AUD - MAY 2022

1. Review of External Auditor Relationship and Services Provided

Docket Item Summary - 3

Report of External Auditor Relationships and Services Provided - 4

2. Enterprise Risk Management Update and Discussion

Docket Item Summary - 9

Presentation Materials - 10

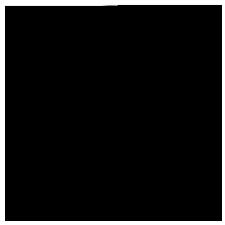
3. Monitoring for Policy Compliance University-wide

Docket Item Summary - 22

Presentation Materials - 23

4. Information Items

Docket Item Summary - 44



UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT & COMPLIANCE COMMITTEE
May 12, 2022

EXTERNAL AUDITOR REVIEW AND SUMMARY OF EXTERNAL AUDITOR RELATIONSHIPS AND SERVICES PROVIDED

Background

The Board of Regents is responsible for engaging and overseeing the University's independent external auditors, for reviewing the work of the auditors, and periodically reviewing the fees paid to the audit firms. Effective governance practice recommends that the Audit & Compliance Committee (ACC) of the Board should conduct such a review at least annually. The ACC conducted its last review of audit services and fees in May of 2021.

The Controller's Office presents the information below and on the accompanying schedules for the ACC's review of audit, audit related, and non-audit services (collectively referred to as engagements) fees paid to external audit firms including Deloitte & Touche, LLP (Deloitte), the University's independent external auditor for FY 2021 engagements. Also included is management's assessment of Deloitte's performance for the FY 2021 engagements.

Section I - Annual Review of External Auditor Relationship and Performance

University management and the Deloitte engagement management team met in March of 2022 and reviewed Deloitte's services and performance during the FY 2021 engagements. The overall conclusion was Deloitte continued to provide excellent service during the FY 2021 engagements.

Each year of the Deloitte contract, both the University and Deloitte have identified opportunities for improvement and have implemented those improvements. As a result, both organizations experienced efficiencies and the overall process was well managed by both.

Relative to the strengths of Deloitte and the positive aspects of the services provided:

Management felt that the continuity of key Deloitte team members from the prior years' engagements continued to contribute to the efficiency of the engagements;
Deloitte's engagement approach was consistent to prior years and occurred almost entirely in a virtual environment for FY 2021 engagements, consistent with FY 2020 engagements;
Deloitte effectively incorporated the implementation of Governmental Accounting Standards Statement 84, *Fiduciary Activities* into the audit workplan;
Deloitte continues to do an excellent job of managing engagement fees and costs. Annual engagement fees have been within the contract and budget amounts.

Both the University team and the Deloitte team agree to focus on continuous improvements related to:

Identifying and completing testing of items during the interim period of the engagement process, specifically as it relates to capital assets and new activity.
Ensuring communications between both teams are consistent across engagements.
Reviewing processes to ensure requests and receipt of documentation is efficient for both parties.
Evaluating the effectiveness of the environment in which testing is completed in a hybrid environment.

Review of Fees Paid to Deloitte

The accompanying schedule presents a summary of fees paid to Deloitte for the various FY 2021 audits and other services. The top portion of the fee schedule represents fees paid for the University's annual institutional audits and audit-related engagements. The contract amounts

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT

Section II - Review of Fees Paid to All Other Auditing Firms

In addition to the services performed by Deloitte (the University's independent external auditors), other accounting and auditing firms performed a variety of audit and non-audit services at the University for FY 2021 engagements. These services were:

CliftonLarsonAllen, LLP was engaged by the University of Minnesota Center for Farm Financial Management to assess the readiness for a SOC2 examination by describing the entity's FINPACK system and evaluate the design of controls related to the system.

Ernst & Young was engaged by the Office of Investment and Banking to provide investment taxation consultation services.

Ernst & Young was engaged by the Office of the General Counsel to provide various tax advisory services.

Esterbrooks, Scott, Signorelli, Peterson, Smithson Ltd was engaged by KUMD, the Duluth campus radio station, to perform attest services in FY 2021 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting.

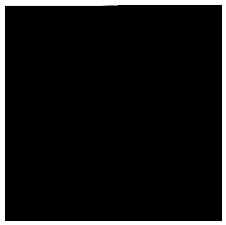
KPMG LLP was engaged by the University's Office of Human Resources for an advisory engagement to assist University human resources team to design and gain alignment on the future-state HR Operating Model, beginning with establishing a project management office to develop a detailed project plan and governance framework.

T TD0 Tw( )ynsm2 ofD ip5nD7m5 TDeTw3

UNIVERSITY OF MINNESOTA
BOARD OF REGENTS AUDIT COMMITTEE
MAY 12, 2022

Schedule II - Report of Fees Paid to Audit Firms for FY 2021 Engagements

	FY 2021 Engagements			*FY 2020*
Audit Firm	***Audit Fees***	***Non-Audit Fees***	***Total Fees***	***Total Fees***
CliftonLarsonAllen, LLP		$ 36,750	$ 36,750	$ 61,551
Deloitte & Touche, LLP	$ 607,200	13,500	620,700	641,748
Ernst & Young, LLP		37,036	37,036	32,769
Esterbrooks, Scott, Signorelli, Peterson, Smithson Ltd	9,345		9,345	8,900
KPMG LLP		385,000	385,000	68,698
Total Fees Paid	**$ 616,045**	**$ 472,286**	**$ 1,088,831**	**$ 813,666**



Enterprise Risk Management

Plan update and discussion

Audit & Compliance Committee

May, 2022

Agenda

ERM Internal Audit Involvement and Board Engagement

Overview of the MPACT 2025 ERM charge

Overview of recommended course of action

Status of plan implementation

Discussion questions

Board Engagement

MPACT 2025 Charge

The Senior Vice President's Office along with the Chancellors were charged with the goal to "Enhance risk management through innovative technology and processes"

In response, the following steps were taken and completed by December 2021:

Step 1 – Formed work group commissioned from the SVP's Office

Step 2 – Reviewed previous ERM efforts, interviewed peer institutions and industry, developed draft recommendations

Step 3 – Submitted final report to President's Office

Project Themes

Recommended Actions for 2022

ISSUE RFP

- RFP for service provider to assist in initial planning work

HIRE A CONSULTANT

- Identify risks, propose ERM framework
- Recommend organizational structure

IMPLEMENT ERM PROGRAM

- Create a sustainable, consultative program
- Program provides strategy and direction for operational activities

This Photo by Unknown Author is licensed under CC BY-SA-NC

Current Risk Areas

Purchasing
Athletics - Title IX
Campus Safety
Conflicts of Interest
Discrimination and Affirmative Action
Biological & Lab Safety
Food Safety
Occupational Safety
Export Controls
Housing ADA
Cybersecurity
Acceptable Use - Information Technology
International Activities & Programs
Programs Involving Minors
HIPAA
Program Integrity Rules

Animal Research
Accounts Payable
Athletics - NCAA Compliance

This Photo by Unknown Author is licensed under CC BY-SA

Project Status

Plan created, approved December 2021
RFP issued, April, 2022
Analysis underway, evaluating previous risk mapping, evaluating current Higher Education risk management trends
Advised President's Cabinet and other stakeholder groups.
Consultant to be hired May/June 2022

Discussion Items

Project Commitment

Include a broad range of stakeholders in the risk identification and ranking process

Build off of previous efforts

Take the time to build a system that works for the University and will be sustained

Questions?

Monitoring for Policy Compliance University-Wide

Definitions

Policy Compliance	Conforming to the requirements of a policy
Policy Effectiveness	How well a policy is achieving its intended outcome

Why monitor for policy compliance

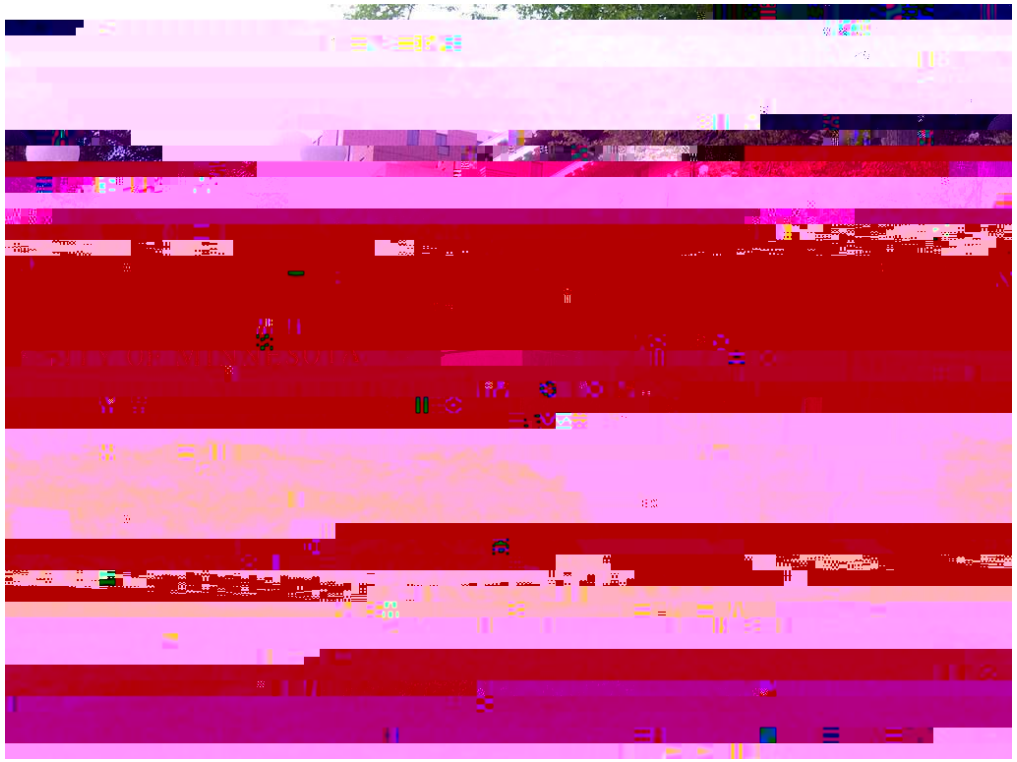
- Provides data that otherwise would not be available for examination
- Helps to ensure that University policies are working as intended
- Provides an opportunity to examine unintended effects a policy may generate
- Allows for the identification of areas of noncompliance and provides an opportunity to implement solutions proactively

Why monitor for policy compliance

- Highlights areas that may be problematic for reasons other than intentional noncompliance
  - Users may not understand the requirement
  - Language may be ambiguous
  - Language may be incorrect
- Creates an opportunity to strengthen the policy impact and address weaknesses

Why monitor for policy compliance

It is a University Administrative Policy requirement



Types of policy monitoring

Active

- More structured
- Frequency identified
- elements of the policy to monitor selected)
- Sample size/volume
- Can often be automated
- Able to easily track over time
- Potentially uses reports to assist

Passive

- Frequency not defined
- Triggered by a report/incident
- No established sample size
- May not be able to provide patterns as easily
- Unlikely that a standard or exception report could be created

Factors for the policy owner to consider

Likelihood

How likely, given the complexity of the policy and the numbers of users, would there be a failure to comply with one or more requirements?

How often might these failures occur in a given year?

Driving forces

Are one or more of the requirements in your policy there to satisfy a federal or state law, rule, or regulation?

Factors for the policy owner to consider

Are any of your requirements in place to align with requirements from other external entities (e.g., research funder)?

E.g., conflict of interest training requirement by PHS (Public Health Service)

Active monitoring example: *Establishing Administrative Policies*

Alignment requirement

- Board to collegiate policy comparisons made

Consultation

- Completed consultations on comp review forms

Owners must monitor

- Monitoring details on comp review forms

Comp reviews every 4 years

- Track and report outcomes to senior leaders

Passive monitoring example: *Retaliation*

- Community members prohibited from retaliating
- Individuals should report if they believe retaliation has occurred
  - Would act on reports of retaliation received through UReport system
  - If a pattern of reporting points to a college or campus, monitoring may change

Interpreting Policy Compliance

Compliance with a policy *may* mean that:

- Covered individuals are well trained on the policy requirements and procedures
- Low reporting of noncompliance
- The policy is clearly written, easy to understand, and easy to follow
- Covered individuals are operating within a strong culture of compliance

Noncompliance with a policy *may* mean that:

- Covered individuals require additional training regarding the policy requirements and procedures
- Increased reporting of noncompliance (often after awareness training)
- The policy is poorly written, hard to understand, and difficult to follow
- Covered individuals are not operating within a strong culture of compliance

Interpreting Policy Compliance

Policy owners must examine the root cause of the policy noncompliance and determine what intervention is needed

- Additional training
- Revise policy language for clarity
- Revise unnecessarily burdensome requirements
- Reinforcing the culture of compliance

Policy Compliance *Informs* Policy Effectiveness

Policy compliance is one of several factors that plays into a policy

Policy effectiveness assessment methodology will vary from policy to policy depending on the type of outcome being measured

Policy effectives is not analogous to policy compliance, but a policy owner needs to understand how well a policy is being complied with in order to properly assess if a policy is effective.

- Compliance high + desired outcome is achieved
- Compliance high + desired outcome is not achieved
- Compliance low + desired outcome is achieved
- Compliance low + desired outcome is not achieved

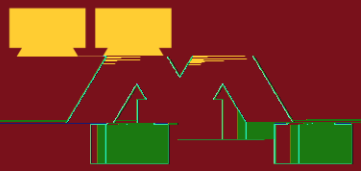
Reporting monitoring results

Policy owners are expected to communicate findings through their management structure so that action may be taken to reduce incidents of noncompliance

(e.g., targeted communication, discipline is warranted, training.)

Reporting monitoring results

Policy Management Program



[redacted]

Information Items

☐ ☐ ☐ ☐

Quinn Gaalswyk, Chief Auditor

Esterbrooks, Scott, Signorelli, Peterson, Smithson Ltd was engaged by KUMD, the Duluth campus radio station, to perform attest services in FY 2021 in conjunction with the receipt of federal funds from the Corporation for Public Broadcasting. The related engagement le