Audit & Compliance Committee Special Meeting

June 2026

June 26, 2026

8:00 a.m.

Campus View Room, McNamara Alumni Center

AUD - JUN 26, 2026 - Special Meeting

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Audit & Compliance **June 26, 2026**

AGENDA ITEM: Internal Audit Update

☐ **Review**	☐ **Review + Action**	☐ **Action**	☒ **Discussion**

☒ *This is a report required by Board policy.*

PRESENTERS: Quinn Gaalswyk, Chief Auditor

PURPOSE & KEY POINTS

The purpose of this item is to update the committee on Internal Audit activities, results, and observations to help the committee fulfill its fiduciary responsibilities under the Board's reserved authority for oversight of the internal audit function.

- Since the last Internal Audit Update at the February 2026 meeting, 30 percent of outstanding high-risk report items (i.e., items with residual risk rated as "high") have been fully resolved. This is less than a normal period but an improvement over February's 28 percent rate. In addition, only 28 percent of outstanding items are past management's planned remediation dates, and 77 percent have been open for less than a year.
- Three audits have had all outstanding "high" risk items resolved.
- The Bell Museum audit has had one "high" risk item open for more than two years; additional details on this item and the status of its remediation is included in the docket.
- While remediation results of outstanding "high" risk items remain reasonable, continued attention is necessary to ensure the high volume of open items does not impact future implementation trends.
- Seven new audit reports were issued in the last four months, containing 54 recommendations associated with addressing risks rated as "high".
- Other summary information important to the committee for their oversight of the internal audit function is also included in the docket.

BACKGROUND INFORMATION

The Internal Audit Update is prepared three times per year and is presented to the committee as required by Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section IV, Subd. 6. Audit & Compliance Committee Charter.

Internal Audit Update

University of Minnesota Regents Audit and Compliance Committee
June 26, 2026

This report includes:

- Audit Observations/Information/Status of Critical Measures/Other Items
- Follow-Up on High Risk Audit Report Items
- Audit Activity Report
- Audit Reports Issued Since February 2026
- Management Remediation Plans that Involve PEAK

Details of any of the items in this report are available on request. Individual reports were sent to the President, Executive Vice President for Finance and Operations, Executive Vice President and Provost, UMTC Athletic Director, Vice Presidents, and Chancellors about the items in this report germane to their areas.

Audit Observations/Information

Status of Critical Measures

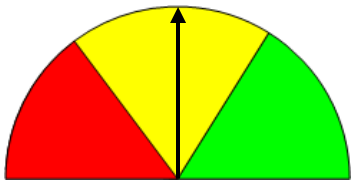
As part of our ongoing efforts to provide the Audit and Compliance Committee with critical information concisely, we have developed the following charts to present a quick overview of work performed by the Office of Internal Audit since our last Internal Audit Update.

The first chart, “Remediation of High Risk Audit Report Items,” provides our assessment of management’s overall progress on addressing high levels of risk identified in audit report issues and their associated recommendations. Readings in the yellow or red indicate remediation rates less than, or significantly less than, what is normally expected in four months. Lower overall remediation rates could be due to a number of factors (e.g., complexity of remediation, or a large number of items added from newly issued reports) and does not necessarily mean a lack of focus or effort by management. Detailed information on follow-up, both institution-wide and for each individual unit, is contained in the next section of this report.

The second chart, entitled “Progress on Audit Plan and Other Assurance Work” is our assessment of the amount of time we have been able to devote to planned audit work. This assessment includes our progress on completion of carryover audits from FY 2025, Tier 1 audits on the FY 2026 audit plan, and Tier 2 audits or their substitutes. Readings less than green could be influenced by a variety of factors (e.g., insufficient staff resources or increased time spent on non-scheduled audits or investigations).

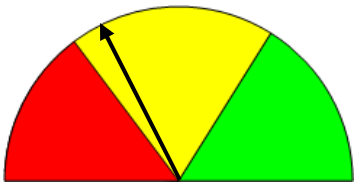
The final chart, “Time Spent on Non-Scheduled Audit Activities,” provides a status report on the amount of time consumed by investigative activities, special projects, follow-up on outstanding high risk items from audit reports, and other management requests. We estimate a budget for this type of work, 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 and Board of Regents approval for modifying the Annual Audit Plan.

Remediation of High Risk Audit Report Items



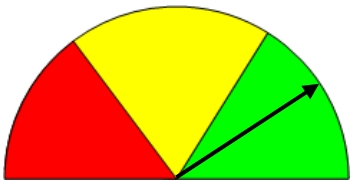
Remediation improved slightly compared to the previous period but was still below expectations. Most outstanding issues remain within management's original target dates, but close attention remains necessary to prevent the volume of open items from developing into a long-term trend.[1]

Progress on Audit Plan & Other Assurance Work



Progress on audit plan was behind expectations due primarily to staffing constraints.[2]

Time Spent on Non-Scheduled Audit Activities



Time spent on investigations, special projects, follow-up, and management requests was less than expected and budgeted for the year.

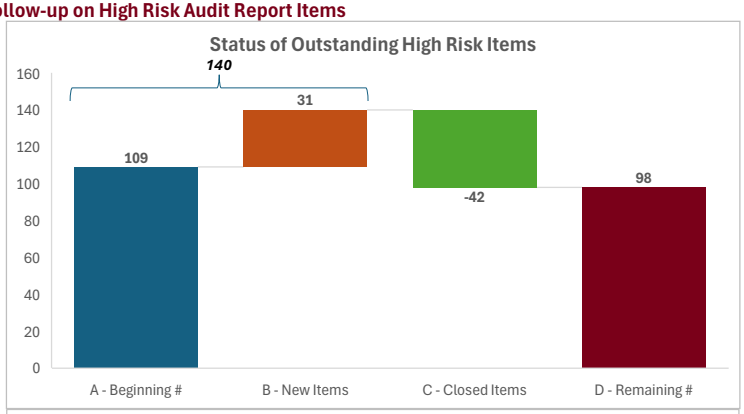
[1]As detailed in the "Follow-Up on High Risk Audit Report Items," there was an overall implementation rate of 30%. This is lower than expectations and the average 3-year implementation rate of 32%. However, 77% of open items have been open for less than a year, and only 28% of all outstanding issues are past management's planned remediation date.

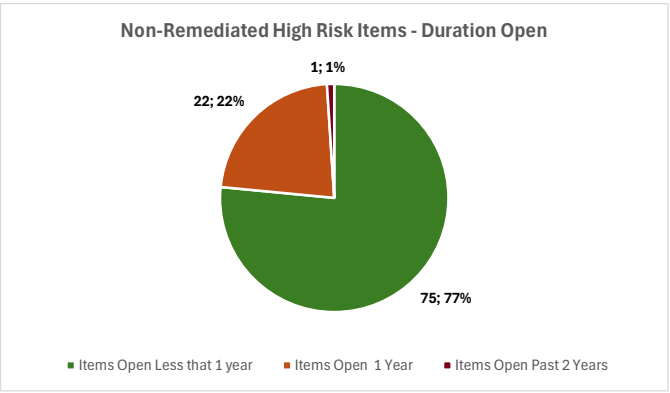
[2]Progress on the FY 2026 audit plan was behind expectations due to staffing transitions, staff absences and some audits taking longer than expected. See "Other Items" below.

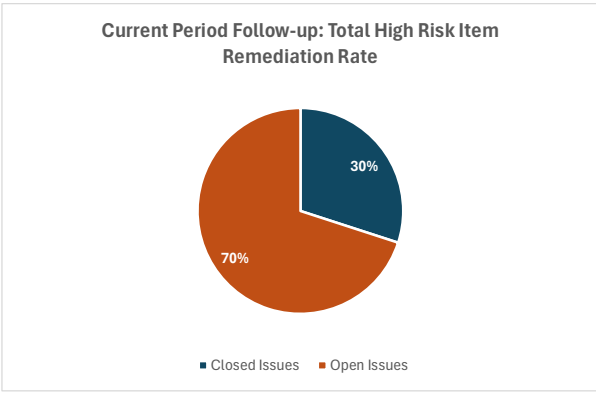
Other Items:

- Internal Audit Staffing Update – The Office of Internal Audit continues to manage several personnel transitions and extended leaves. The department is still operating with two vacancies following recent departures; however, we have successfully brought in a new IT Auditor who started in April, alongside two new staff financial auditors who joined the team in June. Additionally, the department is continuing to support eligible staff members on extended leaves provided for by University policy and/or the Minnesota Paid Family and Medical Leave program. When fully staffed, the department consists of 16 auditors in addition to the chief auditor.
- FY 2026 Audit Plan Update – The Office of Internal Audit made substantial progress on the FY 2026 audit plan this period with particular focus on Tier 1 engagements. However, staffing constraints and other factors have resulted in some audits needing to be completed in FY 2027 and some Tier 2 audits not being completed. Additional details on audit work completed in FY 2026 is provided in the Internal Audit Plan agenda item.

Follow-up on High Risk Audit Report Items







A - The number of items opened at the start of this follow-up period.
B - The number of new items issued since the prior follow-up period.
C - The number of items closed this follow-up period.
D - The number of items remaining open at the end of this follow-up period.

Status of High Risk Items Follow-up by Audit

Audit Name	Audit Report Issue Date	Initial # of Items	Items Closed Previously	Items Open at the start of this Follow-up Cycle	Items Closed This Period	Items Partially Implemented: Not Past Target Date	Items Partially Implemented: Past Target Date	Items Not Implemented: Not Past Target Date	Items Not Implemented: Past Target Date	Items Remaining	% of All Items Complete	Time Since Report Issuance (6 Months / 1 Year / 18 Months / 2 Years)
Bell Museum FY23	04-2023	12	11	1			1			1	92%	
UMD Athletics FY24	01-2024	14	13	1	1						100%	
HIPAA Governance & Oversight FY24	07-2024	24	5	19	8		8		3	11	54%	
Neuroscience, Department of FY25	12-2024	11	3	8	1	7				7	36%	
Firewall Management FY25	01-2025	7	3	4	1	2		1		3	57%	
Pharmacy, College of FY25	01-2025	7	6	1			1			1	86%	
Morris Campus FY25	04-2025	20	9	11	11						100%	
BioSafety Level 3 Labs FY25	05-2025	3	2	1			1			1	67%	
Data Management FY25	05-2025	11		11	1	3	1	6		10	9%	
Cloud Computing and Oversight FY25	05-2025	10		10	1	5		4		9	10%	
Minnesota Landscape Arboretum	06-2025	22	6	16	3	7	3	3		13	41%	
UMD International Programs and Services FY25	06-2025	3		3	1	1	1			2	33%	
Supplier Onboarding and Payments FY26	08-2025	6		6	1		4		1	5	17%	
Biostatistics and Health Data Science FY26	09-2025	16	1	15	4	4		7		11	31%	
University Threat Assessment FY26	09-2025	4	2	2	1	1				1	75%	
Psychology, Dept of FY26	***11-2025***	***4***		***4***		***3***	***1***			***4***	***0%***	
UMD RSOP FY26	***11-2025***	***9***		***9***	***1***	***3***		***5***		***8***	***11%***	
Mechanical Engineering, Dept of FY26	***12-2025***	***7***		***7***	***3***	***4***				***4***	***43%***	
Leave of Absence Process FY26	***01-2026***	***2***		***2***			***2***			***2***	***0%***	
CTSI FY26	***01-2026***	***2***		***2***	***2***						***100%***	
U Services IT FY26	***01-2026***	***7***		***7***	***2***	***4***		***1***		***5***	***29%***	
Note : *First time follow-up for items in* ***bold/italics*** .		**201**	**61**	**140**	**42**	**44**	**23**	**27**	**4**	**98**	**51%**	

Month / Year of Follow Up Report

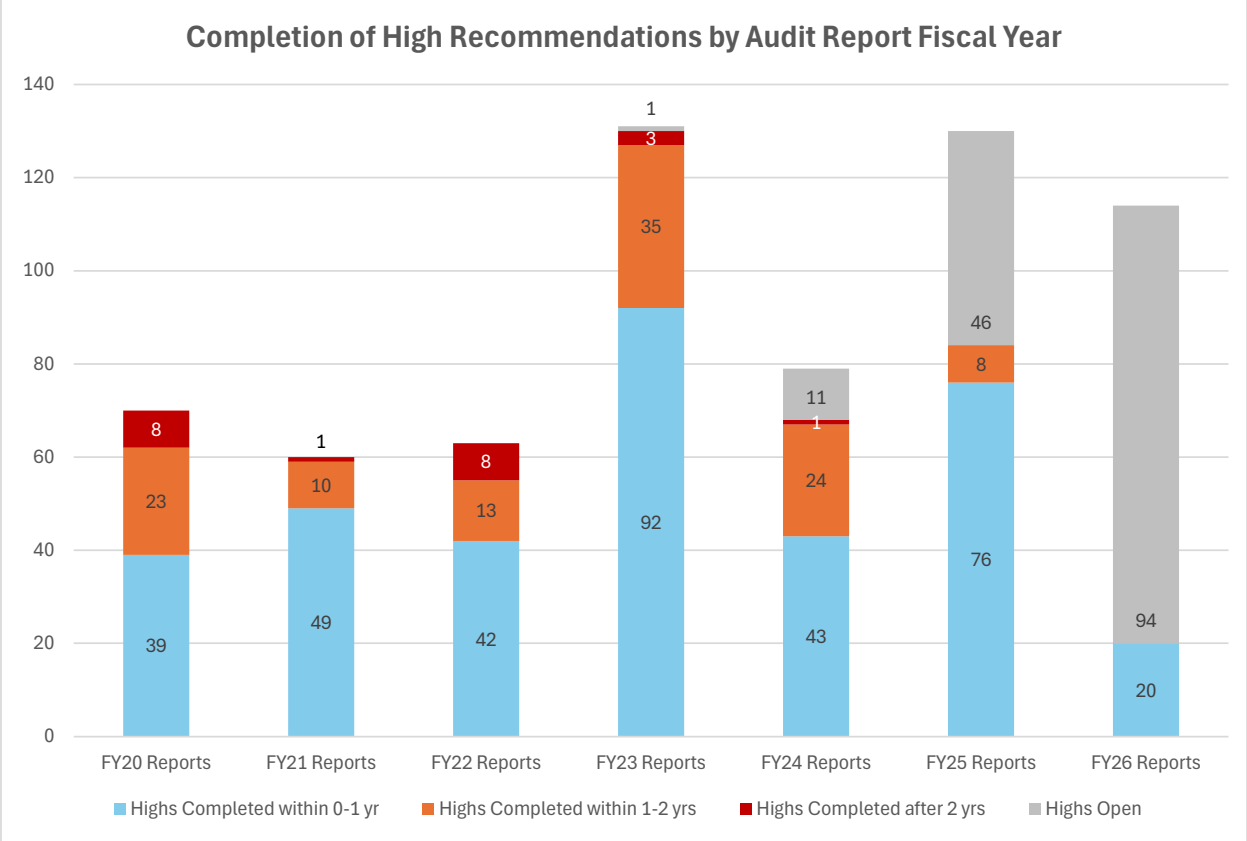
	Jun 2026	Feb 2026	Oct 2025	Jun 2025	Feb 2025	Oct 2024	Jun 2024	Feb 2024	Oct 2023	Jun 2023	Previous 3 Yr. Average
Total Items	140	152	142	99	88	74	86	86	96	97	-
Items Remediated	42	43	22	31	24	28	29	32	36	34	-
Remediation Rate	30%	28%	15%	31%	27%	38%	34%	37%	38%	35%	32%
Open Items Past Due	28%	30%	24%	34%	34%	61%	32%	57%	55%	40%	41%

Current Status of Outstanding “High” Risk Report Items Over Two Years Old

Audit/Report Date	Status- Partially Implemented or Not Implemented	Responsible Administrator	Summary of the Issue/Risk Involved	Current Comments From Management
Bell Museum April 2023 # of Items: 1	Partially Implemented	Holly Menninger	Bell should implement a periodic valuation process of the art collection. Additionally, Bell management should work with the University’s Office of Risk Management to ensure the valuations of Bell’s collections submitted for insurance purposes are sufficient for reporting requirements and to mitigate the risk of loss.	After an extensive thaw (December 2025), the basement was once again leaking and has had at least one other instance of leaking since then. FM is waiting for rainier weather to see if the leaking will happen again and search for a solution. At this time a portion of the basement is still potentially vulnerable to leaks. Bell Museum has prioritized reorganizing the larger basement space to accommodate ongoing leaks. They have been able to shift items out of the art storage space to improve access to this space and prepare for an appraisal. A last step in the process will be to install their summer exhibit, thereby moving several large pieces of exhibit furniture out of general storage and room to move the last obstructions out of art storage They have reached out to museums to identify qualified appraisers to complete the valuation of the collection. They are working with this group of possible contractors to understand scope, budget, and process and intend to contract in the next few months, assuming structural conditions make this viable, in order to complete an appraisal for summer 2026.
Total: 1				

Completion of High Recommendations by Audit Report Fiscal Year

The following chart shows the number of High Recommendations identified in audit reports by fiscal year and associated implementation time. University leadership continues to focus efforts on reducing audit remediation timelines as represented in the reduction of items that have remained open past 2-years since FY22. With the increased complexity of remediating audit issues, and the number of issues still open from FY24 reports, the potential exists to see an increase in items open past the 2-year remediation. OIA continues to partner with leadership to ensure the proper attention is given to addressing these issues in a timely, yet sustainable manner.



	FY20 Reports	FY21 Reports	FY22 Reports	FY23 Reports	FY24 Reports	FY25 Reports	FY26 Reports
Highs Completed within 0-1 yr	39	49	42	92	43	76	20
Highs Completed within 1-2 yrs	23	10	13	35	24	8	N/A
Highs Completed after 2 yrs	8	1	8	3	1	N/A	N/A
Highs Open	0	0	0	1	11	46	94
	70	**60**	**63**	**131**	**79**	**130**	**114**

Audit Activity Report

Assurance Activity

Scheduled Audits

Completed Audits Of:

- University of Minnesota Police Department
- Purchasing Services - Travel and Expense
- University of Minnesota Crookston
- Transition Review: Vice Provost and Dean for the Office of Undergraduate Education
- Transition Review: Vice President for Research and Innovation
- Transition Review: Chancellor of the University of Minnesota Morris
- Transition Review: Vice President and Budget Director

Began/Continued Audits Of:

- Clery Act Compliance
- Clinical and Translational Science Institute - IT Processes
- Digital Identity Management (paused due to leadership change and pending technical tool deployment)
- Dining Services/Chartwells Contract
- Export Controls and Fly America Act
- Medical School Duluth Campus
- Minnesota Supercomputing Institute
- Senior Leaders and Board of Regent Expenses
- Twin Cities Admissions (includes Twin Cities Student-Athlete Transfer Process)
- University of Minnesota Extension
- UMD College of Education and Human Service Professions
- Transition Review: Vice President of Clinical Affairs and Dean of the Medical School

Other Audit Activity

SNAP Reviews

SNAP reviews are highly focused reviews conducted on a single University process or activity. These reviews 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.

No SNAP reviews were completed during this reporting period.

Limited Transition Reviews

Limited transition reviews are narrowly scoped reviews of senior University leader transitions focused on financial or other arrangements implemented by the outgoing leader. This review is to aid in transparency for the new leader and to identify any areas which may warrant additional administration or audit attention. These reviews involve interviews with the former leader's core staff members and a limited review of financial and human resource records.

During this reporting period, we completed a Limited Transition Review for:

- Dean of the College of Education and Human Development

Investigation Activity

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

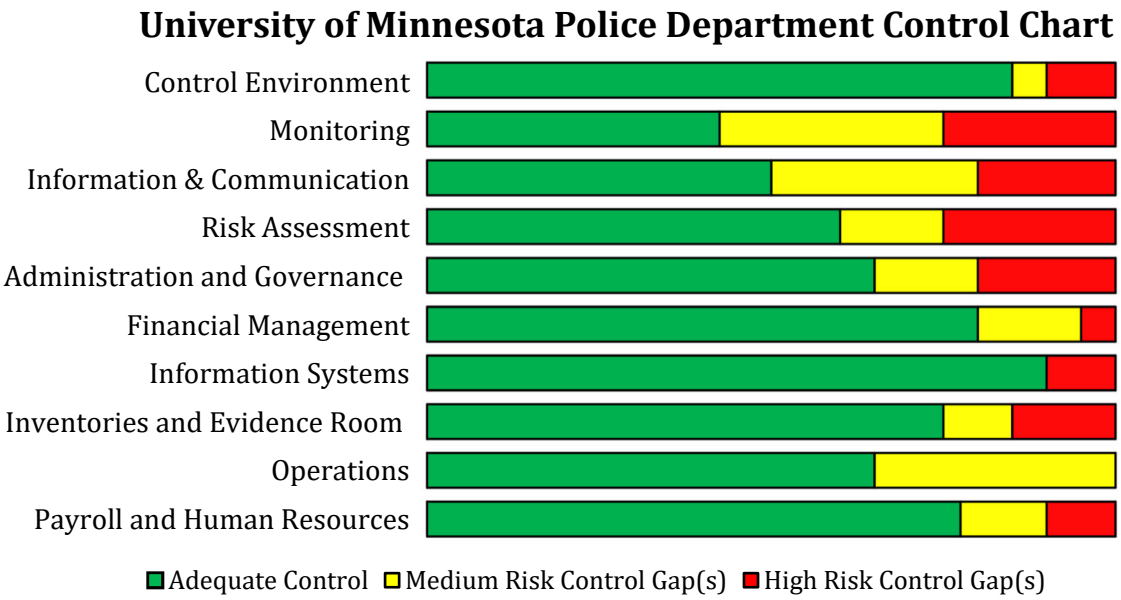
Advisory Services

- Consulted with the Provost's Office regarding University policy related to scholarship and admissions decisions, and managing international activities.
- Reviewed preparedness for the 2026 Special Olympics by engaging in discussions with University Services leadership.
- Provided technology advisory services in several areas including IT governance and oversight, Artificial Intelligence, data center controls, identity and access management, data management, vendor management, logging and monitoring, and information security and compliance.
- Discussions with the Office of Human Resources (OHR) continued regarding progress to address the recommendations from the Employee Visa and Immigration Support Collaborative Assessment issued in November 2021. None of the report recommendations were considered high risk and thus, are not being followed up on as part of our standard follow-up process. However, Internal Audit continued to periodically meet with OHR to obtain status updates.
- Participated in the following University committees:
    - Senior Leadership Team
    - Select President Cabinet Meeting Presentations
    - Policy Advisory Committee
    - University Consultative Team (UReport Reviewers)
    - Institutional Conflict Review Panel
    - IT Leadership Committees
    - HRPP Advisory Committee
    - Research Integrity and Safety Collaborative
    - Diversity Community of Practice
    - Civil Service Senate

Other Activities

- Provided regular communications with the Office of the Legislative Auditor (OLA), to satisfy institutional and officer reporting requirements for the University to report allegations of misuse of public resources and/or disclosure or use of non-public data without authorization as specified in Minnesota Stat. sec. 3.971.
- Continued implementing improvements post the Quality Assessment Review (QAR) and update to the Institute of Internal Auditors (IIA) *Global Internal Audit Standards*. This included beginning technology implementation and initiating the development of a departmental strategic plan.
- Participated in the following outside professional committees:
    - University of Minnesota Foundation Audit Committee
    - Association of College and University Auditors (ACUA) Committee on Athletics
    - National Consortium of Academic Body Donation Programs

Audit Reports Issued Since February 2026



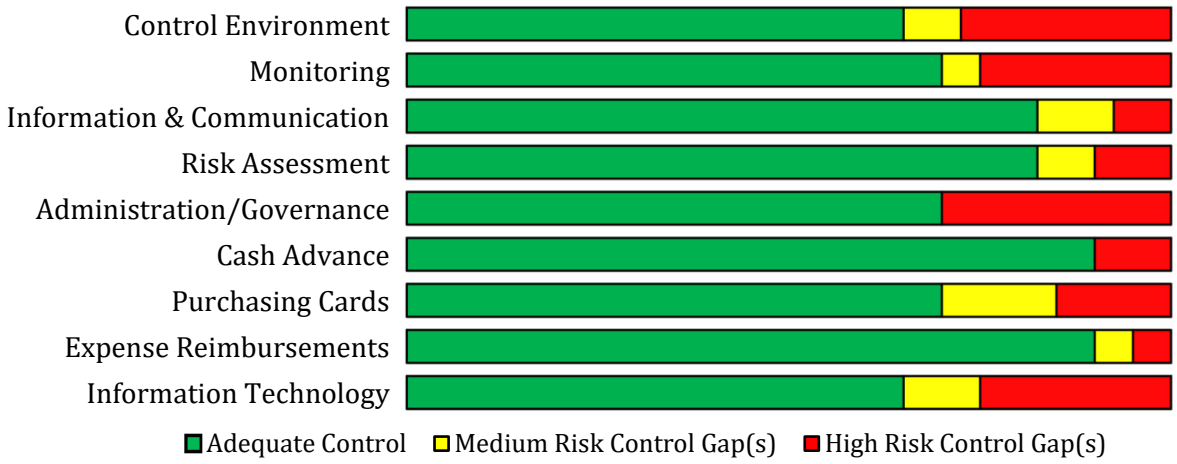
Report Number:	2620	***Issue Date:***	May 2026
# of High Recs:	17	***Total # of Recs:***	34
Overall Assessment:	Needs Improvement	***Adequacy of MAP:***	Good

The University of Minnesota Police Department (UMPD) provides law enforcement and investigative services for the Twin Cities campus and frequently extends operations into adjacent neighborhoods to support municipal agencies. UMPD reports to the EVP for Finance & Operations and maintains a workforce of over 200 personnel, comprising 64 sworn peace officers and 123 temporary or casual staff. UMPD welcomed a new Assistant Vice President and Chief of Police in January 2026. UMPD utilizes a shared services model, relying on University Services for finance, payroll, human resources, and some IT functions, and recently transitioned additional operations in alignment with the University's PEAK Initiative.

Although our audit resulted in an overall assessment of "Needs Improvement," we observed that UMPD personnel maintain a steadfast commitment to the safety of the University and the broader community. This dedication is reflected in recent employee survey results, which characterized the work environment as positive and underscored a culture of accountability and organizational integrity. Employees also expressed confidence that management supports them when making difficult decisions in high-pressure, dynamic situations. Additionally, through its recent leadership transition, UMPD is actively taking steps to ensure resources remain aligned with best practices. It is also important to note that the audit rating reflects back-office administrative processes, and is not reflective of UMPD's tactical policing practices, which are reviewed separately by external agencies who had no significant findings. However, significant residual risks remain in several administrative areas.

The audit identified 16 issues and 34 recommendations, with 17 recommendations carrying a "High" residual risk rating. The “High” risk items relate to the need to consider the expansion of active threat training, revise continuity of operations and disaster recovery plans, improve evidence and inventory management, prevent self-approval in timekeeping systems, ensuring rest and recuperation standards are followed for officers, ensure background check processes are followed, perform IT system gap analyses, formalize user access reviews, and establish formal contracting processes. The remaining 17 items rated "Medium" risk address issues related to business impact analysis, contract oversight, payroll processes, internal and external sales practices, and disbursement controls.

Purchasing Services - Travel & Expense Control Chart



Report Number:	2621	***Issue Date:***	June 2026
# of High Recs:	14	***Total # of Recs:***	20
Overall Assessment:	Adequate	***Adequacy of MAP:***	Good

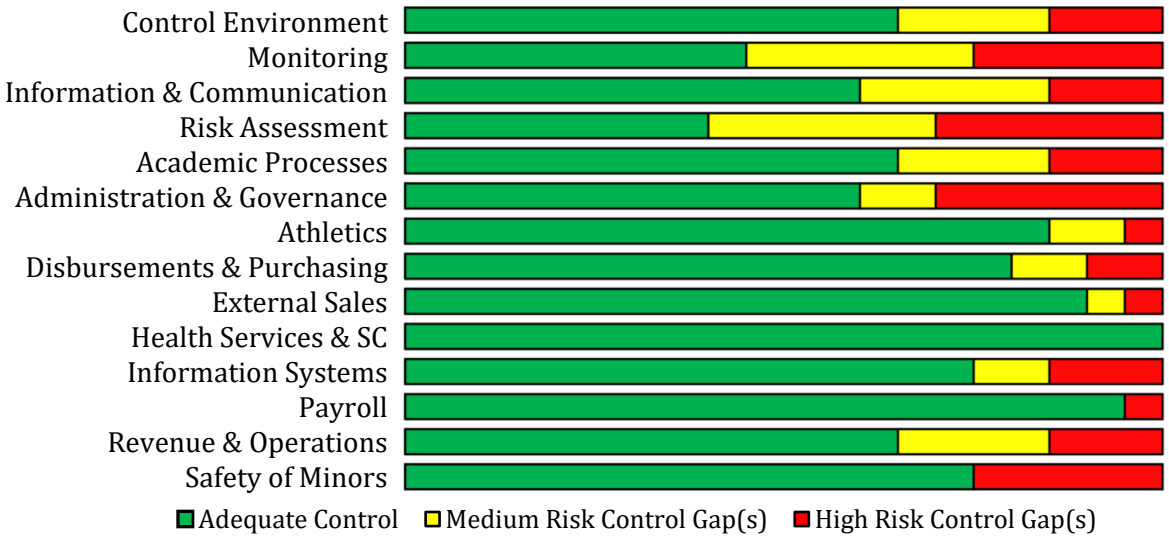
Purchasing Services is a unit within the Controller's Office that provides management, oversight, and facilitation of University of Minnesota purchasing processes. The unit is responsible for the entire procure-to-pay lifecycle for the University system. This includes establishing institutional purchasing and payables policies and procedures, ensuring compliance with federal and state procurement laws and regulations and with Regents policies, and administering the University's PCard and T&E Card programs.

Our audit resulted in an overall assessment of "Adequate." Purchasing Services' governance, risk management, and system of internal controls address many of its major operational, financial, compliance, and information technology risks. The Purchasing Services leadership team continues to work to enhance operations and effectively mitigate many corporate card, expense reimbursement, and prepaid debit card payment risks for the University's large volume of transactions.

Despite these positive controls, additional central monitoring and governance are needed. Reliance is placed on units' Chief Financial Managers (CFMs) and Department Card Administrators (DCAs) to manage many corporate card and expense reimbursement processes with limited oversight. This is in part due to the complexity of the institution's operations and local staff being better positioned to understand their unit's operations. However, this complexity and independent management increases the inherent risk and the potential for inconsistent handling of processes. Issues were identified across most travel and expense activities reviewed, including cash advances, corporate cards, and employee reimbursements. In addition, many of Purchasing Services' internal processes and procedures that are in place are not documented. There are also notable weaknesses in the management of Purchasing Service's core information systems.

The audit identified a total of 9 issues and 20 recommendations, with 14 of the control gaps considered to have a "High" level of residual risk and six rated "Medium." The "High" risk items relate to enhancing central governance and monitoring, formalizing system user administration processes, developing log management strategies, and ensuring vendor compliance with regulations and University IT policies. The recommendations rated "Medium" address issues related to University IT compliance, timeliness of expense reimbursements, reducing unreconciled transactions, and exception documentation.

University of Minnesota Crookston Control Chart



Report Number:	2622	***Issue Date:***	June 2026
# of High Recs:	23	***Total # of Recs:***	46
Overall Assessment:	Needs Improvement	***Adequacy of MAP:***	Good

UMN Crookston offers a unique blend of liberal education and practical, career-oriented programs, for the region. The campus has seen enrollment growth over the past three years to 1,889 students enrolled as of fall 2025; 1,198 of these degree seeking students are fully online. In addition to its academic programs, UMN Crookston manages diverse operations including on-campus housing, an Early Childhood Development Center, a Division II athletics program, Health Services, and its own IT infrastructure. UMN Crookston is accredited by the Higher Learning Commission, which completed its review in July 2025 and noted no issues. In fiscal year 2025 UMN Crookston's revenues were $53.5 million, $18.9 million of which was from tuition, against $56.6 million expenses.

While the campus provides a supportive educational experience with low student to faculty ratios, it is currently navigating substantial financial constraints, aging facilities, and lean administrative staffing that have impacted its overall control environment. Our audit resulted in an overall assessment of "Needs Improvement." The considerable number of issues identified in this report reflects the broad scope of this audit, but also highlights significant gaps related to the oversight and administration of UMN Crookston's financial, compliance, and operational processes. UMN Crookston's leadership is committed to improving internal controls and finding ways to overcome current challenges. However, the campus's lean administrative staffing, exacerbated by geographic hiring difficulties and the ongoing transition to PEAK, requires many employees to serve in multiple roles. This has contributed to a reactive, rather than preventative, control environment that does not fully address the campus' risks.

The audit identified a total of 28 issues and 46 recommendations, with 23 recommendations associated with addressing "High" levels of residual risk and 23 rated "Medium." The "High" risk items include: updating outdated contracts and assessing liability for the campus data center's regional telephone service operations; conducting a formal assessment of the long-standing Student Laptop Program; implementing robust identity verification controls to mitigate the growing fraud risk of "ghost students"; restricting access to the Early Childhood Development Center and ensuring operations fully comply with Safety of Minors requirements; working with select donors to document a change in the use of funds still aligns with donor intent; standardizing academic processes and documentation for transfer credits and specialty scholarships; improving payroll processes; and strengthening fundamental IT controls around user provisioning. The "Medium" rated items are intended to assist UMN Crookston in their efforts to improve other financial, operational and information technology procedures and controls.

Transition Review Reports Issued Since February 2026

Due to the targeted scope of these audits no overall assessments or control evaluation charts are provided.

Vice Provost and Dean for the Office of Undergraduate Education

Report Number:	2616	***Issue Date:***	February 2026
# of High Recs:	0	***Total # of Recs:***	0
Overall Assessment:	NA	***Adequacy of MAP:***	NA

The transition review of the Vice Provost and Dean for the Office of Undergraduate Education (OUE) focused on OUE activities; specifically, the administrative aspects of the transition, including any financial or other arrangements made by the departing Vice Provost, and whether all administrative tasks were current. The Office of Enrollment Management was separated from OUE in July 2024. The Office of Enrollment Management is now responsible for the Twin Cities campus' prospective student lifecycle, including recruitment and admissions. OUE provides support to students and academic units across the Twin Cities' campus such as academic advising, curriculum and policy management, undergraduate research, student finance, classroom management, and academic support programs. The review confirmed that the activities of the former Vice Provost were consistent with established administrative practices and effectively supported a smooth transition. No reportable issues were identified.

Vice President for Research and Innovation

Report Number:	2617	***Issue Date:***	February 2026
# of High Recs:	0	***Total # of Recs:***	0
Overall Assessment:	NA	***Adequacy of MAP:***	NA

The transition review of the Vice President for Research and Innovation (RIO) focused on reviewing aspects of administrative transitioning, including completeness of administrative tasks and any financial or other arrangements made by the departing Vice President from the first half of fiscal year 2026 and up to three years prior. We found the activities of the former Vice President reflect a prudent use of University resources and most necessary administrative functions were completed to facilitate a smooth transition. We identified only limited issues, performance appraisals were not completed for all direct reports of the former Vice President, and some purchasing transactions had insufficient justification and/or support documented. These matters were communicated to RIO leadership, who have since taken corrective action.

Chancellor of the University of Minnesota Morris

Report Number:	2618	***Issue Date:***	March 2026
# of High Recs:	0	***Total # of Recs:***	0
Overall Assessment:	NA	***Adequacy of MAP:***	NA

The transition review of the University of Minnesota Morris Chancellor focused on the administrative aspects of the transition, including completeness of administrative tasks and any financial or other arrangements made by the departing Chancellor from the second half of fiscal year 2025 through the first half of fiscal year 2026. We found the activities of the former Chancellor reflect a prudent use of University resources and most necessary administrative functions were completed to facilitate a smooth transition. We identified opportunities for minor administrative improvements associated with documentation and ensuring the former Chancellor's authorities and access were removed. These matters have been communicated separately to Morris leadership.

Vice President and Budget Director

Report Number:	2619	***Issue Date:***	April 2026
# of High Recs:	0	***Total # of Recs:***	0
Overall Assessment:	NA	***Adequacy of MAP:***	NA

The transition review of the Vice President and Budget Director focused on reviewing aspects of administrative transitioning, including completeness of administrative tasks and any financial or other arrangements made by the departing Vice President from the first half of fiscal year 2026 and up to three years prior. We found the activities of the former Vice President reflect a prudent use of resources and were generally consistent with expected administrative practices to support a smooth transition. We identified only limited issues, including fiscal year 2025 performance appraisals not being complete for all direct reports of the former Vice President. University Budget staff were informed of these issues and have addressed them.

Management Remediation Plans that Involve PEAK

The following table includes recommendations and risks identified in Internal Audit reports issued to date for which management stated would be resolved at least in part through the PEAK Initiative and these items' current status.

Audit	Report Date	Summary of the Issue	Management Response	Recommendation Rating	Status of Recommendation	PEAK Service Area	PEAK Phase (of unit)	Comments
Fiscal Year 2026								
NCAA Board of Governor's Policy on Campus Sexual Violence and Athletics Drug Testing on Twin Cities Campus	September 2025	Separation of duties for background checks of student athletes is not optimized as only one Athletics staff member receives the results.	Campus HR will be taking over the responsibility of background checks as part of PEAK. At that time, Athletics will request that multiple individuals, including a member of the Office of Athletic Compliance, are copied on the background check results.	Medium	N/A	Human Resources	Phase 3	This recommendation is rated "Medium" and thus will not be reviewed as part of our standard follow-up of "High" items.
Department of Psychology	November 2025	The transition to PEAK and its new centralized procedures led to overpayments caused by job entry errors and delayed terminations. These issues primarily impacted graduate assistants, whose complex multi-job appointments proved difficult to manage under the new workflow.	Management plans to collaborate with Central OHR to review and refine the post-PEAK job entry processes for employees. By providing a detailed list of the recent overpayment occurrences, they aim to identify specific procedural gaps created by the shift in data entry responsibilities.	Medium	N/A	Human Resources	Phase 2	This recommendation is rated "Medium" and thus will not be reviewed as part of our standard follow-up of "High" items.
University of Minnesota Crookston	June 2026	University contract policies are not being consistently adhered to. A sample review identified gaps in contract management and purchasing compliance. Key exceptions included missing Office of the General Counsel (OGC) reviews, a lack of required University of Information Security (UIS) vendor risk assessments, instances of missing or unprovided contracts, and the use of incorrect agreement types.	The University of Minnesota Crookston will develop a contract management process that includes a documented inventory of all contracts, proper reviews (OGC/UIS), signatures, and renewal dates. UMN Crookston will utilize FinOps for following proper PO process and required documentation for professional services. UMN Crookston will obtain a certificate of insurance for all chartered bus services being used, in accordance with University policy.	High	N/A - Will be reviewed as part of the October 2026 reporting period.	Finance	Phase 1	The University of Minnesota Crookston audit report was issued in June 2026 and the first follow-up will be for the October 2026 Audit and Compliance Committee meeting.
Fiscal Years 2022 - 2025								
All previously reported recommendations addressing "High" risk items from fiscal years 2022-2025 for which management initially stated would be resolved at least in part through the PEAK Initiative were followed up on and are now resolved.								

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Audit & Compliance **June 26, 2026**

AGENDA ITEM: Internal Audit Plan

☐ **Review** ☒ **Review + Action** ☐ **Action** ☐ **Discussion**

☒ *This is a report required by Board policy.*

PRESENTERS: Quinn Gaalswyk, Chief Auditor

PURPOSE & KEY POINTS

The purpose of this item is to review and act on the FY 2027 Internal Audit Plan. As part of that review and action, the following items will be provided to the committee:

- a recap of work completed by the Office of Internal Audit (OIA) in FY 2026;
- a recommended Internal Audit plan for FY 2027; and
- industry-required communications on the independence and operations of the audit function.

In FY 2026 OIA's work performed included:

- 19 audits
- 9 transition reviews (8 full and 1 limited)
- 10 investigations
- Other special projects and advisory services.

OIA also performed an internal technology toolset review and continued to update processes and materials to ensure ongoing compliance with 2025 updates to the Institute of Internal Auditors (IIA) Standards.

The recommended FY 2027 Internal Audit Plan is risk-based and continues to reflect the principles of the Integrated Framework of Internal Control. In addition to the 12 planned audits, the plan includes annual gift testing in alignment with the memorandums of understanding with University foundations; implementing a new automated workpaper system; and process improvements leveraging artificial intelligence and data analytics. Other audit work will be performed to address risks associated with senior leader transitions or other areas as the needs arise.

While the plan includes fewer audits than previous years due primarily to staffing constraints, it maintains audit coverage of University units and processes, and includes audits specifically selected to inform the Board and institutional leaders about areas where key institutional risks exist. Selection of audits included in the plan was informed by the University's Institutional Risk Profile and balances coverage across the University's operations. The plan includes two tiers to reflect

priorities and to continue to allow for flexibility in the plan if OIA experiences additional staffing constraints and/or higher priority audit needs arise. Metrics detailing the allocation of OIA resources are included in the docket.

BACKGROUND INFORMATION

The Audit & Compliance Committee responsibilities include oversight of the internal audit function as outlined in Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section IV, Subd. 6. Audit & Compliance Committee Charter. In alignment with IIA standards and Board policy, the committee formally recommends the plan for Board action. If approved, any amendments to the plan that impact Tier 1 audits (i.e., highest priority) will return to the committee and require Board approval. Other changes outside of Tier 1 audits will be reported to the committee as a part of OIA's regular updates to the committee.

Board of Regents Policy: *Board Operations and Agenda Guidelines* states, "The Audit & Compliance Committee shall recommend for Board approval changes to the Office of Internal Audit's charter and any material revisions to internal audit plans or budgets." Material changes to the plan will be interpreted as any changes to Tier 1 audits in the approved plan.

UNIVERSITY OF MINNESOTA

OFFICE OF INTERNAL AUDIT

FISCAL YEAR 2027

INTERNAL AUDIT ANNUAL PLAN

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Purpose of the Annual Plan

The purpose of the internal audit annual plan is to provide the Office of Internal Audit's (OIA's) opinion on the University's current internal control environment and explain how institutional risks are managed through assessment by regular audits, proactive mitigation via advisory services, and investigation of reported concerns.

The plan also includes information that demonstrates OIA's accountability for our resources and our ongoing efforts to continually improve the University's internal audit program.

Recap of FY 2026 Annual Audit Plan

Our audit planning begins with a review of past audit coverage and results.

Appendix A: Audit Assessments for FY 2024 – 2026 recaps the audits completed for the last three fiscal years and the resulting overall control assessments. Appendix B: Status of Fiscal Year 2026 Audit Work details progress made on the fiscal year 2026 audit plan and other audit work performed. This fiscal year we completed 27 audit reports: 19 audits and 8 full transition reviews. This is slightly higher than the 23 audits (19 audits & 4 full transition reviews) we issued in fiscal year 2025. While these results are better than anticipated given the number of staff turnovers / retirements and unplanned impacts from the new Minnesota Paid Family and Medical Leave (PFML) act, there is still a higher number of carry-over audits and associated hours per carry-over audit going into fiscal year 2027 than in previous years (see the Office of Internal Audit Staffing section below).

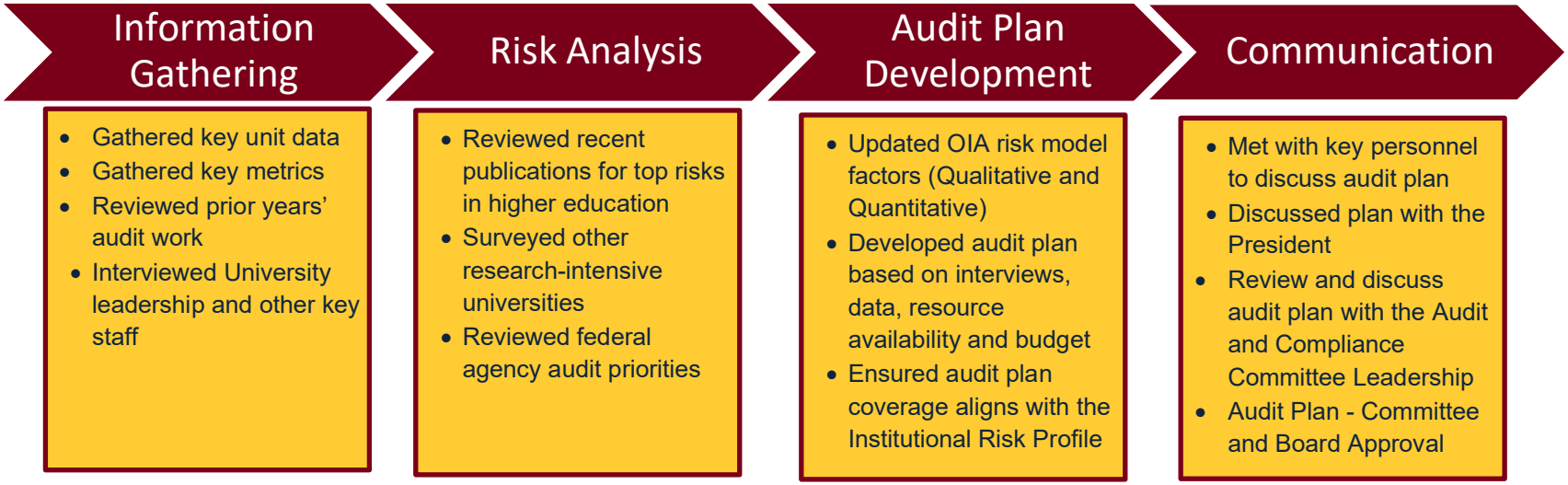
The risk management and control environments of approximately 21% of the fiscal year 2026 audit reports received an overall audit rating of "Needs Improvement," our lowest rating. These results are consistent with the fiscal year 2025 results of 22% rated, "Needs Improvement." Overall, 79% of audits were rated as "Good" or "Adequate," which still demonstrates an overall culture of compliance and risk management at the University.

Additional information regarding work performed by OIA this year:

- **Audits In Progress:** 3 of the 27 audit reports are in progress but are expected to be issued in 30 days upon receipt of management action plans.
- **Audits Completed Next Fiscal Year:** 8 audits are in progress but will be completed in fiscal year 2027.
- **Transition Reviews:** OIA conducts targeted transition reviews when senior leaders leave their roles. Based upon the nature of the role and risk, some of these are audits with full reports, and some are limited reviews narrowly scoped to financial or other arrangements implemented by the outgoing leader. In fiscal year 2026 we completed 8 transition reviews with a full report and 1 limited transition review.
- **Investigations:** 10 (7 completed and 3 in progress) investigations into financial or operational misconduct were conducted in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct. OIA partnered as appropriate with the University of Minnesota Police Department (UMPD), Office of the General Counsel, Office of Institutional Compliance, Research Integrity & Compliance, and other units.
- **Special Projects:** OIA reviewed preparedness for the 2026 Special Olympics, and performed annual Gift Testing in alignment with the University of Minnesota Foundation's memorandum of understanding.
- **Deferred Audits:** There were two Tier 2 audits from the fiscal year 2026 audit plan that were deferred to fiscal year 2027 due to OIA staffing constraints: *College of Science and Engineering - IT (CSE-IT)* and *Urban Research and Outreach-Engagement Center (UROC).* The latter will be incorporated into a broader audit of the Office of Public Engagement in fiscal year 2027.
- **Employee Surveys:** 7 unit audits included employee surveys. 30 surveys were sent out to 795 participants as part of regular unit audit processes, with a 73% response rate.

Development of the Fiscal Year 2027 Annual Plan

The development of the annual audit plan is based on information gathered through broad consultation across the University and a formal assessment of existing and emerging risks. We also do a scan to identify areas of emphasis at relevant federal agencies and survey other research universities regarding the assessment of risks within their institutions. Below is a chart that illustrates the approach that was taken in developing the audit plan:



The Changing Higher Education Risk Landscape

The fiscal year 2027 risk environment represents a significant shift for the University of Minnesota and for public research universities more broadly. Risks that were once managed as gradual, largely independent operational issues are now converging into faster-moving, interconnected challenges with direct strategic, financial, and reputational implications. Traditional areas of focus—such as baseline cybersecurity, incremental enrollment change, and routine federal grant compliance—remain important, but they are now unfolding within a far more volatile landscape. Most notably, the long-anticipated demographic cliff is beginning to affect enrollment at the same time changes in state funding and potential endowment taxes put additional pressure on institutional resources, increasing the urgency of revenue diversification and long-range financial planning.

The rapid adoption of artificial intelligence (AI) is also reshaping both University operations and the research enterprise. This requires oversight that extends beyond conventional information technology governance with attention to data stewardship, transparency, accountability, regulatory compliance, and the financial and infrastructure demands associated with AI environments. In the research arena, the University must also navigate a changing sponsored research landscape marked by pressure on federal funding pipelines, increasing competition for research talent, evolving federal grants and aid requirements, and emerging risks related to AI-enabled fraud and research integrity.

External Risk Assessment / Scan of the National Landscape of Higher Education

Regulatory Agencies: Key risks receiving attention from federal agencies continue to be: Information Security and Enterprise Resilience; IT Modernization and Legacy System Migration; Financial Stewardship, Grants Management and Improper Payments; Human Capital and Workforce Challenges; and Procurement and Supply Chain Integrity.

Research Universities: The fiscal year 2027 risk landscape represents a pivot from operational stabilization to high-velocity disruption. Key pressures include a changing federal compliance landscape, the immediate implementation of the One Big Beautiful Bill Act and federal aid mandates, enrollment and financial strains coinciding with the "Demographic Cliff," and the urgent requirement for Enterprise AI Governance to protect institutional integrity and data sovereignty. Risks identified in our survey of other research universities found common themes including:

University Operations & Administration

- **Campus Safety & Security** *crime, active threats, emergency preparedness*
- **Cybersecurity & Data Privacy** *breaches, ransomware, data protection*
- **Enterprise AI Governance** *ethical AI use, board-level oversight, vendor algorithm transparency*
- **Intercollegiate Athletics** *shifting funding and regulatory landscape related to NIL, House Settlement payments*
- **Revenue Diversification & Enrollment** *demographic shifts, potential endowment tax tiers, alternative revenue streams*
- **Student Mental Health & Well-being** *crisis support, service adequacy*
- **Workforce Resilience & Automation** *AI-driven efficiency, remote work compliance, specialized skill gaps*

Regulatory and Compliance

- **Accreditation** *institutional and programmatic standards*
- **Changing Federal Compliance Requirements and Focus** *recent executive orders and compliance interpretation changes, One Big Beautiful Bill Act & Accountability Compliance*
- **Data Privacy & Data Residency** *storage location of data, data privacy laws, AI model training consent, state-level algorithmic laws*
- **Ethics & Conflict of Interest** *research, financial, institutional integrity*
- **Financial Aid & Grant Compliance** *federal/state aid rules, grants management*
- ***Foreign Influence & Export Control*** *scrutiny on international partnerships, sensitive technology transfer*

Research

- **AI-Augmented Research Integrity** *monitoring for AI-generated fraud, synthetic data validation, attribution*
- **Compliance with Specific Research Regulations** *human/animal subjects, export controls, new information security requirements*
- **Computational Infrastructure & Energy** *rising costs of high-performance computing for AI, sustainable lab operations*
- **Federal Sponsored Research** *potential declining federal grants and cost recovery and/or changes in models, private sector competition with research universities*
- **Personnel & Expertise** *talent retention, skills gaps, staff turnover*
- **Research Integrity & Misconduct** *fabrication, falsification, ethics*

Internal Risk Assessment Approach

We held discussions with 113 institutional officials and Regents from 56 units to solicit input on the University's institutional risks and any specific areas of concern. Areas of increased levels of risk/concern include: ongoing discussions related to core healthcare partnerships; campus safety; leadership transitions; staffing changes and challenges; cybersecurity; software purchasing processes; PEAK roles and responsibilities; aging buildings and infrastructure; system campus enrollment and financing; changes in government regulations; intercollegiate athletics finances and environment changes; budget and personnel reductions; and the rise of online learning and use of artificial intelligence.

We also reviewed the University Institutional Risk Profile, as updated and presented at the Audit and Compliance Committee in September 2024, as well as Board of Regents meeting agendas for topics of interest at the governance level.

Operational Risk Assessment

Our annual planning process includes re-examining the University's "audit universe" to ensure that all University activities are considered when determining how audit resources can best be allocated. We also consider new regulatory developments, new business processes, and institutional priorities and strategic initiatives.

OIA continues to utilize a formalized risk assessment methodology in selecting processes and units for inclusion in the annual audit plan. Relative risk assessment is necessary to provide a basis for the optimal deployment of our limited resources across the institution. The risk factors considered in prioritizing institutional activities include:

- Impact on the University's mission
- Impact on University finances
- Assessment of the activity's control environment
- Level of compliance concerns
- Impact of information technology
- Complexity and/or diversity of the activity
- Changes in the organization or leadership
- Impact on the University's operations
- Brand and reputational risk

Our operational risk assessment resulted in a risk ranking of 176 individual auditable units, of which 24 we consider to be high-risk, 118 moderate-risk, and 34 low-risk. A rating of "high-risk" does not necessarily mean that the activity is perceived to have control problems, but rather reflects the inherent risk associated with the criticality and/or centrality of the unit to the University's mission.

Key Themes Identified

- Healthcare Partnerships
- Enrollment & Finances (Budget Cuts)
- Staffing (Leadership Turnover, Hiring and Workforce Challenges)
- Information Systems (Security, Procurement, Artificial Intelligence, and Data Management)
- Campus Safety
- Government / Regulatory Volatility

Allocation of Audit Resources

This year's allocation of resources is based on staffing of 14 auditors for fiscal year 2027. See the Office of Internal Audit Staffing section for more details.

Table 1: FY 2027 Budget to FY 2023-2025 Actuals (and FY 2026 Projections) is designed to provide complete and transparent metrics that account for OIA's total hours based on the budgeted number of FTE's hours for fiscal year 2027, as well as provide details on how time was used in fiscal year 2026. This details how 48.5% of time will be spent on assurance work, with 32.8% committed to the completion of planned audit projects. This budgeted amount for assurance work is lower than in prior years and is explained further in the bullets below. In addition, this includes approximately 8.7% of our total hours which will be needed to complete carry-over work on the audits started in fiscal year 2026 that will be completed in fiscal year 2027. This is a higher budgeted amount than in previous years and is in large part due to the staffing limitations, but also fiscal year 2025 carryforward audits taking longer than expected to complete in fiscal year 2026.

The remainder of our fiscal year 2027 audit resources are reserved as follows:

- Approximately 4% of total hours are reserved for investigations. The number of hours remains consistent with what was budgeted in previous years.
- Approximately 7% of total hours have been reserved to accommodate special requests and projects including senior leader transition audits, special reviews and requests from the President, the Board, or members of the senior leadership team. The number of hours allocated remains consistent with what was budgeted in previous years.
- Approximately 4% of total hours have been reserved for follow-up procedures on outstanding report issues performed on behalf of the Audit and Compliance Committee. The number of hours remains consistent with what was budgeted and used in previous years.
- Approximately 22% of total hours are reserved for general overhead activities (e.g., vacation, holidays, and sick time), which are primarily mandated by University policy and OIA has limited ability to adjust.
- Approximately 1.4% of total hours have been reserved for advisory services including time spent serving on committees associated with hiring and risk management and control processes in alignment with the Audit Charter.

Percentage of Audit Resources for FY 2027

	FY 2027 Budgeted Percentages	FY 2026 Budgetted Percentages	FY 2026 EOY Forecasted Percentages	FY 2025 Actual	FY 2024 Actual	FY 2023 Actual
Overhead	21.5%	21.8%	24.6%	21.1%	19.5%	20.9%
Internal Operations	10.6%	11.0%	10.6%	12.3%	14.1%	14.9%
Projects / Special Projects / Investigations / etc.	67.8%	67.2%	64.8%	66.5%	66.4%	64.2%
Assurance	48.5%	52.6%	45.6%	45.1%	46.3%	45.5%
Annual Audit Plan Items	*32.8%*	*38.2%*	*37.0%*	*38.5%*	*37.6%*	*38.5%*
Special Projects	*7.3%*	*6.7%*	*1.9%*	*1.2%*	*2.6%*	*2.3%*
Investigations	*4.2%*	*3.8%*	*1.3%*	*1.2%*	*1.6%*	*0.7%*
Follow-up	*4.2%*	*3.8%*	*5.4%*	*4.2%*	*4.5%*	*4.0%*
Advisory	1.4%	1.3%	1.8%	1.1%	1.2%	1.2%
Risk Analysis, Process Improvement, Talent Management	17.9%	13.3%	17.4%	20.3%	18.8%	17.6%
Training (Self Training, Conferences, Certifications)	*5.2%*	*5.0%*	*4.8%*	*6.0%*	*7.4%*	*7.8%*
Total time Spent:	100.0%	100.0%	100.0%	100%	100%	100%

Table 1: FY 2027 Budget and FY 2023-2026 Actuals

- Approximately 11% is reserved for internal operations (e.g., administrative activities, technology support, and ongoing updates to processes including those required by recent changes to Institute of Internal Auditors standards, such as the establishment of an OIA strategic plan).
- Approximately 18% of total hours are reserved for risk analysis efforts, innovation, process improvements, talent management, and training. This is an increase over the prior year's budget of 13.7% (and actual of 16.3%) to accommodate expanded focus on leveraging emerging artificial intelligence and data analytics, and the implementation of a new audit management tool (as further detailed in the Office of Internal Audit Strategic Initiatives section below).

Overall Risk Focus and Impact on the FY 2027 Audit Plan

Our proposed internal audit plan for fiscal year 2027 includes coverage of key risks and areas of interest including: campus safety, enrollment and finances, information security and data management, athletics, healthcare, and impacts of changes in administrative operations and staffing on units. Selected academic units and operational areas are also included in the plan to maintain reasonable cycles of audit coverage.

In selecting areas for audit coverage, we were mindful of the risks included in the Institutional Risk Profile as presented to the Audit & Compliance Committee in September 2024, and areas that may be associated with the transformative growth of Elevate Extraordinary 2030. Our strategic focus also continues to mature by providing forward-looking foresight on new and emerging risks as outlined in the "Development of the Fiscal Year 2027 Audit Plan" section.

Proposed Fiscal Year 2027 Audit Plan

Taking into consideration the risks identified externally and internally, and balancing all the above with our available resources, the audit plan recommended for fiscal year 2027 is below. This plan requires approval by both the Audit & Compliance Committee and the Board of Regents.

Process Audits

High Risk	Moderate Risk
Athletics Select Processes IT Software Purchasing	

Unit Audits

High Risk	Moderate Risk
Public Safety Emergency Communications Center (PSECC) OIT - Health Sciences Technology	**College of Biological Sciences (CBS) w/ Biochemistry, Molecular Biology, and Biophysics (BMBB) & Genetics, Cell Biology & Development (GCD)** **College of Science & Engineering-IT** **Office for Student Affairs (Select Departments and Student Groups)** **Office of Public Engagement** **School of Nursing** **UMD Natural Resources Research Institute (NRRI)** CFANS Research and Outreach Centers Department of Anesthesiology

We approach the audit plan in two tiers to provide the Committee with an understanding of our current priorities and enable flexibility. While we have built the plan with the expectation that we will complete all audits, the audits in bold are Tier 1 audits and are considered higher-priority projects. The remaining audits are Tier 2 audits. Both tiers are expected to be completed based on the expected complement of FTE auditors. However, Tier 2 audits may be replaced/substituted if there are unexpected staffing constraints or higher priority needs for audit coverage arise during the year. Any changes to Tier 1 audits will be considered a “material change” to the audit plan per Board Policy, which will require Committee and Board Approval. Changes made to the Tier 2 projects due to variances in staffing or priority changes will be communicated to the Audit & Compliance Committee as part of regular Internal Audit Updates.

In addition to these listed audits, OIA has reserved time to undertake planned special projects. This will include implementing a new automated workpaper tool and increasing data and analytics usage as well as increasing use of Artificial Intelligence. Special projects will also include: 1) annual gift testing in alignment with the memorandums of understandings with University foundations; and 2) senior leader transition reviews as required. If the need arises, we will also continue to consider special projects related to any urgent matters associated with: any changes to the University’s healthcare partnerships, the PEAK implementation and/or other significant process changes, responses to changes in government funding or regulations, or other audit requests made by the Board or senior leaders.

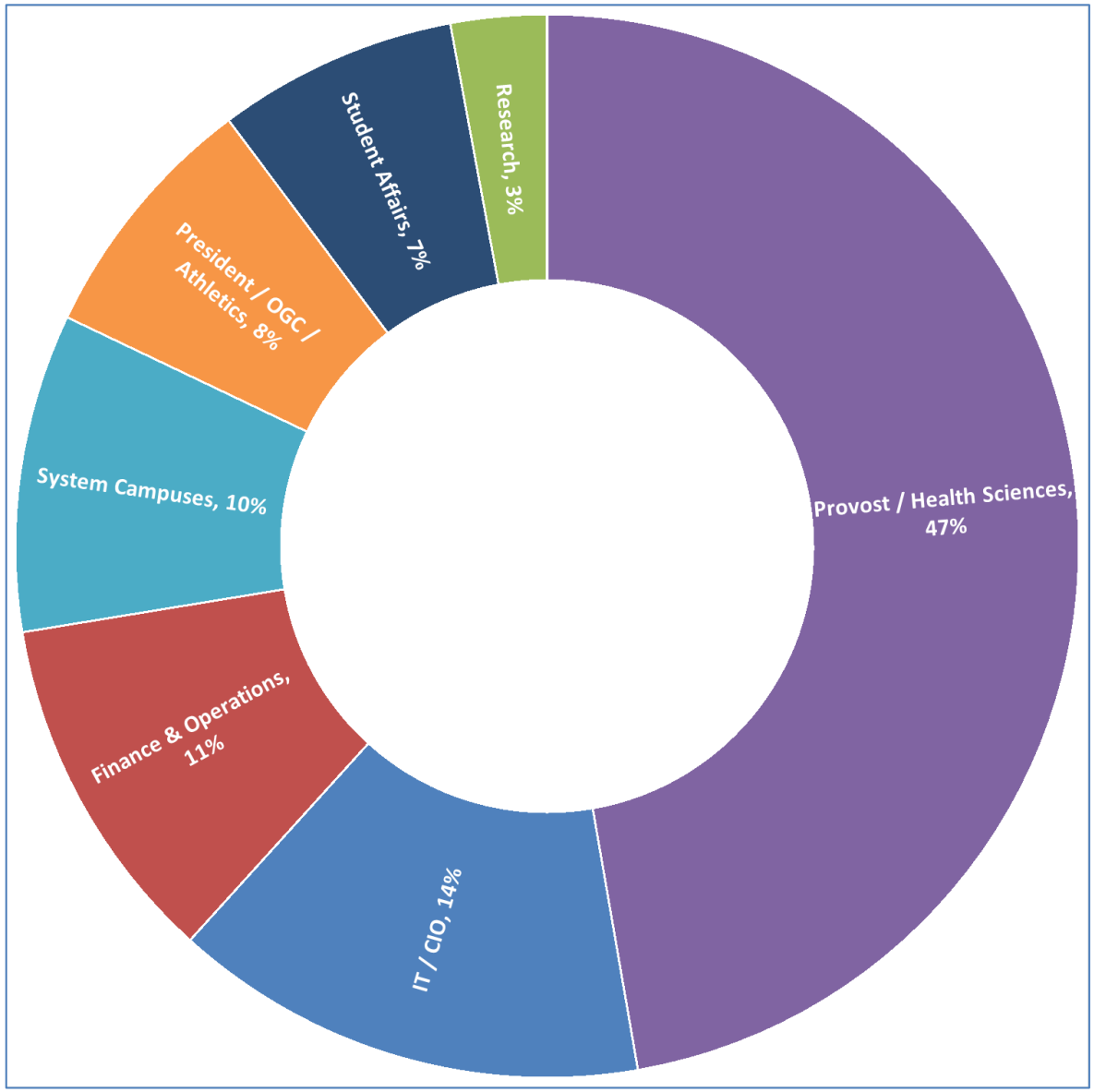
The proposed audit plan includes coverage of selected risks included on the Institutional Risk Profile as outlined in the table below.

Audit Coverage of Institutional Risks

Institutional Risk	FY 2027	FY 2026	FY 2025	FY 2027 Audit Projects
Student Success				
Enrollment Strategy	X	X	X	All academic unit audits
Student Retention	X	X	X	School of Nursing; Office for Student Affairs (Select Departments and Student Groups); College of Biological Sciences
Evolving Athletic Environment	X	X	X	Athletics Select Processes
Discovery, Innovation & Impact				
Political	X	X	X	All audits
Research	X	X	X	College of Biological Sciences; CFANS Research and Outreach Centers; Department of Anesthesiology; School of Nursing; UMD Natural Resources Research Institute (NRRI); Office of Public Engagement
Academic Health	X	X	X	Department of Anesthesiology; School of Nursing; Health Sciences Technology; College of Biological Sciences
MNtersections				
Cybersecurity & Privacy	X	X	X	College of Science and Engineering – IT; Health Sciences Technology; IT Software Purchasing
Reputation	X	X	X	All audits
Leadership	X	X	X	Transition Reviews
Community & Belonging				
Campus & Public Safety	X	X	X	Public Safety Emergency Communication Center (PSECC)
Crisis Management	X	X	X	Public Safety Emergency Communication Center (PSECC); OIT - Health Sciences Technology; College of Science and Engineering – IT; Office for Student Affairs (Select Departments and Student Groups)
Employee Retention & Morale	X	X	X	All unit audits
Fiscal Stewardship				
Facilities & Maintenance	X	X	X	CFANS Research and Outreach Centers
Economic Conditions	X	X	X	All audits
Strategic Financial Planning & Budgeting	X	X	X	All audits

The fiscal year 2027 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for fiscal year 2027, based on the number of hours allocated to each component (e.g., 47% of OIA's efforts will be spent on audits that provide visibility into the control environment of the Provost / Health Sciences organizations). While the graph below outlines the organizational alignment that an audit focuses on, it's important to note that OIA often looks at many of these areas when auditing units as well (e.g., IT, HR, and research).

FY 2027 Audit Plan Coverage by University Components



Fiscal Year 2027 Audit Plan Summary

The proposed fiscal year 2027 internal audit plan optimally allocates the University's finite audit resources to a well-balanced portfolio of audits that address areas identified as being of significant risk, provides coverage across the breadth of the institution, and will provide information to help inform leadership and governance discussions. The plan also provides for additional flexibility to enable us to respond to fluctuations in staffing and potential emerging needs throughout the year, including potential changes to the University's healthcare partnerships.

Independence

OIA's Charter, approved by the Audit and Compliance Committee and the Board of Regents in June 2025 states, "To provide for the independence of the Office of Internal Audit, the Board of Regents delegates directly to the chief auditor the authorities necessary to perform the duties set forth in the mission and scope of work. The chief auditor will have full and free access to the Board of Regents leadership and Audit & Compliance Committee." and "The Office of Internal Audit is to be free from undue influence in the selection of activities to be examined, the audit techniques and procedures to be used, and the reporting of results."

There were no incidents during the year in which the independence or scope of internal audit work was restricted by the administration.

Reliance on Other Providers

To avoid duplication of work and reduce the burden on University staff, we continue to place reliance on audit-related work performed by other service providers. We have relied on the external audit work performed by CliftonLarsonAllen in areas such as investments, annual external financial reporting, and RUMINCO (the University's captive insurance company). CliftonLarsonAllen also provided significant coverage of student financial aid as part of its Uniform Guidance Audit, and NCAA Agreed Upon Procedures, which we take into consideration in our risk assessment. We plan to continue to rely on CliftonLarsonAllen's external audit work going forward. CliftonLarsonAllen remains under contract to provide these external audit services through 2027 with optional annual extensions to 2030.

We also rely on the audit work performed by external construction audit firms engaged by the University's Capital Planning and Project Management (CPPM) unit for construction projects that are delivered using the Design/Build or the Construction Manager at Risk delivery methods. We are in agreement with the scope of this audit work and receive and review copies of their reports.

Coordination with Other Internal University Resources and Initiatives

Compliance & Enterprise Risk Partners

OIA coordinates its work with other internal units to maximize the breadth and quality of audit coverage provided, as well as to promote prompt attention when University-wide trends are identified. We have established strong working relationships with the University's compliance partners, including: Research Integrity and Compliance; the Human Research Protection Program; Health, Safety, & Risk Management; University Information Security; the Health Information Privacy & Compliance Office (HIPCO); and the Office of the General Counsel. We work closely with each of these units during audits involving complex regulatory issues.

OIA continues to interface regularly with the Office of Institutional Compliance and the Office of the General Counsel, and expanded this in fiscal year 2025 to include regular meetings with the Enterprise Risk Management (ERM) function, which we will maintain going forward. Input from the General Counsel, Chief Compliance Officer and ERM is also solicited during our annual audit planning. In addition, throughout the year we report to and collaborate with these groups on issues identified during our audits. We also share the results of employee surveys conducted during audits with the Chief Compliance Officer. Along with the Office of Institutional Compliance, the Office of the General Counsel, and the Office of Human Resources, we serve on the triage team for managing UReport allegations, the University's anonymous hotline. We are also working with the Office of Institutional Compliance and ERM to ensure that duplication does not occur between their compliance and risk assessments and our audits.

In fiscal year 2026 the administration underwent a compliance landscape analysis and proposed significant changes to the scope and oversight of the Office of Institutional Compliance and the ERM function. These changes include: the establishment of a Privacy Office, which will oversee HIPCO and other privacy initiatives; reconstituting administrative oversight committees of the Compliance and ERM functions and the administrative policy process; and strengthening coordination between key compliance, security, and privacy functions and reporting of the various non-central compliance functions to the Chief Compliance Officer. OIA advised on this analysis and recommended improvements, which were presented to the Audit & Compliance Committee in April 2026. The search for a new Chief Compliance Officer is underway, and we expect updates will be provided to the Committee on the progress throughout fiscal year 2027.

Policy & Process Owners

Audit results are shared with policy owners and central support units such as the Office of Information Technology, Sponsored Projects Administration, the Controller's Office, and the Office of Human Resources when policy noncompliance or the need for process enhancements are identified. In addition, best practices identified in local unit audits are shared with these central unit process owners for consideration of broader adoption. We also have regular meetings with leadership and other representatives from these offices to discuss audit results and trends, changes in regulations, policy interpretations, etc.

PROFESSIONAL STANDARDS

OIA conducts its work in accordance with the Institute of Internal Auditors' ***Standards for the Professional Practice of Internal Auditing*** (IIA Standards)***.*** All audit staff are also required to comply with the Institute's ***Code of Ethics for Internal Auditors.***

The IIA updated these standards with changes effective January of 2025. OIA has incorporated these new requirements into our internal processes and continue to work to ensure compliance. In fiscal year 2027 we expect this will include establishing a strategic plan for the internal audit function.

IIA Topical Standards

OIA has evaluated all proposed fiscal year 2027 audits to determine where the Institute of Internal Auditors (IIA) Topical Requirements may apply. These newly introduced mandatory requirements cover Cybersecurity, Third-Party Risk, and Organizational Behavior, with additional requirements currently being developed. They are designed to provide standardized methodologies when internal audit activities evaluate risks across the University's risk landscape. OIA will ensure necessary steps are taken to adhere to these documentation requirements.

INTERNAL QUALITY ASSURANCE PROGRAM

We have an established internal quality assurance program within the OIA. This program is structured around the robust supervision of audit staff and their work products and is supplemented with peer quality assessments. In addition, internal practices and tools are routinely evaluated for their effectiveness and efficiency and changes are made when potential improvements are identified. Our quality assurance measures throughout the year confirm our practices meet the requirements of our professional IIA Standards.

EXTERNAL QUALITY ASSURANCE REVIEW

IIA Standards require our audit practice to undergo an external quality assurance review every five years. OIA underwent an external Quality Assessment Review (QAR) in fiscal year 2025, with the validation conducted by an external team of audit and risk executives from peer institutions. The primary objective was to verify OIA's conformity with IIA Standards and Code of Ethics for Internal Auditors. The external assessment team agreed with OIA's self-assessment, concluding that the internal audit function "Generally Conforms" with the IIA Standards and Code of Ethics for Internal Auditors. This is the highest rating achievable and signifies that OIA's charter, policies, procedures, and practices are judged to be in accordance with IIA Standards.

Office of Internal Audit Strategic Initiatives

Office of Internal Audit Strategic Planning

In fiscal year 2026 OIA began the process of creating a department strategic plan in alignment with new IIA requirements. This plan is expected to be completed in fiscal year 2027.

Audit Workpaper Tool Replacement

OIA recently made the decision to move from its legacy automated workpaper system, and several in-house ancillary systems, to a modern software-as-a-service platform. Time is reserved in fiscal year 2027 to make this migration and train the staff on this new tool. Once completed we expect this new tool will improve efficiency and reporting, strengthen consistency in audit execution and documentation, enhance monitoring of audit progress and review status, improve security and ensure ongoing compliance with data management requirements, and provide a more sustainable foundation for future integration with analytics and other emerging tools.

Artificial Intelligence and Data Analytics

OIA will make a concerted effort in fiscal year 2027 to further integrate artificial intelligence and data analytics into daily operations in a manner that strengthens efficiency, supports professional judgment, and aligns with University expectations for governance, privacy, security, and responsible use. Initial efforts for the use of artificial intelligence will focus on practical applications that assist with routine administrative and audit activities. Data analytics enhancements will include continuing to expand access to relevant data sources, improving the consistency and repeatability of analytic routines, and increasing the use of dashboards, visualizations, and automated testing where appropriate

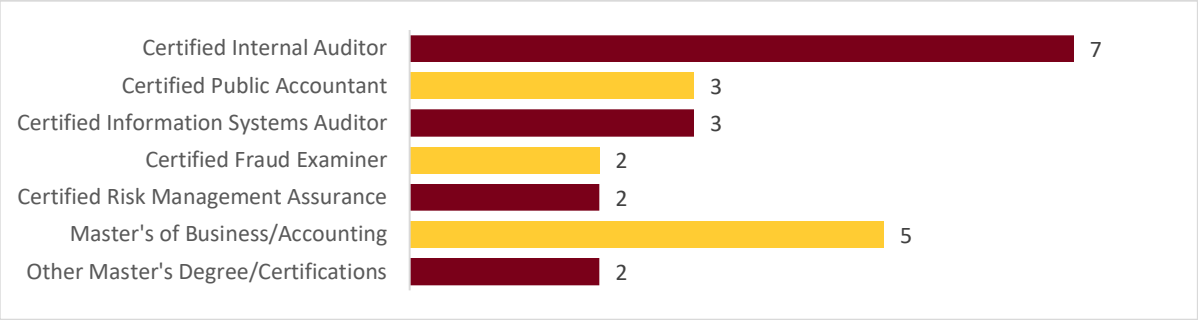
Staff Development, Qualifications and Professional Involvement

OIA is committed to providing educational opportunities to our staff to continually enhance audit knowledge and abilities. Ever-changing government regulations, new technologies, and new developments in auditing principles and methods dramatically affect not only what we audit, but how we audit. We strive to stay abreast of new developments and improve our audit proficiency to enhance the overall quality of our audits. To accomplish this, we pursue a variety of methods to continue our staff's professional education. Our memberships with the Institute of Internal Auditors (IIA), the Association of College and University Auditors (ACUA), the Association of Certified Fraud Examiners (ACFE), the American Institute of Certified Public Accountants (AICPA), and the Information Systems Audit and Control Association (ISACA) provide staff members the opportunity to attend seminars and conferences that specifically address current issues and techniques in internal auditing. The interaction of our staff members with their peers through these professional organizations helps to keep us up-to-date on the latest auditing trends and issues affecting higher education.

In fiscal year 2026, OIA estimates to have approximately 1400 hours of formal and informal professional training completed. For fiscal year 2027, approximately 1500 hours have been budgeted for professional training. This ongoing training provides the continuing professional development required to maintain the staff's professional credentials as well as incorporates time allotted for staff training on the new audit management tool currently being deployed. (This training is in addition to training related to OIA's internal functions and tools).

All but two of our internal audit staff hold professional credentials and/or advanced degrees. The remaining two are actively working toward obtaining their certifications. The breadth and combination of certifications held by staff, together with their extensive professional experience, demonstrate a high level of competency in the skills needed to perform quality audit work in the University's complex environment.

Certifications and Advanced Degrees Held by Internal Audit Staff



Office of Internal Audit Staffing

When fully staffed OIA has a chief auditor and 16 other auditors including 3 audit directors. OIA faced significant staffing challenges in fiscal year 2026, particularly in the last half of the year. Since December 2025 OIA had five team members depart comprising our senior data analytics auditor, associate audit director (with primary oversight responsibility for the non-TC campus audits), a long-time principal auditor, a staff auditor, and one of two IT auditors. In addition, we experienced more absences than anticipated associated with staff using the Minnesota Paid Family and Medical Leave program (effective January 1, 2026). We have since filled the information technology auditor role and added two new staff auditors. We plan to post additional experienced auditor positions in fiscal year 2027, but the market remains challenging for these types of roles. Given this uncertainty, OIA anticipates operating with 14 auditors over the course of fiscal year 2027.

Office of Internal Audit Budget Status

OIA has operated at a structural deficit for many years, which changes in salary and market conditions have made increasingly difficult to sustain and manage. We have weathered our structural deficits through salary savings from staff turnover by replacing experienced, higher-paid staff who leave voluntarily with less experienced, lower-paid staff. We also eliminated our only administrative support position several years ago to provide resources to higher priority audit staffing needs. Compensation accounts for nearly 95% of our expenses and any additional reallocation would eventually lead to a reduction in staff. In consultation with management and Committee and Board leadership, we plan to use carryforward balances accrued through previous years' salary savings associated with turnover to fund expected operational deficits in fiscal year 2027.

We greatly appreciate the administration's recognition of our budget needs and constraints and assigning us no reallocation in fiscal year 2027. We are also receiving preliminary funding for a 3% compensation increase, which is consistent with the administration's expected pay plans. We are grateful for the thoughtful budgeting process and the continued financial and operational support we receive from the administration, and we will continue discussions with the administration on options for long-term funding solutions for a balanced budget.

Additional details related to OIA's budget and resources were reviewed by Committee leadership in alignment with IIA Standards.

Office of Internal Audit Assigned Operational Duties

IIA Standards on the independence of the internal audit function require the chief auditor to inform the Board and senior management of any current or proposed roles and responsibilities beyond internal auditing that have the potential to impair the internal audit function's independence, either in fact or appearance, and would preclude OIA from conducting an independent audit. The Board has currently assigned the chief auditor two operational duties beyond internal auditing and the management of OIA:

- Institutional Conflict Review Panel
- Presidential Conflict Review Panel

The chief auditor serves as a voting member on both of these panels. While OIA could still audit compliance with any conflict-of-interest management plans stemming from these panels, the chief auditor's involvement on the panels would preclude OIA from auditing the decision-making process. If the Audit & Compliance Committee wished for this to be audited, an outside firm would have to be engaged.

The chief auditor and members of the audit staff also occasionally participate on executive search committees in an advisory role to recommend potential finalists for senior leadership consideration. The chief auditor receives approval from the chair of the Audit & Compliance Committee prior to participating on any search committees.

Handling of Errors and Omissions

In alignment with IIA standards, OIA has established a protocol for addressing any identified omissions or errors in its findings or reports. Should significant omissions or errors be identified, OIA would document these instances and present them to the Committee as a part of regular Internal Audit Updates.

No significant omissions or errors in OIA's findings or reports were identified in fiscal year 2026.

APPENDIX A: AUDIT ASSESSMENTS FOR FY 2024 – 2026

Academic	Finance	Information Technology	Non Twin Cities Campuses	Human Resources	Student	Other
Fiscal Year 2026						
Biostatistics and Health Data Science	Travel and Expenses	University Services - IT	University of Minnesota Crookston	University Threat Assessment - ETAT	NCAA Board of Governor's Policy on Campus Sexual Violence and Athletics / Drug Testing on Twin Cities Campus	University of Minnesota Police Department (UMPD)
Department of Mechanical Engineering	State Small Business Credit Initiative (SSBCI) Venture Capital	Full Transition Review: VP of IT and CIO	UMD International Programs and Services	Leave of Absence	University Threat Assessment - Care Team / BCT	Full Transition Review: Department of Public Safety (Chief of Police)
Clinical Translational Science Institute (CTSI)	Supplier Onboarding and Payments	IP Clinical and Translational Science Institute (CTSI) - IT	UMD Recreational Sports Outdoor Program		IP TC Office of Admissions	Full Transition Review: Vice President RIO
Department of Psychology	Full Transition Review: Budget	P Digital Identity Management	Full Transition Review: UMM Chancellor			IP Cleary Act Compliance
Institutional Animal Care and Use Committee (IACUC)	IP Senior Leaders & Board of Regent Expenses	IP Minnesota Supercomputing Institute (MSI)	IP UMD College of Education and Human Service Professions (CEHSP)			IP Dining Services/Chartwells Contract
Full Transition Review: Executive Vice President and Provost						IP Export Controls and Fly America Act
Full Transition Review: Vice Provost OUE						IP Full Transition Review: Vice President for Clinical Affairs and Dean of the Medical School
IP Medical School Duluth Campus						IP University of Minnesota Extension
Fiscal Year 2025						
College of Pharmacy		Central Cloud Computing	University of Minnesota Morris		NCAA Compliance and Operations (Men's & Women's Hockey)	Parking and Transportation Services
CFANS Environmental Sciences, Policy and Management (ESPM)		Data Management	UMD Office of the Registrar			Center for Urban & Regional Affairs (CURA)
College of Design		Department of Neuroscience	UMD Chancellor Transition Review			Center for Infectious Disease Research and Policy (CIDRAP)
College of Education and Human Development		Firewall Management				Full Transition Review: Government and Community Relations
Department of Biomedical Engineering						Full Transition Review: Interim President
Department of Electrical and Computer Engineering						Full Transition Review: University of Minnesota Police Department (UMPD)
Department of Neuroscience						
College of Continuing and Professional Studies Trans						
College of Liberal Arts Transition						
College of Pharmacy Transition						
OUE VP and Dean Transition Review						
Fiscal Year 2024						
Aerospace Engineering and Mechanics	Gramm-Leach-Bliley Act (GLBA)	HIPAA Governance and Oversight	UMD Athletics		NCAA Compliance and Operations (Track & Cross Country)	Econsent
Clinical Affairs Centers and Institutes	OIB AVP CIO Transition Review	OIT Server Admin	UMD Facilities Management			Effort Management
CLA-Dept. of Theatre Arts & Dance		NXT GEN MED				Masonic Cancer Center
CLA-School of Music						Chief Compliance Officer Transition Review
CDes Dean Transition Review			Good			Presidential Transition Review
CLA Dean Transition Review			Adequate			SVPFO Transition Review
CSOM Dean Transition Review			Needs Improvement			Global Programs and Strategy Alliance Transition
GPS Associate VP and Dean Transition Review			No Rating			Presidential Transition
Law School Dean Transition Review			IP In Process			
SPH Dean Transition Review			P Paused			

***Note**: The fiscal year listed is the year the audit report was issued, not the year it was included on the annual audit plan.*

APPENDIX B: STATUS OF FISCAL YEAR 2026 AUDIT WORK

Audits Completed
High Risk
NCAA Board of Governor's Policy on Campus Sexual Violence and Athletics / Drug Testing on Twin Cities Campus
Travel and Expenses
Supplier Onboarding and Payments
University of Minnesota Police Department (UMPD)
University Services - IT
Moderate Risk
Biostatistics and Health Data Science
Clinical Translational Science Institute (CTSI)
Clinical and Translational Science Institute (CTSI) - IT [1]
Department of Mechanical Engineering
Department of Psychology
Export Controls and Fly America Act[1]
Institutional Animal Care and Use Committee (IACUC)
Leave of Absence
Medical School Duluth Campus [1]
State Small Business Credit Initiative (SSBCI) Venture Capital
UMD International Programs and Services
UMD Recreational Sports Outdoor Program
University of Minnesota Crookston
University Threat Assessment
Low Risk
None
Special Projects
Gift Testing

Started FY 26 Audit Work to be Completed in FY 27
Clery Act Compliance
Digital Identity Management [2]
Minnesota Supercomputing Institute (MSI)
Senior Leaders & Board of Regent Expenses[3]
TC Office of Admissions [4]
UMD College of Education and Human Service Professions (CEHSP)
University of Minnesota Extension
Dining Services/Chartwells Contract

Audits Deferred or Replaced
Deferred to FY 2027
College of Science and Engineering (CSE) - IT
Urban Research and Outreach-Engagement Center [5]
Replaced
UMD Advising

Transition Reviews Completed
Full Transition Reviews
Department of Public Safety (Chief of Police)
Vice President and Budget Director
Executive Vice President and Provost (EVPP)
UMN Morris Chancellor
Vice President for Clinical Affairs and Dean of the Medical School [1]
Vice President Research and Innovation Office (RIO)
Vice Provost Office of Undergraduate Education (OUE)
Vice President of Information Technology and Chief Information Officer (CIO)
Limited Transition Review
College of Education and Human Development (CEHD) Dean

[1] Report expected to be finalized in the next 30 days.
[2] Project has been paused due to changes in management and toolset; expected to be completed in FY 2027 but this is dependent on OIT's new tool deployment.
[3] Split out as a separate audit from FY 2026 audit plan's Travel and Expense audit.
[4] Includes the Athletics Transfer process originally scheduled as a separate audit on the FY 2026 Audit Plan.
[5] Project was scheduled for FY 2026 but is being consolidated with the Office of Public Engagement audit on the FY 2027 plan.

2027 Internal Audit Plan

Office of Internal Audit

Board of Regents Audit and Compliance Committee
June 26, 2025

UNIVERSITY OF MINNESOTA

Topics

- FY 2026 Audit Results
- Risk Assessment and Plan Development
- FY 2027 Audit Plan
- Operational Duties
- Other Communications

2026 Audit Results

- 27 Audits Completed
  - 19 standard audits and 8 full transition reviews
  - 79% had satisfactory results
  - 21% rated “Needs Improvement”
  - Slight increase in “Needs Improvement” compared to FY 2025
  - Results continue to demonstrate an overall culture of compliance and risk management
  - Note: 8 audits are in progress and expected to be completed in FY 2027
- 10 Investigations
- Special Projects
  - Annual Gift Testing
  - Special Olympics Preparedness

Allocation of OIA Resources

Percentage of Audit Resources for FY 2027	FY 2027 Budgeted Percentages	FY 2026 Budgetted Percentages	FY 2026 EOY Forecasted Percentages	FY 2025 Actual	FY 2024 Actual	FY 2023 Actual
Overhead	**21.5%**	**21.8%**	**24.6%**	**21.1%**	**19.5%**	**20.9%**
Internal Operations	**10.6%**	**11.0%**	**10.6%**	**12.3%**	**14.1%**	**14.9%**
Projects / Special Projects / Investigations / etc.	**67.8%**	**67.2%**	**64.8%**	**66.5%**	**66.4%**	**64.2%**
Assurance	**48.5%**	**52.6%**	**45.6%**	**45.1%**	**46.3%**	**45.5%**
Annual Audit Plan Items	*32.8%*	*38.2%*	*37.0%*	*38.5%*	*37.6%*	*38.5%*
Special Projects	*7.3%*	*6.7%*	*1.9%*	*1.2%*	*2.6%*	*2.3%*
Investigations	*4.2%*	*3.8%*	*1.3%*	*1.2%*	*1.6%*	*0.7%*
Follow-up	*4.2%*	*3.8%*	*5.4%*	*4.2%*	*4.5%*	*4.0%*
Advisory	**1.4%**	**1.3%**	**1.8%**	**1.1%**	**1.2%**	**1.2%**
Risk Analysis, Process Improvement, Talent Management	**17.9%**	**13.3%**	**17.4%**	**20.3%**	**18.8%**	**17.6%**
Training (Self Training, Conferences, Certifications)	*5.2%*	*5.0%*	*4.8%*	*6.0%*	*7.4%*	*7.8%*
Total time Spent:	**100.0%**	**100.0%**	**100.0%**	**100%**	**100%**	**100%**

Development of FY 27 Audit Plan

Information Gathering

- Gathered key unit data
- Gathered key metrics
- Reviewed prior years' audit work
- Interviewed University leadership and other key staff
  - 113 institutional officials
  - 56 Units

Risk Analysis

- Reviewed recent publications for top risks in higher education
- Surveyed other research-intensive universities
- Reviewed federal agency audit priorities

Audit Plan Development

- Updated OIA risk model factors (Qualitative and Quantitative)
- Developed audit plan based on interviews, data, resource availability and budget
- Ensured audit plan coverage aligns with the Institutional Risk Profile

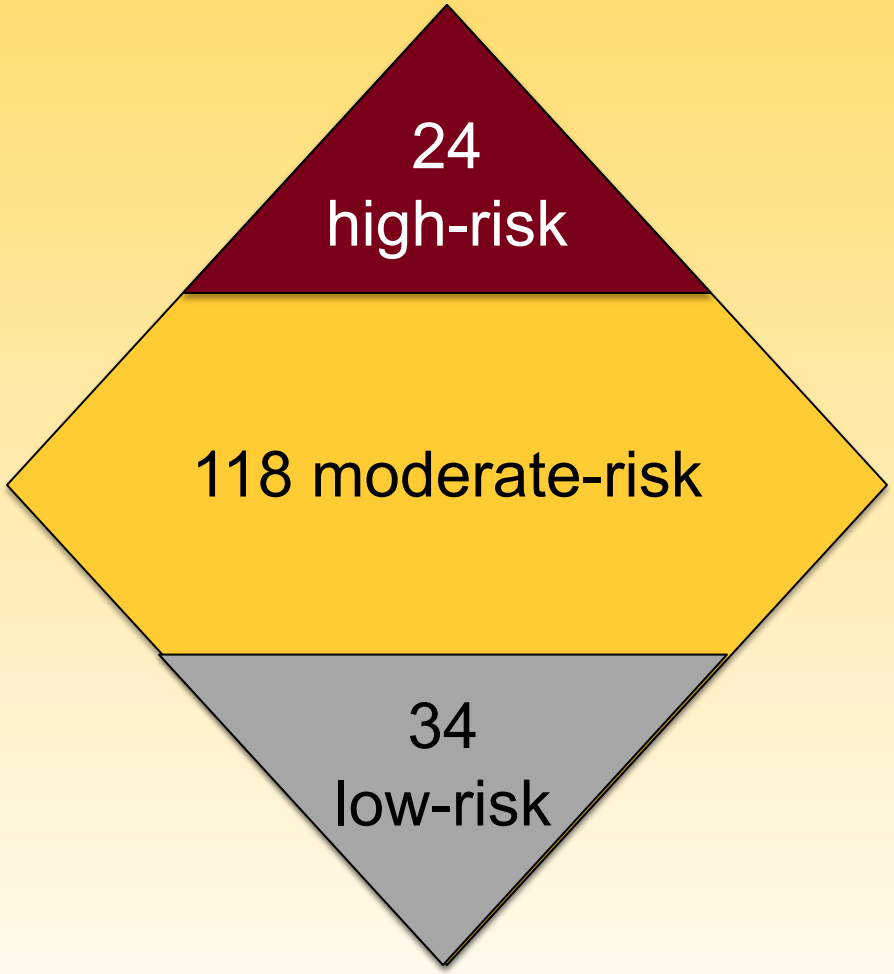
Communication

- Met with key personnel to discuss audit plan
- Discussed plan with President
- Review and discuss audit plan with the Audit and Compliance Committee leadership
- Audit Plan – Committee and Board Approval

Key Themes Identified

- Healthcare Partnerships
- Enrollment & Finances (Budget Cuts)
- Staffing (Leadership Turnover, Hiring and Workforce Challenges)
- Information Systems (Security, Procurement, Artificial Intelligence, and Data Management)
- Campus Safety
- Government / Regulatory Volatility

Unit Audit Universe



Deploying Audit Resources

- Unit and process audits
- Major organizational components
- Institutional risks and areas of strategic priority
- Special projects and BOR / senior management requests
- Tier 1 and Tier 2 prioritization

FY 2026 Annual Audit Plan

Unit Audits

High Risk	Moderate Risk
• Public Safety Emergency Communications Center (PSECC) • OIT - Health Sciences Technology	• **College of Biological Sciences (CBS) w/ Biochemistry, Molecular Biology, and Biophysics (BMBB) & Genetics, Cell Biology & Development (GCD)** • **College of Science & Engineering-IT** • **Office for Student Affairs (Select Departments and Student Groups)** • **Office of Public Engagement** • **School of Nursing** • **UMD Natural Resources Research Institute (NRRI)** • CFANS Research and Outreach Centers • Department of Anesthesiology

FY 2026 Annual Audit Plan

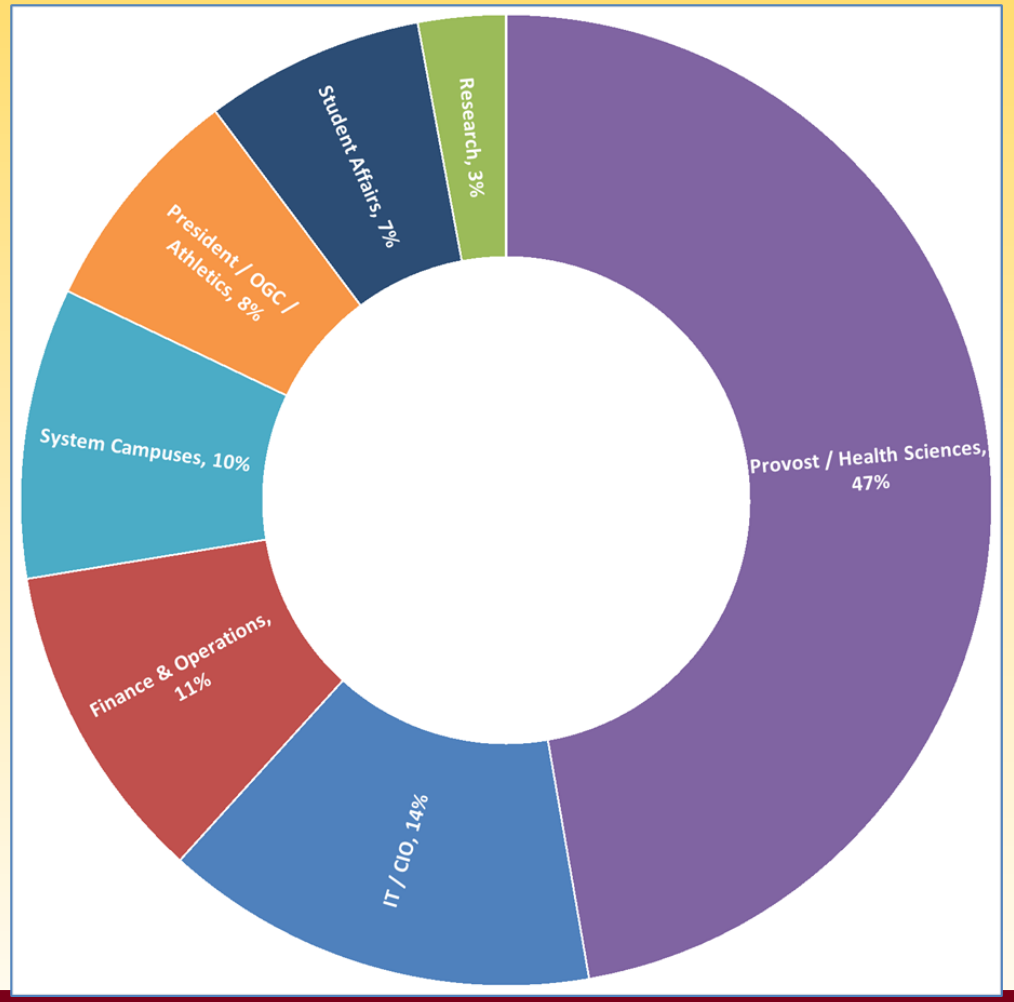
Process Audits

High Risk	Moderate Risk
• Athletics Select Processes • IT Software Purchasing	

Audit Coverage of Institutional Risks

Institutional Risk	FY 2027	FY 2026	FY 2025	FY 2027 Audit Projects
Student Success				
Enrollment Strategy	X	X	X	All academic unit audits
Student Retention	X	X	X	School of Nursing; Office for Student Affairs (Select Departments and Student Groups) ; College of Biological Sciences
Evolving Athletic Environment	X	X	X	Athletics Select Processes
Discovery, Innovation & Impact				
Political	X	X	X	All audits
Research	X	X	X	College of Biological Sciences; CFANS Research and Outreach Centers; Department of Anesthesiology ; School of Nursing; UMD Natural Resources Research Institute (NRRI) ; Office of Public Engagement
Academic Health	X	X	X	Department of Anesthesiology; School of Nursing; Health Sciences Technology; College of Biological Sciences
MNtersections				
Cybersecurity & Privacy	X	X	X	College of Science and Engineering – IT; Health Sciences Technology; IT Software Purchasing
Reputation	X	X	X	All audits
Leadership	X	X	X	Transition Reviews
Community & Belonging				
Campus & Public Safety	X	X	X	Public Safety Emergency Communication Center (PSECC)
Crisis Management	X	X	X	Public Safety Emergency Communication Center (PSECC); OIT - Health Sciences Technology; College of Science and Engineering – IT; Office for Student Affairs (Select Departments and Student Groups)
Employee Retention & Morale	X	X	X	All unit audits
Fiscal Stewardship				
Facilities & Maintenance	X	X	X	CFANS Research and Outreach Centers
Economic Conditions	X	X	X	All audits
Strategic Financial Planning & Budgeting	X	X	X	All audits

FY 2027 Audit Coverage by Major Component



The FY 2027 Audit Plan

- Provides reasonable audit coverage across all major University components
- Addresses key risks currently impacting the University
- Addresses risk areas identified by the BOR and senior leadership
- Provides flexibility to address emerging risks

FY 2027 Audit Plan – Next Steps

- The Audit Plan is recommended by the Audit & Compliance Committee for Board action
- Changes to Tier 1 audits will require a Committee recommendation and Board Approval
- Changes made to the Tier 2 projects will be communicated as part of regular Internal Audit Updates

Other Communications

- Internal Audit budget and resources
  - Automated workpaper system upgrade
- No Fiscal Year 2026:
  - Scope limitations or impairments to independence
  - Identified significant OIA omissions or errors to report
- Reporting of non-audit duties impairing OIA independence
  - The chief auditor serves as a voting member on:
    - Institutional Conflict Review Panel
    - Presidential Conflict Review Panel
  - These duties would prevent OIA from auditing the decision-making of these panels

Questions?

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Audit & Compliance **June 26, 2026**

AGENDA ITEM: Information Items

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☒ *This is a report required by Board policy.*

PRESENTERS: Quinn Gaalswyk, Chief Auditor

PURPOSE & KEY POINTS

A. Annual Report on Institutional Risk and Financial Reports
B. Engagements with the University's Appointed Independent External Auditor Requiring After-the-Fact Reporting

A. Annual Report on Institutional Risk and Financial Reports

The purpose of this item is to provide the annual report on Institutional Risk and Financial Reports, which highlights the University's insurance and institutional risk management functions, all of which are anchored within the Enterprise Risk Management (ERM) framework. This year's report focuses on risks associated with exposure to financial losses, and financial processes and reporting.

The report includes an overview of:

- Updates to the risk and compliance governance structure.
- Overview of the development of the Institutional Risk Profile.
- Updates on the strategic use of insurance to transfer risk by leveraging commercial, captive and self-insurance programs that support financial risk mitigation through strategic risk transfer led by the Office of Risk Management and Insurance.
- Overview of work completed that supports financial risk mitigation through internal controls, such as safeguarding assets, preventing fraud, and ensuring regulatory compliance.
- Key milestones from the Controller's Office that support financial risk mitigation.

B. Engagements with the University's Appointed Independent External Auditor Requiring After-the-Fact Reporting

The purpose of this item is to report engagements with the University's appointed independent external auditor, CliftonLarsonAllen LLP (CLA), as required by Board policy.

- CLA was engaged to perform procedures in connection with the University's 2026A Bond Issuance. This engagement was to perform consent procedures in connection with the bond offerings and did not present an independence issue with CLA. The fees for this engagement are estimated at $15,750.

- CLA was engaged to perform audit procedures on the financial statements of the University's Minnesota Job Skills Partnership (MJSP) Grant as presented in accordance with the Minnesota Employment and Economic Development Department's MJSP Grant Close Out Program Audit requirements for the period ended October 31, 2025. This engagement did not present an independence issue with CLA. The fees for this engagement are estimated at $25,000.

BACKGROUND INFORMATION

The annual report on institutional risk and financial reports is delivered annually as required by Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section IV, Subd. 6.

Engagements with the University's appointed independent external auditor that do not impair independence are reported after the fact to the committee as required by Board of Regents Policy: *Board Operations and Agenda Guidelines,* Section IV, Subd. 6(a).

Annual Report on Institutional Risk and Financial Reports

Enterprise Risk Management (ERM) at the University:

Mission and Strategic Value

Enterprise Risk Management (ERM) is the framework used to identify, assess, and manage risks across the University system. Rather than acting as a barrier, ERM serves as a strategic tool for leadership. It empowers the University to navigate a volatile and complex global environment while protecting our decentralized, collaborative, and entrepreneurial culture.

2026 Governance Integration

In fiscal year 2026, the University performed the Compliance Landscape Assessment with the goal of assessing the multitude of compliance functions across the system and how they are aggregated centrally. Following the assessment, the University further integrated the Office of Institutional Compliance (OIC) and ERM under a single, rechartered Executive Oversight Committee. This shift breaks down silos and ensures a unified lens for both compliance mandates and strategic risks.

Key structural changes include:

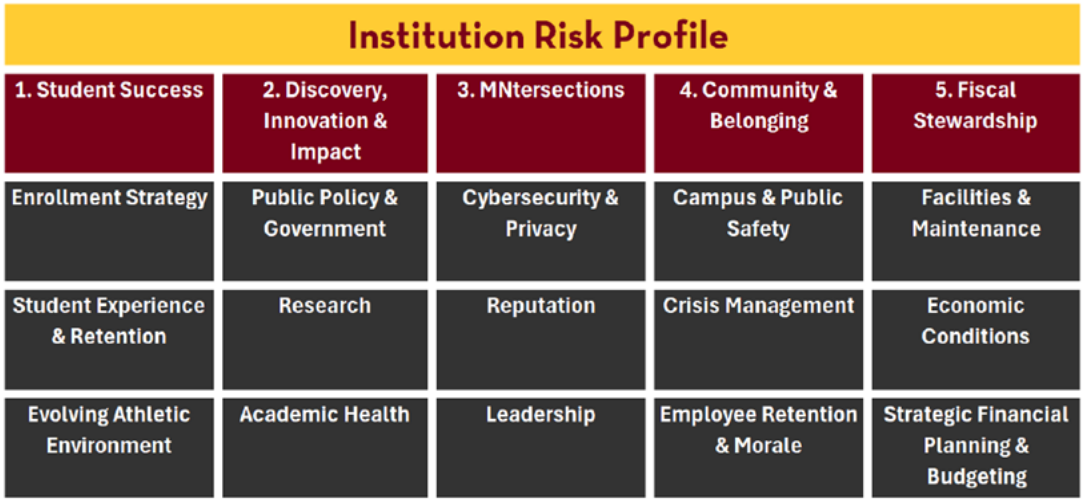
- Institutional Strategic Risk & Compliance Group: A new collaborative body featuring OIC, ERM, Information Security, General Counsel, Internal Audit, and Research Compliance.
- Privacy Office: A new centralized privacy office will be created within OIC. This group will govern University processes for complying with HIPAA, GDPR, and other regulations.
- Board Oversight: Both programs continue to report to the Audit and Compliance Committee of the Board of Regents.

The 2026 Risk Profile Refresh

In 2025, the University intentionally deferred the formal profile update to align the ERM framework with the new Elevate Extraordinary strategic plan. This alignment ensures our 2026 risk profile is not just a list of threats and opportunities, but a roadmap directly connected to the University’s strategic imperatives.

The current refresh incorporates:

- Comprehensive Data: University risk surveys, peer benchmarking, industry reports, and internal/external event analysis.
- Dual-Perspective Input: A "top-down" leadership assessment combined with a "bottom-up" employee sample to ensure broad risk visibility across the system.



Each year, ERM has identified three risks to perform deep dive assessments and accompanying mitigation plans for. Going forward, the ERM group will also create brief risk scorecards for every risk included on the profile and will update those risks at least annually.

Anticipated work products from the ERM team include;

- Refresh the Institution Risk Profile
- Scorecards for all key University risks
- Development and maintenance of risk mitigation plans
- Development of a risk appetite process and map

Risk Tolerance

The remainder of this report utilizes a risk tolerance approach to highlight areas within the University that are well positioned to mitigate risk. These are areas that have a high risk awareness and incorporate effective strategies to limit the University's vulnerabilities to internal and external risk events. Recognizing these areas can allow the University to move with confidence and to move more nimbly when opportunities arise.

The management of Research risk has been identified consistently through leader interviews as a strong competency for the University. This generally covers the work of the Research & Innovation Office. Our leadership has demonstrated an 'agile-response' competency while navigating complex regulatory shifts and safety events without compromising our research productivity or the safety of our faculty and staff. Key risk drivers include:

- Facility condition and repair
- Complexity in navigating the grants process
- Current Executive Order impacts
- Ethics, reputational research risks
- Cross-Sectional communication
- Administration resourcing

- Data governance processes

Financial Risk Mitigation through Strategic Risk Transfer

The Office of Risk Management & Insurance (ORM) is responsible for directing insurance programs, identifying exposures and recommending solutions, and promoting loss prevention. **Risk transfer** through insurance is vital to the University as it protects against significant finance losses from unforeseen events, ensuring continuity of operations and safeguarding of resources. The University accepts that some level of risk is inherent with and integral to being productive and achieving its mission. It is the responsibility of the ORM to find ways to strategically minimize the financial impact of adverse outcomes.

The financial consequences of risk are either retained or transferred.

- Risk retention – planned acceptance of losses ranging from deductibles to complete self-insurance
- Risk transfer – passing the financial consequences of risk to a third party (e.g. insurance company) through the purchase of a contract (e.g. insurance policy) that specifies the terms and conditions of the transfer

The University finances its insurable risks using three general strategies: commercial insurance, captive (RUMINCO) insurance, and self- insurance. ORM is responsible for the design, procurement, implementation and maintenance of these programs, detailed below.

- Commercial Insurance – risk transfer
    - Driven by insurance market conditions, limit availability and business unit needs.
    - Includes coverage for property, excess liability and various smaller policies.

- Captive Insurance – risk retention
    - RUMINCO Ltd. (Regents of the University of Minnesota Insurance Company) is a captive insurance company and wholly owned subsidiary of the University. It is a formalized and disciplined way to finance risk yet retains flexibility and provides long-term stability. It currently includes the following risk categories and policies:
        - § General Liability
        - § Professional Liability
        - § Non-Profit Organization Liability
        - § Automobile Liability
        - § Cyber Liability
        - § Property Loss deductible reimbursement

- Self-Insurance – risk retention
    - The University is a qualified self-insurer under Minnesota law, assuming liability up to $2 million in any one worker's compensation occurrence. The Worker's Compensation Reinsurance Association (WCRA), created by the state, provides excess protection in the event of a catastrophic loss.

The Office of Risk Management & Insurance works with the University's property and casualty insurers and various units and departments to identify, prioritize and mitigate critical insurable risks.

- Flood Protection - steam tunnels and cogeneration (CoGen) facilities
    - Flooding at these locations could cause major and prolonged utility outages and threaten mission continuity. ORM partnered with our property insurer and energy management teams to help address and minimize the impacts of potential river flooding (e.g. physical protection in the form of flood barriers, documented flood plans).

- Fire Protection – unsprinklered buildings and Andersen Caverns
    - The University's property insurance carrier's risk engineers inspect facilities system-wide on an annual basis to identify fire exposures and solutions to mitigate.
    - The Andersen Library Caverns were identified as having inadequate fire protection, resulting in a loss potential of hundreds of millions of dollars. Our property insurer designed an upgraded system and ORM is continuing to work with Capital Project Management and the library staff during the design implementation.

- Evolving College Athletics Landscape – NIL and student athletes as University employees
    - The University's excess liability policies expressly exclude the value of payments to athletes from the definition of covered damages.
    - A local law firm has brought several claims arguing scholarship student athletes should be classified as "employees" and thus eligible for workers compensation benefits. ORM continues to partner with OGC and outside defense counsel to discuss the claims and stay informed of applicable state and federal legislative changes.

<u>Risk Mitigation of Financial Reporting through Internal Controls</u>
The University has a robust financial reporting **internal control framework** that supports stewardship of University resources, transparent financial reporting, and ensures compliance with University and external stakeholder requirements. Board of Regents Policy: *Internal Control* establishes that the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Integrated Framework of Internal Control will be the internal control model for the University, and is implemented through the control environment, assessment of financial risk, board and administrative policies, and control procedures or programs.

Control environment: The Board of Regents along with Senior Leadership set the tone of the control environment through their standards of conduct and expectation setting for adherence as such by others. The control environment drives the behavior of those transacting on behalf of the University and sets the tone for University staff in how day-to-day operations are executed.

As noted above, the Board's adoption of the COSO Internal Control Framework has been an important step in setting the proper tone.

Risk assessment: Assessment of the University's financial risk helps inform the need or relevance for policies and procedures.

- Potential for fraud: Assessment can guide the need for oversight or key controls.
- Safeguarding of assets: With a balance of $9.1 billion in total assets, the internal control framework works to protect those assets and ensure utilization in alignment with the University's mission of education, research and public outreach.
- IT Systems: The University's financial reporting is driven by a network of information technology systems. In many instances, they are fully integrated in an automated manner. In some instances, ancillary systems are used and require some manual intervention, such as the recording of financial transactions as journal entries.
- Reporting requirements: The University has extensive external reporting requirements, including those of the Governmental Accounting Standards Board, Integrated Postsecondary Education Data System (IPEDS), Composite Financial Index (CFI) and others. Compliance with the various reporting requirements supports the financial reputation of the University.
- Areas of expertise: Areas of expertise allow for subject matter experts to provide a deeper level of technical understanding.
    - Sponsored Financial Reporting: A team dedicated to ensuring sponsor financial reporting requirements are met.

Board policies: Provide guiding principles for the University from which administrative policies are created for alignment to ensure alignment with University mission and vision.

Administrative policies: Administrative policies provide University staff with the requirements and expectations as to what types of activity are allowable, required, or prohibited.

Control Procedures or Programs: Create specific guidance regarding the execution of specific types of transactions. These often drive specific internal control activities.

- Preventative controls:
    - Access to certain systems is granted based on predetermined requirements, such as training and relevant job duties.
    - Approvals: Provide oversight at the most granular level to ensure activities are in alignment with the University mission, policies, and procedures. Approval responsibilities are determined based on perceived risk and dollar thresholds and may include departmental, central, or other leadership approvals.
    - Financial system edits provide automated checks to ensure expenses are recorded consistent with budgeted plans.
    - Segregation of duties for key responsibilities prevent individuals from committing fraud or misuse of University resources.
- Detective or Monitoring activities:

- Review and analysis of financial results helps to mitigate material misstatement.
- Reconciliations of assets and liabilities, as well as revenues and expenses to subsidiary systems, allows for detection of discrepancies in activity.
- Reviewing areas of risk for potential anomalies to expected activity aids in error identification and compliance confirmation.
- Departments are required to review payroll verification reports to ensure proper payroll payments.

A key control program at the University addresses the compliance requirements for the Gramm-Leach-Bliley Act.

Gramm-Leach-Bliley Act: The University is required to comply with the Gramm-Leach-Bliley Act (GLBA), which requires institutions that provide financial products such as loans to explain their information-sharing practices to their customers and to safeguard sensitive data. The regulations create minimum standards that the University must meet. As required, the University has implemented a comprehensive information security program (ISP) to put controls in place that address the required elements.

- Qualified Individual: The Controller's Office has identified a qualified individual, referred to as the Coordinator, responsible for the implementation and supervision of the ISP.
- Risk assessment: The Coordinator performs an annual risk assessment of the program to determine compliance with the safeguards rule. This assessment is based on business and administrative unit certifications and central IT risk management. In addition, each college or major administrative unit must identify and assess reasonably foreseeable external and internal risks to the security, confidentiality, and integrity of covered information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information. Each unit must assess the sufficiency of any safeguards in place to control these risks.
- Design and implementation of safeguards: Each college or major administrative unit with customer data must design and implement safeguards to control the risks identified in assessments and to regularly test or otherwise monitor the effectiveness of such safeguards.
- Monitoring and testing of safeguards: Testing and monitoring may be accomplished through existing network monitoring, problem escalation procedures, and other data management practices.
- Staff training: As part of risk assessment and evaluation, each college or major administrative unit evaluates the effectiveness of staff training.
- Monitoring of service providers: The Coordinator works with the Office of General Counsel (OGC) to develop and incorporate standard contractual provisions for service providers that will require providers to implement and maintain appropriate safeguards. In conjunction with OGC and Purchasing Services, the Coordinator will assist in instituting methods to select and retain only those service providers capable of

maintaining appropriate safeguards for customer information to which they will have access. Additionally, the Coordinator will work with UIS to ensure Risk Assessments have been completed for third party service providers to assess the service provider based on the risk they present and the adequacy of their safeguards.

- Maintain a current ISP: The current ISP is available on the Controller's Office website and was last updated in May of 2026.
- Written incident response plan: The GLBA ISP includes an Incident Response Plan template. Each college or major administrative unit with customer data is required to complete this template and update it annually. This template defines incident, documents local and system-wide contacts, and provides directions for invoking the University's incident response through UIS.
- Annual reporting to the Board of Regents: An amendment to the GLBA rules was issued in 2023, taking effect spring of 2024 requiring annual reporting to the Board.