



Audit & Compliance Committee

September 2021

September 9, 2021

8:00 a.m.

Videoconference & Boardroom, McNamara Alumni Center

AUD - SEP 2021

1. 2021-22 Committee Work Plan

Docket Item Summary - 3

2021-22 Committee Work Plan - 6

2. Overview of Review of Financial Statements

Docket Item Summary - 8

Overview of Annual Financial Statement Review - 9

3. Introduction of External Auditor Lead Partner

Docket Item Summary - 11



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

September 9, 2021

AGENDA ITEM: 2021-22 Committee Work Plan

Review Review + Action Action Discussion

This is a report required by Board policy.

PRESENTERS: Regent Mike Kenyanya
Kelly Kuhns, Audit Manager

PURPOSE & KEY POINTS

The purpose of this discussion is to review and discuss the committee’s 2021-22 work plan.

BACKGROUND INFORMATION

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

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

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

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

performance of the internal audit function.

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

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

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

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

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

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

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

(g) Approval of Engagements of Audit Firms Other Than the University's Principal External Auditors. The Audit & Compliance Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than \$100,000 or that may impair the audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in (a) of this section. Engagements not requiring approval by the Board shall be reported to the committee at the next scheduled meeting of the committee.

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

This committee also reviews:

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

**Audit & Compliance Committee
2021-22 Work Plan**

Date	Topics
2021	
September 9-10	<ul style="list-style-type: none"> • 2021-22 Committee Work Plan The committee will discuss the work plan agenda items for the 2021-22 meetings. • Overview of Review of Annual Financial Statements This item provides a review of the University’s annual financial statements, and the committee’s responsibilities related to them. • [Introduction of External Auditor Lead Partner] Deloitte has named a new lead partner for the University’s external audit and other engagements.
October 7-8	<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. • Cybersecurity Maturity Model Certification (CMMC) Security Standards This item reviews areas of federally funded research the University is interested in pursuing and associated cybersecurity and data handling and sharing requirements, including the CMMC framework. <hr style="border-top: 1px dashed black;"/> <ul style="list-style-type: none"> • Review of Annual Financial Statements <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 16-17	<ul style="list-style-type: none"> • External Auditor Report* The purpose of this item is to communicate and discuss the results of the FY 2021 external financial statement and federal award audits. • Challenges of Oversight and Compliance with Laws and Regulations This item explains the many roles University Health & Safety plays in ensuring the safety of the campus community, and the challenges involved. • Closed Session: University Preparation and Response to Threats of Ransomware In a closed session, all Regents will be invited to join the committee for a briefing on ransomware threats and the University’s preparedness and response plan. • Information Items: Institutional Conflict of Interest Report* Semi-Annual Institutional Compliance Officer’s Report* Semi-Annual Controller’s Report*
2021	
February 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. • 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 2021.

	<ul style="list-style-type: none"> • External Audit Plan The external audit firm will present its proposed plan for FY 2022 audit engagement including the financial statement audit and the federal uniform audit. • Overview of Enterprise Risk Management The University is exploring opportunities to enhance its approach to enterprise risk management to embed more discipline and consistency. • Academic and Research Misconduct Processes The Office of Internal Audit recently completed an audit of these processes. This item explains how allegations of misconduct are handled by various central units.
May 12-13	<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. • Revisit the University's Risk Profile and Risk Principles This item reviews the Institutional Risk Profile and Risk Principles approved in 2018. This will explore any changes to risk, including those highlighted by the pandemic. • Monitoring for Policy Effectiveness University-wide This item will focus on the importance of monitoring policy effectiveness, and the policy owners' responsibilities related to monitoring. • Information Items: Semi-Annual Institutional Compliance Officer's Report*
June 9-10	<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 2023. • Information Items: Semi-Annual Controller's Report*

**Report required by Board policy.*



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

September 9, 2021

AGENDA ITEM: Overview of Annual Financial Statements Review

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Mollie Viola, Director of Accounting Services
Sue Paulson, Controller

PURPOSE & KEY POINTS

The purpose of this item is to provide the committee with an overview of the annual financial statements review process. The discussion will prepare committee members for the October review of the FY2021 audited financial statements prior to final issuance.

BACKGROUND INFORMATION

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

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

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

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

**OVERVIEW OF ANNUAL FINANCIAL STATEMENT REVIEW
SEPTEMBER 9, 2021**

Background

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

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

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

Audit & Compliance Committee Member FY21 Annual Report Timeline

Task	Date
Overview of Financial Statement Review	Thursday, September 9, 2021
Draft Finalized Annual Report for review	Friday, October 22, 2021
Meeting/call with Audit & Compliance Committee Chair & Vice Chair to field any outstanding questions or comments	Thursday, October 28, 2021
Audit Sign-off & Report Issuance	Friday, October 29, 2021

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

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

Compliance Committee. Recommendations for targeted review will be provided and specific financial impacts highlighted.

The report is **Draft – Subject to Audit Completion**. Deloitte plans to sign off on the annual report by Friday, October 29, 2021. To ensure that the Audit & Compliance Committee review is completed within the audit deadlines, questions or comments about the report should be directed to Regent Kenya, the University Controller, or Director of Accounting Services at any time prior to the meeting/call with the Audit & Compliance Committee Chair & Vice Chair.

There are three major report sections;

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

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

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



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

September 9, 2021

AGENDA ITEM: Introduction of External Auditor Lead Partner

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Sue Paulson, Controller

PURPOSE & KEY POINTS

The purpose of this item is to introduce the newly selected lead partner responsible for the University's annual external audit and other audit and review services. Every 10 years, the University's external auditor, Deloitte, has a requirement to change lead partners on the engagement.

Committee leadership and University senior administrators have interviewed potential lead partners from Deloitte. The new lead partner will be announced before the committee's September 9 meeting.