.

Videoconference

AUD - DEC 2020

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit and Compliance

December 10, 2020

AGENDA ITEM: External Auditor Report

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Sue Paulson, Controller
Katie Knudtson, Partner, Deloitte & Touche LLP
Judi Dockendorf, Managing Director, Deloitte & Touche LLP

PURPOSE & KEY POINTS

The purpose of this item is to review results and progress of audit and audit-like services performed by Deloitte & Touche, LLP (Deloitte) July 2020 to present. Information presented by Deloitte will include:

- Completed items:
 - Annual Financial Report
 - Regenerative Medicine Agreed Upon Procedures Report 2018-2020
- In process items:
 - Office of Management and Budget (OMB) Uniform Grant Guidance Compliance audit.
 - Minnesota Office of Higher Education (OHE) financial aid programs examination for Crookston, Duluth, Morris, Rochester, and Twin Cities campuses.
 - National Collegiate Athletic Association (NCAA) Agreed-Upon Procedures for the Twin Cities and Crookston campuses.

BACKGROUND INFORMATION

The Audit & Compliance Committee oversees external audit engagements on behalf of the Board of Regents. This report is presented in accordance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

The FY 2020 annual financial report is included in the December 2020 Finance & Operations Committee docket.



The University of Minnesota
Results of the Audits and
Other Services

November 20, 2020
(To be presented on December 10, 2020)





Deloitte & Touche LLP
Suite 2800
50 South 6th Street
Minneapolis, MN
USA

www.deloitte.com

November 20, 2020

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

Dear Members of the Audit and Compliance Committee of the Board of Regents:

We have performed an audit of the consolidated financial statements of the University of Minnesota (the "University") as of and for the year ended June 30, 2020 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated October 21, 2020. We have also performed other audit and related services as stated in our client service plan, presented to the Audit and Compliance Committee of the Board of Regents on February 13, 2020.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the University is responsible.

This report is intended solely for the information and use of management, the Audit and Compliance Committee of the Board of Regents, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

cc: The Management of the University of Minnesota

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The University of Minnesota
Results of the Audits and Other Services

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Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated January 23, 2020. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the University's financial statements for the year ended June 30, 2020, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Compliance Committee of the Board of Regents (the "Audit and Compliance Committee") are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Compliance Committee of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.



Significant Accounting Policies

The University's significant accounting policies are set forth in Note 1 to the University's 2020 financial statements. We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended June 30, 2020.

We have evaluated the significant qualitative aspects of the University's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. A summary of our procedures performed over accounting estimates and key audit risks has been attached to this report as Appendix A.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

The following uncorrected misstatements were presented to management during the current audit engagement and were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- 1 Uncorrected adjustment related to final market valuations related to CEF, GIP and TIP investments resulting in an understatement of investments and an understatement in the net change in fair market value of \$4,442,000 in the current year.
- 2 Uncorrected adjustment related to a reclassification of accrued liabilities and other, resulting in an overstatement of current accrued liabilities and other and an understatement of noncurrent accrued liabilities and other of \$32,438,000, with no impact to revenues, expenses or net position.
- 3 Correction of prior period misstatement in the current year, resulting in an overstatement of student tuition and fees revenue of \$6,042,000 in the current year and an understatement of instructional operating expenses of \$1,833,000, with no impact to net position in the current year.

Summary of Other Services in 2020

The other services provided to the University of Minnesota by Deloitte & Touche LLP related to fiscal 2020 included both audit and audit-related services.

A summary of the other services performed includes:

Service	Requirement	Objective	Assurance Provided?
OMB Uniform Guidance Federal Compliance Audit	Office of Management and Budget	Test compliance with federal grant requirements	Full
Minnesota Office of Higher Education Financial Aid Programs Examination	Minnesota Office of Higher Education	Test compliance of state financial aid programs	Full
NCAA Agreed-Upon Procedures – Twin Cities	NCAA Bylaws	Assess compliance with NCAA bylaws established for Division I athletics related to specific items	Limited
NCAA Agreed-Upon Procedures – Crookston	NCAA Bylaws	Assess compliance with NCAA bylaws established for Division II athletics related to specific items	Limited
Regenerative Medicine Agreed-Upon Procedures	Minnesota state legislation	Assess compliance with state laws related to award expenditures for the Mayo Partnership in Regenerative Medicine	Limited

Summary of Other Services in 2020 (Cont.)

OMB Uniform Guidance Federal Compliance Audit

- Audit performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- OMB Uniform Guidance audit required for entities with federal expenditures during a fiscal year in excess of \$750,000
- Total University federal expenditures for the year ended June 30, 2020 were approximately \$1.041 billion
- The University continues to qualify as a low-risk auditee
- Current scope includes 6 programs identified as major for testing compliance and internal controls in the current year

Minnesota Office of Higher Education Financial Aid Programs Examination

- Compliance examination for state grants performed in connection with federal compliance audit
- Required procedures are outlined in the Financial Aid Programs Audit Guide issued by the state of Minnesota
- Reports on compliance will be issued for each campus (Twin Cities, Duluth, Crookston, Morris)

Summary of Other Services in 2020 (Cont.)

NCAA Agreed-Upon Procedures – Twin Cities

- Procedures performed for the University of Minnesota – Twin Cities Athletics Department’s compliance with NCAA bylaws
- Procedures are established by the NCAA for Division I athletics and include procedures over:
 - Revenues
 - Expenses
 - Capital assets
 - Debt
 - Affiliated organizations (Booster Clubs)
 - Internal controls

NCAA Agreed-Upon Procedures – Crookston

- Procedures performed for the University of Minnesota – Crookston Athletics Department’s compliance with NCAA bylaws
- Procedures are established by the NCAA for Division II athletics and include procedures over:
 - Revenues
 - Expenses
 - Affiliated organizations (Booster Clubs)
 - Internal controls

Regenerative Medicine agreed-upon procedures

- Procedures performed for the University’s compliance with Minnesota state laws for the Mayo Partnership in Regenerative Medicine
- Procedures performed over award expenditures for the period from July 1, 2018 to June 30, 2020
- Report issued in September 2020
- No findings were identified

Appendices

Appendix A: Accounting Estimates and Key Audit Risks

Appendix B: Other Required Communications

Appendix A – Accounting Estimates and Key Audit Risks

Significant accounting estimates and key audit risks reflected in the 2020 consolidated financial statements include management override of controls and valuation of alternative investments.

	Audit Procedures	Management's Assertions
Management override of controls (significant risk)	<ul style="list-style-type: none"> • Tested the design and implementation of relevant controls over account reconciliations, journal entries, and financial statements. • Tested the appropriateness of a sample of journal entries recorded in the general ledger. • Tested critical management judgments and estimates for bias. • Held fraud discussions with certain members of senior management, internal audit, the audit committee and others. • Performed analytical procedures on the financial statements to identify unusual trends in account balances and ratios. 	Management has represented that controls are appropriately designed and implemented to mitigate override of controls and that there were no instances of override of controls during the year ended June 30, 2020.

Appendix A – Accounting Estimates and Key Audit Risks (Cont.)

	Audit Procedures	Management's Assertions
Valuation of alternative investments (significant risk)	<ul style="list-style-type: none"> • Read the valuations provided by external investment managers and management's year-end analysis to evaluate how positions are marked to market for a selected sample. Assessed the underlying assumptions used to determine fair value for alternative investment vehicles. 	Management has represented that the assumptions used are reflective of management's intent and ability to carry out specific courses of action and are consistent with the University's plan and past experiences. Also, these assumptions and methods used result in a fair value measure appropriate in accordance with GAAP.
	<ul style="list-style-type: none"> • Updated our understanding of the University's investment portfolio and considered investment strategies or products that pose control or financial reporting risks. 	
	<ul style="list-style-type: none"> • Understood and documented the oversight and monitoring procedures performed by management when investing in new funds, quarterly and annually. 	
	<ul style="list-style-type: none"> • Obtained an understanding of the internal controls over the monitoring of and reporting on on-going invested funds. 	
	<ul style="list-style-type: none"> • Reviewed transactions at or near the balance sheet date which support the valuation of the investment for a selected sample. 	
	<ul style="list-style-type: none"> • Confirmed directly with external investment managers and requested related audited financial statements as required by American Institute of Certified Public Accountants guidance to verify underlying value of alternative investments for a selected sample. Performed rollforward procedures from unaudited financial statement date to June 30, 2020 through benchmark procedures. 	
	<ul style="list-style-type: none"> • Benchmarking procedures: <ul style="list-style-type: none"> – Segregate investments into asset classes based on underlying holdings. – Identify asset classes that represent audit interest and increase extent of testing within that asset class. 	
	<ul style="list-style-type: none"> • Purchase and sales testing 	
	<ul style="list-style-type: none"> • Look-back procedures 	
	<ul style="list-style-type: none"> • Obtained the most recent unaudited fund financial statements 	

Appendix B: Other Required Communications

- We have not had any disagreements with management related to matters that are material to the University's 2020 financial statements.
- We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2020.
- Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.
- Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Audit and Compliance Committee.
- In our judgment, we received the full cooperation of the University's management and staff and had unrestricted access to the University's senior management in the performance of our audit.
- We have made specific inquiries of the University's management about the representations embodied in the financial statements. In addition, we have received written representations the University is required to provide to its independent auditors under generally accepted auditing standards for the consolidated audit and will request written representations related to the other audit services prior to report issuance.





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Independent Accountant's Report on Applying Agreed-Upon Procedures

Management of the University of Minnesota
1300 South Second Street
Minneapolis, MN 55454

We have performed procedures enumerated below, which were agreed to by the University of Minnesota Controller's Office, on the University of Minnesota's (the "University") compliance with Chapter 69, Article 1, Section 5, Subd. 4 Special Appropriations, (e) University of Minnesota and Mayo Foundation Partnership of the Laws of Minnesota. The University of Minnesota Controller's Office is responsible for the University's compliance with Chapter 69, Article 1, Section 5, Subd. 4 Special Appropriations, (e) University of Minnesota and Mayo Foundation Partnership of the Laws of Minnesota. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

We obtained the Statement of Expenditures by Subrecipient (the "Statement") for the period from July 1, 2018 to June 30, 2020, and the Attachment of Subrecipients with Affiliations (the "Attachment") as prepared by management. The Attachment has been included as Exhibit A to this report.

1. We recalculated the total dollar amounts on the Statement and compared the amounts on each line on the Statement to the corresponding amounts on the reconciliation prepared by management between the University's general ledger and the amounts on the Statement, noting no exceptions.
2. We compared the dollar amounts on management's reconciliation to the University's general ledger and recalculated the total presented in the Statement, noting no exceptions.
3. We compared actual expenditures by project number to the Budget Information section of the Notice of Grant Awarded (NoGA) obtained from management. We noted no project numbers where total expenditures by project number exceeded the approved budget limit.
4. We randomly selected four of the Principal Investigators (PI) affiliated with the University from the Statement, which represented 20% of the total PIs and their related projects affiliated with the University, and obtained the expenditure detail for the selected PI's related project during the period from July 1, 2018 to June 30, 2020. We randomly selected 40 total expenditure selections from the expenditure detail, and traced and agreed the amounts to source documents, noting no exceptions.
5. We randomly selected five PIs whose affiliations are outside of the University from the Statement and obtained the subaward agreements from management. We inspected the subaward agreements for evidence of appropriate approvals by the University and the sub-recipient, noting no exceptions.
6. We obtained and documented an understanding of the University's policies and procedures in place to monitor that awards are expended in accordance with Chapter 69, Article 1, Section 5, Subd. 4 Special Appropriations, (e) University of Minnesota and Mayo Foundation

Partnership of the Laws of Minnesota, noting policies and procedures were in place and appropriately applied based on the understanding we obtained.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the University's compliance with Chapter 69, Article 1, Section 5, Subd. 4 Special Appropriations, (e) University of Minnesota and Mayo Foundation Partnership of the Laws of Minnesota. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the University, the University's Board of Regents, and authorized representatives of the State of Minnesota, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 17, 2020

Attachment of Subrecipients with Affiliations

For the period from July 1, 2018 to June 30, 2020

<u>Recipient</u>	<u>Affiliation</u>
Alejandro, Emilyn	U of MN
Alonso-Camino, Vanessa	*
Asakura, Atsushi	U of MN
Athanasidou, Maria	*
Brataas, Anne	*
Burns, Terry	Mayo
Burton, Frank	*
Chan, Sunny	U of MN
Chefetz Menaker, Ilana	U of MN
Daughters, Randy	*
Davidow, Dominique	*
Devaux, Patricia	Mayo
Deyle, David	Mayo
Dragomir-Daescu, Dan	Mayo
Ferrington, Deborah	U of MN
Fife, Brian	U of MN
Finger, Erik	U of MN
Finnoff, Jonathan	Mayo
Gafni, Ohad	*
Griffiths, Leigh	Mayo
Hickson, LaTonya	Mayo
Horazdovsky, Bruce	Mayo
Hu, Wenqian	Mayo

Recipient	Affiliation
Jang, Mi-Hyeon	Mayo
LeBien, Tucker	U of MN
Montgomery, Jacob	U of MN
Moran, Steven	Mayo
Murphy, Richard	*
Naqwi, Amir	*
O'Brien, Timothy	*
Otto, Neil	*
Paule, Jill	*
Rodriguez-Porcel, Martin	Mayo
Roeser, Dave	*
Singh, Bhairab	U of MN
Smoot, Rory	Mayo
Steinborn-Gourley, Elizabeth	*
Sterner, Rosalie	Mayo
Syedain, Zeeshan	*
Taneja, Veena	Mayo
Tolar, Jakub	U of MN
Walsh, Patrick	*
Warrington, Arthur	Mayo
Wehde, Mark	Mayo
Wierson, Wesley	*
Wirta Kosobuski, Anna	U of MN
Wyles, Saranya	Mayo

*Researcher is not affiliated with the University of Minnesota or Mayo Clinic



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

December 10, 2020

AGENDA ITEM: Internal Audit and Committee Work Plan Update

Review **Review + Action** **Action** **Discussion**

This is a report required by Board policy.

PRESENTERS: Gail Klatt, Chief Auditor

PURPOSE & KEY POINTS

This item will provide an update on completed and in-progress audit work for FY 2021 and will seek committee input and recommendations regarding new audit work. As a reminder, there is no Internal Audit Plan for the current fiscal year.

The committee will also review its 2020-21 work plan and discuss items to be brought to the committee for discussion.

Any committee member may request an audit by making a motion in a committee meeting. Any motion receiving a second will be discussed and voted on by the committee. Any audits approved by the committee will be directed to the Chief Auditor.

BACKGROUND INFORMATION

Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section IV, Subd. 4. states that the Audit & Compliance Committee "is authorized to request supplemental reviews or other audit procedures by the chief auditor, the independent auditor, or other advisors."

University of Minnesota - Office of Internal Audit Audit Status (December 2020)

Completed Audits Since Last Update (September)
Routine Unit and Process Audits:
Department of Pharmacology
Dean of CEHD Transition Review
SVP Finance and Ops Transition Review
CFANS Southern Research and Outreach Center
Executive and Dean Expenses
Gift Testing
UMN Duluth Student Life Administration
SNAP Reviews:
27 th Pay Period
Civil Service/Labor Represented Furlough Hours
Faculty/P&A Pay Reduction
Gift Revenue Deposits
Travel During the Pandemic
Audits Report Pending
Anatomy Bequest Program
CARES
NCAA Baseball and Softball
OIT Business Services' Application Development
Prepaid Debit Cards
UMarket
UMN Duluth Labovitz School of Business and Economics
In Process Audits Since Last Update (September)
COVID Related Audits:
Telehealth Security and Compliance
Idle Time on Sponsored Awards
Compliance with Remote Working Purchasing Policies
Emerging Compliance Audits:
Immigration Visa and Permanent Residence Process
Foreign Gifts and Contracts Reporting Compliance with Section 117
Routine Unit and Process Audits:
College of Science and Engineering - Dean's Office (Including NIST Compliance Review)
Northrop
UMN Duluth Human Resources
SNAP Reviews:
Human Participant Payments
Work Study During Extended Reduced Operations

Potential Future Audits

COVID Related Audits:

Families First Coronavirus Response Act (FFCRA)

I-9 Deferred Document Review

Student Refunds

COVID Research

Routine Unit and Process Audits:

GLBA Compliance

Internally Awarded Lab Research

Energy Management/BSAC/Power Plant

Minnesota Supercomputing Institute (MSI)
--

OIT Server Administration

Parking and Transportation

Real Estate

UMN Duluth Health Services

Audit No Longer Being Pursued

Sunrise Plan Compliance (Research & Operational Units)
--

**Audit & Compliance Committee
2020-21 Work Plan**

Date	Topics
2020	
September 10-11	<ul style="list-style-type: none"> • 2020-21 Committee Work Plan The committee will discuss the work plan agenda items for the 2020-21 meetings. • External Quality Assurance Review Recommendation Follow Up The committee will receive an update on the recommendations from the Internal Audit External Quality Assurance Review that was conducted in FY 2020. • FY 2021 Internal Audit Plan Update This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations. In absence of a plan, the committee will be solicited for input on Internal Audit activities. • CARES Act Funding Overview The University Controller will provide the committee with an overview of the distribution of federal funding provided under the CARES Act.
October 8-9	<ul style="list-style-type: none"> • Internal Audit Update* This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations. • Institutional Risk Profile: COVID-19 Pandemic Preparedness and Response The committee will review the institutional risk profile and discuss the relationship between the 21 risks and the University's response to the COVID-19 pandemic. • Overview of Annual Financial Statements Review 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 2020 audited financial statements. <hr style="border-top: 1px dashed black;"/> <ul style="list-style-type: none"> • <i>Review of Annual Financial Statements</i> <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>
December 10-11	<ul style="list-style-type: none"> • External Auditor Report* The purpose of this item is to communicate and discuss the results of the FY 2020 external financial statement and federal award audits. • TBD Compliance Topic • Information Items: Institutional Conflict of Interest Report* Semi-Annual Institutional Compliance Officer's Report* Semi-Annual Controller's Report*

2021	
February 11-12	<ul style="list-style-type: none"> • Internal Audit Update* This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations. • External Auditor’s Review of Completed Audit Work* The external audit firm will review the results for the audit and audit-like serves performed since July 2020. • External Audit Plan The external audit firm will present its proposed plan for FY 2021 audit engagement including the financial statement audit and the federal uniform audit.
May 13-14	<ul style="list-style-type: none"> • Review of External Auditor Relationship and Services Provided 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. • Update on Access Management Audit Findings and Recommendations The committee will receive an update on the remediation of findings from the collaborative assessment performed in FY 2020. • TBD Compliance Program Topic • Information Items: Semi-Annual Institutional Compliance Officer’s Report*
June 10-11	<ul style="list-style-type: none"> • Internal Audit Update* This item provides an update on Internal Audit activities, results, and observations, including the status of outstanding audit recommendations. • Internal Audit Plan* The committee will review and discuss the internal audit work plan for FY 2022. • Information Items: Semi-Annual Controller’s Report*

**Report required by Board policy.*



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit and Compliance

December 10, 2020

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 require after-the-fact reporting

Deloitte was engaged by the University’s Academic Health Center to provide agreed upon procedures in regards to the University’s compliance with the Laws of Minnesota for the Mayo Partnership in Regenerative Medicine award expenditures. The related engagement letter was reviewed by the Controller’s Office prior to its finalization, consistent with Board of Regents Policy. This engagement did not present an independence issue with regard to Deloitte. The fees for this engagement are not to exceed \$18,000.

Institutional Conflict of Interest Report

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

Semi-Annual Controller’s Report

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:

- The Controller’s Office involvement in two planning and implementation teams related to CARES Act funding and Foreign Gift and Contract Reporting.
- Continuance of the financial communication series.

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.

Semi-Annual Chief Compliance Officer's Report

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

- Compliance Risk Assessment Summaries
- UReport Statistics

BACKGROUND INFORMATION

Engagements with external audit firms that do not require prior approval 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*.

The Semi-Annual Controller's Report and the Semi-Annual Chief Compliance Officer's Report are presented to the committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

2020 Institutional COI Report to Board of Regents

December 10, 2020

In 2020 the Conflict of Interest (COI) Program received 94 Financial Disclosures for University Officials (FDUO), a 100% compliance rate.

The Institutional Conflict Review Panel (“Panel”) held two meetings this year to conduct conflict reviews of six Phase I clinical trials involving University licensed intellectual property. Five of the trials involved cancer treatment and one Covid-19. The Panel approved conflict management plans that enabled the conduct of each of the six trials at the University.

The Panel also approved one conflict management plan for a college Dean that enabled him to serve as a compensated, non-voting advisor on a company board of directors.

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.

**University of Minnesota
Board of Regents Audit Committee
Semi-Annual Controller's Report
December, 2020**

Since the June 2020 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

CARES Act

The Controller's Office led the team of department and institutional leadership in understanding, planning and oversight of the CARES Act funds. This includes CARES Act funds from the Department of Education, Health & Human Services, Corporation for Public Broadcasting, Metropolitan Council (Transportation), Federal Emergency Management Agency, Minnesota Department of Human Services and the Governor's Emergency Relief. Each implementation is different and has various requirements and reporting forms. Serving as the facilitator and center point for the CARES Act funds assists in managing the accounting, compliance, and reporting aspects of the funds.

Foreign Gift & Contract Reporting (aka Section 117 Reporting)

The Controller's Office led a team of department and institutional leadership in planning and reporting under the new data definitions and reporting criteria issued by the Department of Education. Serving as the facilitator and center point for the initiative for the new report parameters manages the institutional risk related to complete and compliant reporting.

Communication Series

Between September and October 2020, a five part series of messages about Sponsored Financial Reporting (SFR) and its work was distributed via email and within MyU. This series of articles provided the University community with information about SFR's role within the grants management processes and how the work of the unit intersects with that of departments across the University system, and tips on effective post-award management. Each message was read by between 1,300 and 2,300 people. Cumulatively the series was read by 8,959 people across the University system.

eCommerce service pilot - eStore

The pilot for the eStore, a new ecommerce service, concluded in July 2020. Additional stores continue to be added as this service has moved out of pilot and into an operational mode. The current focus for adding new stores is on assisting departments with receiving contactless payments or eliminating the need for processing checks, two challenges being faced due to the COVID-19 pandemic.

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.

Since May 2020, over 5,400 orders have been processed for \$410,000 in revenue.

II. Accounting and Financial Reporting Matters

The Governmental Accounting Standards Board (GASB) has issued the following accounting and reporting standards. In conjunction with these standards, in May 2020, the GASB issued GASB Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*, which is effective immediately for application to provide temporary relief by allowing the option to delay implementation of certain GASB statements as a result of the COVID-19 pandemic. Management is in the process of determining if the following apply to the University and if so, what impact they may have. These standards and the related implementation dates have been updated in accordance with GASB 95, where applicable, and are explained below.

- 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. Analysis has shown that the majority of the University's fiduciary activity is captured within agency funds. However, based on the clarifying guidance, the analysis has also identified some fiduciary activity previously recorded outside of agency funds that should be recorded in an agency fund, as well as activity that no longer constitutes fiduciary activity and will be reported outside of an agency fund. The activity identified will require reclassifications of certain activity, as well as additional reporting in the University's Annual Financial Report. The additional reporting will include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The provisions of GASB 84 are now effective for the fiscal year ending June 30, 2021.
- 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. The scope of the University's leases as both a lessor and lessee are under review. At this time, the expected substantial impact to the University's financial statements is to involve real estate structured leases. Due to the volume of leases across the University, implementation will require the identification of new software to aid in the tracking and reporting of lease transactions. The provisions of GASB 87 are now effective for the fiscal year ending June 30, 2022.

- 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. Analysis of the standard has been preliminarily completed and no impact to the University's financial statements has been identified. The provisions of GASB 90 are now effective for the fiscal year ending June 30, 2021.
- 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. The provisions of GASB 91 are effective for the fiscal year ending June 30, 2023
- In January 2020, the GASB issued Statement No. 92 (GASB 92), *Omnibus 2020*. GASB 92 enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASBs. The provisions of GASB 92 are now effective for the fiscal year ending June 30, 2022.
- In March 2020, the GASB issued Statement No. 93 (GASB 93), *Replacement of Interbank Offered Rates*. This statement addresses the replacement of interbank offered rates (IBORs) with other reference rates. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form. The provisions of GASB 93 are effective for the fiscal years ending June 30, 2021 through 2023, depending on the applicable section of GASB 93.
- In March 2020, the GASB issued Statement No. 94 (GASB 94), *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements*. PPPs are arrangements in which public services are provided by conveying control of the right to use a nonfinancial asset for a period of time in an exchange transaction. An APA is an arrangement in which the University would compensate an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange transaction. The provisions of GASB 94 are now effective for the fiscal year ending June 30, 2023.

- In May 2020, the GASB Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements (SBITA)*, defines a SBITA; establishes that a SBITA results in a right-to use subscription assets—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and required note disclosures. The provisions of GASB 96 are effective for the fiscal year ending June 30, 2023.
- In June 2020, the GASB Statement No. 97 (GASB 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—An Amendment of GASB Statements No. 14 and No. 85, and a Supersession of GASB Statement No. 32*, clarifies how the absence of a governing board should be considered in determining whether the University is financially accountable for purposes of evaluating potential component units and modifies the applicability of certain component unit criteria as they relate to defined contribution pension and OPEB plans and other employee benefit plans. GASB 97 also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans. GASB 97 is substantially effective for the fiscal year ending June 30, 2022 with one immediate application that was effective for the fiscal year ending June 30, 2020 that resulted in no financial statement impact to the University.

**REPORT OF THE CHIEF COMPLIANCE OFFICER
OFFICE OF INSTITUTIONAL COMPLIANCE
FOR THE AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD OF REGENTS
ON THE UNIVERSITY COMPLIANCE PROGRAM
December 10, 2020**

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 4 topics pending 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 pending review are:

- Clinical Services
- Employee Privacy
- International Activity
- Program Integrity Rules

Summary of recently completed reviews:

Sexual Misconduct

EOAA addresses concerns of discrimination and harassment based on race, color, creed, religion, national origin, gender, age, marital status, familial status, disability, public assistance status, membership or activity in a local commission created for the purpose of dealing with discrimination, veteran status, sexual orientation, gender identity, and gender expression; sexual misconduct; nepotism; and related retaliation.

The compliance review focused on Sexual Misconduct regulations outlining EOAA programs, reporting channels and prevention & monitoring requirements. The review did not address the compliance requirements detailed in Administrative Policy: *Discrimination* and the elements of which will be covered in a future, separate risk review. Likewise, Compliance with the Clery Act was the subject of a 2018 Compliance Risk Review and therefor was not covered in this review.

The Equal Opportunity and Affirmative Action Office has an effective Preventing Sexual Misconduct program that comprehensively monitors requirements and conducts training while complying with Federal and State

rules and regulations. The Board of Regents and the Office of EOAA maintain policies and a robust program including training of all employees and students that implement commitment to preventing sexual misconduct and effectively respond when it occurs. The University designates a Title IX office on each campus responsible for addressing sexual misconduct at each location. The Program conducts periodic Sexual Misconduct public awareness campaigns aimed at students and communication sent to employees. This, as well as recent social movements, may be a contributing factor to the number of sexual misconduct reports managed by the office doubling over the past three years. In addition, an external audit completed in 2017 found that the University provides substantial due process protections that far exceed the due process protections of other similar institutions.

EOAA employs twelve (12) employees, including attorneys, directly performing compliance-related activities with a total salary of \$907,000. Additionally, approximately 100 employees maintain some responsibility for implementing system wide University policy requirements related to sexual misconduct. In addition, all employees have responsibility to report and complete sexual misconduct training. EOAA will direct a review of the Title IX office by an outside contracted agency every five years starting in 2021 and at the time of this report the cost of that review is yet to be determined. A 60 minute training module was launched in 2018 with expectation of 100% University employee completion. Henceforth, all new employees are required to complete the training. The cost for that training module is \$259,000.

II. UREPORT STATISTICS

A. Statistics: January 1, 2020 through June 30, 2020

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 concerns in good faith and to be truthful and cooperative in the University’s investigation of allegations.

		January 1, 2020 to June 30, 2020
Total Reports		112
Reviews Pending Completion		9 (8.0%)
Reviews Completed		103 (92.0%)
	Substantiated	14 (12.5%)
	Unsubstantiated	89 (79.5%)

UReports by Category (January 1, 2020 – June 30, 2020)

