

University of Minnesota

*Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2004 and
Independent Auditors' Reports*

UNIVERSITY OF MINNESOTA

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have audited the consolidated financial statements of the University of Minnesota (the "University") as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the University in a separate letter.

This report is intended solely for the information and use of the Board of Regents, the Audit Committee, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Regents
University of Minnesota
Minneapolis, Minnesota

Compliance

We have audited the compliance of the University of Minnesota (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-1 through 04-3.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we reported to management of the University in a separate letter.

Schedule of Expenditures of Federal Awards

We have audited the basic consolidated financial statements of the University as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic consolidated financial statements. This schedule is the responsibility of the management of the University. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

This report is intended solely for the information of the Board of Regents, the Audit Committee, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 2004

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
CLUSTERED PROGRAMS:		
Research and Development		
<i>Agency for International Development:</i>		
Agency for International Development	02.RD	\$ 60,501
Agency for International Development, subcontracts	02.RD	57,087
<i>Department of Agriculture:</i>		
Agriculture Marketing Service, subcontracts	10.RD	9,274
Agriculture Research Service	10.RD	2,298,812
Agriculture Research Service, subcontracts	10.RD	58,526
Animal and Plant Health Inspection Service	10.RD	53,884
Animal and Plant Health Inspection Service, subcontracts	10.RD	4,277
Cooperative State Research, Education & Extension	10.RD	8,313,176
Cooperative State Research, Education & Extension, subcontracts	10.RD	1,550,000
Food and Nutrition Service, subcontracts	10.RD	28,464
Foreign Agricultural Service	10.RD	11,572
Forest Service	10.RD	255,478
Forest Service, subcontracts	10.RD	65,517
Other	10.RD	1,480,068
Other, subcontracts	10.RD	647,990
<i>Department of Commerce:</i>		
Economic Development Administration	11.RD	73
National Institute for Standards and Technology	11.RD	192,380
National Institute for Standards and Technology, subcontracts	11.RD	(1,164)
National Oceanic and Atmospheric Administration	11.RD	91,482
National Oceanic and Atmospheric Administration, subcontracts	11.RD	19,979
National Telecommunications and Information Administration	11.RD	85,690
Other, subcontracts	11.RD	33,393
<i>Department of Defense:</i>		
Advanced Research Projects Agency	12.RD	272,366
Advanced Research Projects Agency, subcontracts	12.RD	333,382
Air Force	12.RD	580,485
Department of the Air Force, Materiel Command	12.RD	509,343
Department of the Air Force, Materiel Command, subcontracts	12.RD	7,054
Department of the Navy, Office of the Chief of Naval Research	12.RD	2,103,825
Department of the Navy, Office of the Chief of Naval Research, subcontracts	12.RD	221,441
National Guard Bureau, subcontracts	12.RD	(8,251)
National Security Agency	12.RD	47,856
Office of the Secretary of Defense	12.RD	378,443
Office of the Secretary of Defense, subcontracts	12.RD	138,015
Other	12.RD	6,288,662

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Research and Development (continued):		
<i>Department of Defense (continued):</i>		
Other, subcontracts	12.RD	\$ 1,504,235
U.S. Army Materiel Command	12.RD	1,010,487
U.S. Army Materiel Command, subcontracts	12.RD	128,596
U.S. Army Medical Command	12.RD	1,963,038
U.S. Army Medical Command, subcontracts	12.RD	46,631
<i>Department of Education:</i>		
Office of Educational Research and Improvement	84.RD	11,450
Office of Elementary and Secondary Education, subcontracts	84.RD	317,661
Office of Postsecondary Education	84.RD	139,769
Office of Special Education and Rehabilitative Services	84.RD	1,594,978
Office of Special Education and Rehabilitative Services, subcontracts	84.RD	205,529
Other, subcontracts	84.RD	37,691
<i>Department of Energy:</i>		
Battelle-Northwestern National Laboratory, subcontracts	81.RD	107,349
Brookhaven National Laboratory	81.RD	27,959
Fermi National Accelerator Laboratory, subcontracts	81.RD	3,434,959
Lawrence Livermore Laboratory	81.RD	155,365
Lawrence Livermore Laboratory, subcontracts	81.RD	62,094
Los Alamos National Laboratory	81.RD	198,571
Office of Energy Efficiency and Renewable Energy, subcontracts	81.RD	40,986
Office of Energy Research	81.RD	85,140
Office of Science	81.RD	1,615,432
Office of Science, subcontracts	81.RD	100,347
Other	81.RD	4,906,197
Other, subcontracts	81.RD	891,732
Sandia National Laboratory	81.RD	337,969
<i>Department of Health and Human Services:</i>		
Administration for Children and Families	93.RD	288,605
Administration for Children and Families, subcontracts	93.RD	49,927
Administration on Aging, subcontracts	93.RD	9,235
Agency for Health Care Policy and Research	93.RD	270,406
Agency for Health Care Policy and Research, subcontracts	93.RD	383,634
Centers for Disease Control	93.RD	941,069
Centers for Disease Control, subcontracts	93.RD	417,309
Health Care Financing Administration	93.RD	525
Health Care Financing Administration, subcontracts	93.RD	(74)
Health Resources and Services Administration	93.RD	688,828
Health Resources and Services Administration, subcontracts	93.RD	1,023,632
Indian Health Service	93.RD	67,536
National Institutes of Health	93.RD	197,294,397
National Institutes of Health, subcontracts	93.RD	13,578,653
Other	93.RD	10,022,697
Other, subcontracts	93.RD	1,006,145

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Research and Development (continued):		
<i>Department of Homeland Security:</i>		
Department of Homeland Security	97.RD	\$ 41,637
Department of Homeland Security, subcontracts	97.RD	2,645
<i>Department of Housing and Urban Development:</i>		
Office of Lead Hazard Control	14.RD	129,270
Office of Policy Development and Research	14.RD	9,499
<i>Department of Justice:</i>		
Department of Justice	16.RD	186,516
National Institute of Peace	16.RD	15,990
National Institute of Peace, subcontracts	16.RD	15,408
Office of Juvenile Justice and Delinquency Prevention	16.RD	242,045
<i>Department of Labor:</i>		
Other, subcontracts	17.RD	9,173
<i>Department of the Interior:</i>		
Geological Survey	15.RD	672,319
Geological Survey, subcontracts	15.RD	61,995
Other	15.RD	634,971
Other, subcontracts	15.RD	90,645
U.S. Fish and Wildlife Service	15.RD	21,726
U.S. Fish and Wildlife Service, subcontracts	15.RD	42,477
<i>Department of Transportation:</i>		
Federal Transit Administration, subcontracts	20.RD	1,937
Other	20.RD	1,582,228
Other, subcontracts	20.RD	915,383
<i>Department of Veterans Affairs:</i>		
Other	64.RD	547,239
Other, subcontracts	64.RD	4,457
<i>Environmental Protection Agency:</i>		
Office of Administration	66.RD	20,454
Office of Administration, subcontracts	66.RD	45,575
Office of Enforcement and Compliance Assurance, subcontracts	66.RD	9,867
Office of Research and Development	66.RD	1,818,724
Office of Research and Development, subcontracts	66.RD	104,278
Office of Water	66.RD	253,062
Office of Water, subcontracts	66.RD	101,256
Other	66.RD	618,704
Other, subcontracts	66.RD	27,019

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Research and Development (continued):		
<i>National Aeronautics and Space Administration:</i>		
National Aeronautics and Space Administration	43.RD	\$ 5,653,816
National Aeronautics and Space Administration, subcontracts	43.RD	649,546
<i>National Foundation on the Arts and the Humanities:</i>		
National Endowment for the Arts, subcontracts	45.RD	13,101
National Endowment for the Humanities, subcontracts	45.RD	2,485
<i>National Science Foundation:</i>		
National Science Foundation	47.RD	45,684,517
Subcontracts	47.RD	2,671,499
<i>Smithsonian Institute—</i>		
Smithsonian Institute	60.RD	26,887
<i>Social Security Administration—</i>		
Social Security Administration, subcontracts	96.RD	<u>17,818</u>
Total Research and Development Cluster		334,101,937
Student Financial Assistance		
<i>Department of Defense—</i>		
Other	12.000	(7,773)
<i>Department of Education:</i>		
Federal Work-Study Program	84.033	3,844,758
Javits Fellowships	84.170	30,122
Loan cancellations	84.037	318,530
Other	84.000	347,884
Pell Grant Program	84.063	21,257,019
Perkins Loan Program—Federal Capital Contributions	84.038	703,889
Supplemental Educational Opportunity Grants	84.007	4,721,892
Perkins Loan Program—loan advances	84.038	9,801,477
Direct Loan Program	84.268	238,250,461
<i>Department of Health and Human Services—</i>		
Health Professionals—loan advances	93.342	3,730,996
Nursing Loan Program—loan advances	93.364	215,720
<i>National Science Foundation—</i>		
Other	47.000	<u>(87,248)</u>
Total Student Financial Assistance Cluster		283,127,727
Child Care		
<i>Department of Health and Human Services—</i>		
Child Care and Development Block Grant, subcontracts	93.575	45,571
Entitlement and (HUD-Administered) Small Cities		
<i>Department of Housing and Human Development—</i>		
Community Development Block Grants/Entitlement Grants, subcontracts	14.218	47,471
Child Nutrition		
<i>Department of Agriculture—</i>		
School Breakfast Program, subcontracts	10.553	76,390

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Consolidated Health Centers		
<i>Department of Health and Human Services:</i>		
Community Health Centers	93.224	\$ 768,106
Community Health Centers, subcontracts	93.224	<u>303</u>
Total Community Health Centers Cluster		768,409
Fish and Wildlife Cluster		
<i>Department of the Interior—</i>		
Sport Fish Restoration, subcontracts	15.605	1,085
Food Stamp		
<i>Department of Agriculture—</i>		
State Administrative Matching Grants for Food Stamp Program, subcontracts	10.561	4,697,466
Public Works and Economic Development		
<i>Department of Commerce—</i>		
Economic Adjustment Assistance	11.307	321,445
Special Education		
<i>Department of Education—</i>		
Special Education:		
Preschool Grants, subcontracts	84.173	150,897
Grants to States, subcontracts	84.027	<u>449,169</u>
Total Special Education Cluster		600,066
TRIO		
<i>Department of Education—</i>		
TRIO:		
McNair Post-Baccalaureate Achievement	84.217	372,504
Student Support Services	84.042	548,468
Upward Bound	84.047	<u>1,037,735</u>
Total TRIO Cluster		<u>1,958,707</u>
Total Clustered Programs		<u>625,746,274</u>

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
NONCLUSTERED PROGRAMS:		
Public Service		
<i>Agency for International Development:</i>		
Agency for International Development	2.000	\$ 2,419,714
Subcontracts	2.000	171,760
<i>Corporation for National and Community Service:</i>		
Learn and Serve America—Higher Education	94.005	61,635
Learn and Serve America—Higher Education, subcontracts	94.005	4,731
Retired and Senior Volunteer Program	94.002	37,348
Retired and Senior Volunteer Program, subcontracts	94.002	28,392
<i>Department of Agriculture:</i>		
Agricultural and Rural Economic Research, subcontracts	10.250	15,400
Animal Health and Disease Research, subcontracts	10.207	292,467
Cooperative Extension Service	10.500	11,056,815
Cooperative Extension Service, subcontracts	10.500	449,217
Cooperative Forestry Assistance	10.664	83,870
Cooperative Forestry Assistance, subcontracts	10.664	64,759
Crop Insurance, subcontracts	10.450	4,034
Forestry Research	10.652	3,080
Forestry Research, subcontracts	10.652	633
Fund for Rural America—Research, Education, and Extension Activities	10.224	1,124,795
Grants for Agricultural Research, Special Research Grants	10.200	282,164
Grants for Agricultural Research, Special Research Grants, subcontracts	10.200	1,420
Grants for Agricultural Research—Competitive Research Grants	10.206	19,000
Initiative for Future Agriculture and Food Systems	10.302	64,853
Initiative for Future Agriculture and Food Systems, subcontracts	10.302	105,259
Integrated Programs	10.303	117,064
Integrated Programs, subcontracts	10.303	88,442
International Training—Foreign Participant	10.962	90,293
Other	10.000	85,397
Other, subcontracts	10.000	183,780
Plant and Animal Disease, Pest Control, and Animal Care	10.025	69,151
Rural Development, Forestry and Communities	10.672	19,740
Secondary Agriculture Education Grants, subcontracts	10.226	13,979
State Mediation Grants	10.435	230,009
Technical Agricultural Assistance	10.960	137,709
WIC Farmers' Market Nutrition Program ("FMNP"), subcontracts	10.572	2,396

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Public Service (continued)		
<i>Department of Commerce:</i>		
Coastal Zone Management Administration Awards, subcontracts	11.419	\$ 56,800
Other, subcontracts	11.000	4,455
Sea Grant Support	11.417	860,136
Telecommunications & Information Infrastructure, subcontracts	11.552	78,099
<i>Department of Defense:</i>		
Basic and Applied Scientific Research	12.300	1,143
Basic Scientific Research	12.431	11,985
Other	12.000	4,229
Other, subcontracts	12.000	569,040
<i>Department of Education:</i>		
Adult Education—State Grant Program, subcontracts	84.002	21,122
After School Learning Centers, subcontracts	84.287	28,575
Bilingual Education—Research Programs, subcontracts	84.292	97,405
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	84.333	27,367
Early Childhood Educator Professional Development	84.349	628,768
Eisenhower Professional Development State Grants, subcontracts	84.281	6,230
Fund for the Improvement of Education	84.215	62,228
Fund for the Improvement of Postsecondary Education	84.116	51,042
Fund for the Improvement of Postsecondary Education, subcontracts	84.116	35,976
Grants for Enhanced Assessment Instruments, subcontracts	84.368	25,706
Higher Education—Institutional Aid, subcontracts	84.031	127,934
Language Resource Centers	84.229	(6,911)
Mathematics and Science Partnerships, subcontracts	84.366	8,826
National Institute On Disability and Rehabilitation Research	84.133	1,055,527
National Institute On Disability and Rehabilitation Research, subcontracts	84.133	78,454
National Resource Centers and Fellowships Program for Language and Area or Languages International Studies	84.015	297,140
Other, subcontracts	84.000	428,301
Preparing Tomorrow's Teachers to Use Technology	84.342	301,775
Reading Excellence, subcontracts	84.338	(421)
Ready to Change, subcontracts	84.286	28,545
Rehabilitation Services—Basic Support, subcontracts	84.126	73,042
Safe and Drug-free Schools and Communities—National Program	84.184	109,993
<i>Special Education:</i>		
Innovation and Development	84.023	(22)
Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	147,205
Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	833,177
Research and Innovation to Improve Services and Results for Children with Disabilities, subcontracts	84.324	140,355
State Program Improvement Grants for Children with Disabilities, subcontracts	84.323	135,677
Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	3,017,070
Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities, subcontracts	84.326	24,326
Technology and Media Services for Individuals with Disabilities	84.327	82,575
Technological Innovation and Cooperation for Foreign Information Access, subcontracts	84.337	22,990

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Public Service (continued)		
<i>Department of Education (continued):</i>		
Vocational Education:		
Basic Grants to States, subcontracts	84.048	\$ 2,531
National Centers for Career and Technical Education	84.051	3,029,693
National Centers for Career and Technical Education, subcontracts	84.051	1,550
<i>Department of Energy:</i>		
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and		
Technical Analysis/Assistance	81.117	217,721
Lawrence Livermore Laboratory	96.038	14,994
Office of Science Financial Assistance Program	81.049	34,812
Office of Scientific and Technical Information	81.064	(723)
Other, subcontracts	81.000	36,198
<i>Department of Health and Human Services:</i>		
Administration on Developmental Disabilities—Projects of National Significance, subcontracts		
Aging Research	93.866	(85)
Aging Research, subcontracts	93.866	22,980
Applied Toxicological Research and Testing, subcontracts	93.114	170,778
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	34,730
Basic/Core Area Health Education Centers	93.824	159,197
Block Grants for Community Mental Health Services, subcontracts	93.958	175,550
Centers for Disease Control:		
Investigations and Technical Assistance	93.283	765
Investigations and Technical Assistance, subcontracts	93.283	121,315
Clinical Research	93.333	662,317
Consolidated Knowledge Development and Application (“KD&A”) Program, subcontracts	93.230	121,197
Cooperative Agreements to Improve the Health Status of Minority Populations, subcontracts	93.004	4,991
Developmental Disabilities Basic Support and Advocacy Grants, subcontracts	93.630	108,775
Emergency Medical Services for Children	93.127	145,994
Family Violence Prevention and Services/Grants for Battered Women’s Shelter—		
Discretionary Grants	93.592	453,539
Foster Care—Title IV-E, subcontracts	93.658	148,895
Health Services Research and Development Grants	93.226	14,625
HIV Demonstration, Research, Public and Professional Education Projects	93.941	334,011
HIV Prevention Activities—Health Department Based, subcontracts	93.940	42,496
Indian Health Service—Health Management Development Program	93.228	93,904
Maternal and Child Health Federal Consolidated Programs	93.110	200,000
Maternal and Child Health Services Block Grant to the States, subcontracts	93.994	8,887
Medical Library Assistance	93.879	2,428
National AIDS Education and Training Centers, subcontracts	93.145	170,616
Other	93.000	1,899,734
Other National Institutes of Health	93.000	541,641
Other National Institutes of Health, subcontracts	93.000	226,098
Other Public Health Service	93.000	104,124
Other Public Health Service, subcontracts	93.000	51,522
Other, subcontracts	93.000	52,154

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Public Service (continued)		
<i>Department of Health and Human Services (continued):</i>		
Preventive Health and Health Services Block Grant, subcontracts	93.991	\$ 11,801
Research Centers in Minority Institutions	93.389	1,500,000
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	200
Rural Telemedicine Grants	93.211	84,998
Universal Newborn Hearing Screening, subcontracts	93.251	55,964
University Centers for Excellence in Developmental Disabilities Education, Research, and Services	93.632	353,421
<i>Department of Housing and Urban Development—</i>		
Community Outreach Partnership Center Program	14.511	56,290
<i>Department of Justice:</i>		
Byrne Formula Grant Program, subcontracts	16.579	7,756
Crime Victim Assistance, subcontracts	16.575	1,020
Grants to Reduce Violent Crimes Against Women on Campus	16.525	18,942
Local Law Enforcement Block Grants Program, subcontracts	16.592	11
Other	16.000	524,911
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	86,860
State Domestic Preparedness Equipment Support Program, subcontracts	16.007	112,022
Violence Against Women Formula Grants	16.588	32,743
Violence Against Women Formula Grants, subcontracts	16.588	20,819
<i>Department of Labor—</i>		
Other, subcontracts	17.000	34,685
<i>Department of State:</i>		
Educational Partnerships Program	19.424	63,505
Other	19.000	64,633
Other, subcontracts	19.000	272,742
<i>Department of the Interior:</i>		
Geological Survey—Research and Data Acquisition	15.808	12,000
Other	15.000	85,150
Other, subcontracts	15.000	8,000
<i>Department of the Treasury—</i>		
Low-Income Taxpayer Clinics	21.008	46,947
<i>Department of Transportation:</i>		
Other	20.000	241,895
Other, subcontracts	20.000	165,331
Transit Planning and Research, subcontracts	20.514	(1,937)
<i>Department of Veterans Affairs—</i>		
Other	64.000	163,756

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Public Service (continued)		
<i>Environmental Protection Agency:</i>		
Nonpoint Source Implementation, subcontracts	66.460	\$ 191,217
Other	66.000	66,384
Other, subcontracts	66.000	94,605
State Indoor Radon Grants, subcontracts	66.032	16,494
Surveys, Studies, Investigations and Special Purpose Grants	66.606	6,121
<i>National Aeronautics and Space Administration—</i>		
Other	43.000	386,713
<i>National Archives and Records Administration—</i>		
National Historical Publications and Record Grants	89.003	1,095
<i>National Foundation on the Arts and the Humanities:</i>		
Institute of Museum and Library Services	45.301	27,816
Institute of Museum and Library Services—National Leadership Grants	45.312	36,539
National Endowment for the Arts	5.000	7,500
National Endowment for the Humanities	6.000	982
National Endowment for the Humanities, subcontracts	6.000	6,091
Promotion of the Arts—Leadership Initiatives	45.026	26,507
Promotion of the Arts—Partnership Agreements, subcontracts	45.025	2,100
Promotion of the Humanities—Challenge Grants	45.130	199,999
Promotion of the Humanities—Education Development and Demonstration	45.162	15,759
Promotion of the Humanities—Federal/State Partnership, subcontracts	45.129	12,730
State Library Program, subcontracts	45.310	1,409,090
<i>National Science Foundation:</i>		
Biological Sciences	47.074	85,089
Computer and Information Science and Engineering	47.070	1,689
Computer and Information Science and Engineering, subcontracts	47.070	(529)
Education and Human Resources	47.076	1,094,922
Education and Human Resources, subcontracts	47.076	152,216
Engineering Grants	47.041	161,695
Engineering Grants, subcontracts	47.041	3,993
Geosciences	47.050	27,566
Mathematical and Physical Sciences	47.049	93,161
Mathematical and Physical Sciences, subcontracts	47.049	12,645
Other	47.000	166,959
Other, subcontracts	47.000	141,981
Social, Behavioral, and Economic Sciences	47.075	520
Social, Behavioral, and Economic Sciences, subcontracts	47.075	4,627
<i>Office of Personnel Management—</i>		
Intergovernmental Personnel Act Mobility Program	27.011	245,743
<i>Peace Corps—</i>		
Other	8.000	19,779
<i>President's Committee on Employment of People with Disabilities—</i>		
Employment Promotion of People with Disabilities, subcontracts	53.001	165,923

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Public Service (continued)		
<i>Small Business Administration—</i>		
Business Development Assistance to Small Business, subcontracts	59.005	\$ 256,045
<i>United States Information Agency:</i>		
College and University Partnerships Program	19.405	76,234
College and University Affiliations Program	19.406	<u>1,464</u>
Total Public Service		<u>45,503,306</u>
Instruction		
<i>Department of Agriculture:</i>		
Animal Health and Disease Research	10.207	77,919
Cooperative Forestry Research	10.202	357,115
Food and Agricultural Sciences National Needs Graduate	10.210	203,962
Grants for Agricultural Research, Special Research Grants, subcontracts	10.200	7,429
Initiative for Future Agriculture and Food Systems, subcontracts	10.302	77,607
International Training—Foreign Participant	10.962	20,372
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,548,043
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	38,957
<i>Department of Commerce:</i>		
Coastal Zone Management Administration Awards, subcontracts	11.419	28,456
Sea Grant Support	11.417	254,305
<i>Department of Defense:</i>		
Basic Scientific Research	12.431	23,562
Military Medical Research and Development	12.420	27,573
Other	12.000	18,466
<i>Department of Education:</i>		
Bilingual Education—Professional Development	84.195	219,477
Fund for the Improvement of Postsecondary Education	84.116	220,599
Fund for the Improvement of Postsecondary Education, subcontracts	84.116	2,036
Graduate Assistance in Areas of National Need	84.200	204,560
Language Resource Centers	84.229	342,030
National Resource Centers and Fellowships Program for Language and Area or Languages and International Studies	84.015	494,425
Other	84.000	176,076
Other, subcontracts	84.000	33,083
Preparing Tomorrow's Teachers to Use Technology	84.342	323,512
Preparing Tomorrow's Teachers to Use Technology, subcontracts	84.342	88,562
Special Education—Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	284,070
Vocational Education—Basic Grants to States, subcontracts	84.048	88,172

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Instruction (continued)		
<i>Department of Health and Human Services:</i>		
Academic Administrative Units in Primary Care	93.984	\$ 386,126
Administration on Developmental Disabilities—Projects of National Significance	93.631	7,511
Aging Research	93.866	59,447
Allergy, Immunology, and Transplantation Research	93.855	200,258
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	229,772
Blood Diseases and Resources Research	93.839	435,242
Cancer Research Manpower	93.398	456,077
Cell Biology and Biophysics Research	93.821	532,377
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	740,174
Child Welfare Services Training Grants	93.648	60,765
Child Welfare Services Training Grants, subcontracts	93.648	708,871
Clinical Research Related to Neurological Disorders	93.853	53,438
Comparative Medicine	93.306	6,502
Diabetes, Endocrinology, and Metabolism Research	93.847	206,201
Digestive Diseases and Nutrition Research	93.848	54,784
Drug Abuse National Research Service Awards for Research Training	93.278	1,192,774
Family Planning—Service Delivery Improvement research	93.974	49,215
Foster Care—Title IV-E, subcontracts	93.658	1,204,048
Genetics and Developmental Biology Research	93.862	39,979
Geriatric Education Centers	93.969	331,365
Grants for Faculty Development in Family Medicine	93.895	418,476
Grants for Predoctoral Training in Family Medicine	93.896	93,887
Health Administration Traineeships and Special Projects Program	93.962	47,124
Health Careers Opportunity Program	93.822	241,627
Heart and Vascular Diseases Research	93.837	868,041
Kidney Diseases, Urology, and Hematology Research	93.849	246,136
Lung Diseases Research	93.838	594,809
Maternal and Child Health Federal Consolidated Programs	93.110	891,306
Medical Library Assistance	93.879	423,048
Mental Health Research Grants	93.242	5,336
Mental Health National Research Service Awards for Research Training	93.282	516,046
Microbiology and Infectious Diseases Research	93.856	521,209
Minority Access to Research Careers	93.880	132,390
National Research Service Awards—Health Services Research Training	93.225	240,173
Nurse Anesthetist Traineeships	93.124	144,299
Nursing—Special Projects	93.359	19,645
Occupational Safety and Health—Training Grants	93.263	1,300,534
Oral Diseases and Disorders Research	93.121	790,967
Other	93.000	70,566
Other National Institutes of Health	93.000	398,708
Other Public Health Service	93.000	469,681
Other Public Health Service, subcontracts	93.000	821,280

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Agency	CFDA #	Expenditures
Instruction (continued)		
<i>Department of Health and Human Services (continued):</i>		
Pharmacological, Physiology, and Biological Chemistry Research	93.859	\$ 914,887
Professional Nurse Traineeships	93.358	121,675
Public Health Traineeships	93.964	58,739
Public Health Training Centers Grant Program	93.249	415,985
Quentin N. Burdick Programs for Rural Interdisciplinary Training	93.192	184,358
Research and Training in Complementary and Alternative Medicine	93.213	363,119
Research and Training in Complementary and Alternative Medicine, subcontracts	93.213	10,278
Research for Mothers and Children	93.865	288,402
Research Related to Deafness and Communication Disorders	93.173	87,178
Resource and Manpower Development in the Environmental Health Sciences	93.894	92,112
Senior International Fellowships	93.989	86,359
Special Minority Initiatives	93.960	215,198
University Centers for Excellence in Developmental Disabilities Education, Research, and Services	93.632	9,022
Vision Research	93.867	241,892
<i>Department of State—</i>		
Other	19.000	7,646
<i>Department of the Interior—</i>		
Assistance to State Water Resources Research Institutes	15.805	5,632
<i>Department of Veterans Affairs—</i>		
Other	64.000	14,250
<i>Environmental Protection Agency:</i>		
Other	66.000	1,081
Training and Fellowships for the Environmental Protection Agency	66.607	25,767
<i>National Aeronautics and Space Administration:</i>		
Other	43.000	181,684
Other, subcontracts	43.000	28,142
<i>National Science Foundation:</i>		
Education and Human Resources	47.076	1,596,146
Mathematical and Physical Sciences	47.049	65,287
Mathematical and Physical Sciences, subcontracts	47.049	11,998
Other	47.000	1,094,358
Social, Behavioral, and Economic Sciences	47.075	9,650
Total Instruction		<u>28,501,427</u>
Total Nonclustered Programs		<u>74,004,733</u>
Total Expenditures		<u>\$ 699,751,007</u>

See notes to Schedule of Expenditures of Federal Awards.

UNIVERSITY OF MINNESOTA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying schedule of expenditures of federal awards includes the federally sponsored transactions of the University of Minnesota (the “University”) reported on the modified cash basis of accounting.

Subrecipients—Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the schedule of expenditures of federal awards. The University is also the subrecipient of federal funds, which have been subject to testing and are reported as expenditures and have been listed as subcontracts on the schedule of expenditures or as federal pass-through in Note 2.

2. RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE UNIVERSITY’S CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The following schedule is a reconciliation of total expenditures as shown on the Schedule of Expenditures of Federal Awards to the general ledger accounts included in the operating expenses reported on the consolidated statement of revenues, expenses, and changes in net assets for the year ended June 30, 2004, which is included as part of the University’s basic consolidated financial statements:

Expenditures per A-133	\$ 699,751,007
Less federal pass-through assistance (Federal Perkins Loan Program— Loan Advances (CFDA #84.038), Federal Direct Loan Program (CFDA #84.268), Health Professions Student Loan Program (CFDA #93.342), Nursing Student Loans (CFDA #93.364)) not included on the consolidated statement of revenues, expenses, and changes in net assets	\$(251,998,654)
Less expenditures not included on the consolidated statement of revenues, expenses, and changes in net assets (equipment, buildings, and structures)	(90,459,191)
Less matching grant and contract transfers on the consolidated statement of revenues, expenses, and changes in net assets	(1,092,367)
Less difference of prior-year overdrafts added back and current-year overdrafts subtracted out	(786,336)
Less federal pass-through grants not on the consolidated statement of revenues, expenses, and changes in net assets	<u>(44,636,677)</u>
Subtotal A-133 expenses in federal fund class	(388,973,225)
Plus cash to accrual basis adjusting journal entries (year-end close)	<u>2,320,966</u>
Operating expenses as shown on the consolidated statement of revenues, expenses, and changes in net assets for the year ended June 30, 2004	<u>\$ 313,098,748</u>

3. INDIRECT COST RATES

The University utilizes indirect cost rates that have been negotiated with and approved by its cognizant agency, the U.S. Department of Health and Human Services, and are effective for the period of July 1, 2003 through June 30, 2007.

4. CFDA NUMBERS

Some of the programs, grants, and/or other awards included in the Schedule of Expenditures of Federal Awards are missing CFDA numbers. The missing numbers are due to the federal awarding agencies not providing the CFDA numbers. The expenditure amounts related to these missing numbers have been reported, generally, at an agency level.

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UNIVERSITY OF MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

- A. Type of auditor’s report issued: unqualified
- B. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported
- C. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

- D. Internal control over major programs:
- Material weakness(es) identified? _____ yes X no
 - Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported
- E. Type of auditor’s report issued on compliance for major programs: unqualified
- F. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____ no

- G. Identification of major programs:

Name of Federal Program or Cluster	CFDA #
Research and Development*	Various
Student Financial Assistance*	Various
State Administrative Matching Grants for Food Stamp Program, subcontracts	10.561
Cooperative Extension Service	10.500
Vocational Education--National Centers for Career and Technical Education	84.051

* This program cluster has various and unidentified CFDA numbers.

- H. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

- I. Auditee qualified as a low-risk auditee? X yes _____ no

SECTION II—FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 04-01—Twin Cities Campus

Program Name:	Research and Development
CFDA:	93.RD, 43.RD
Questioned Cost:	None
Criteria or Specific Requirement	Reporting

Condition/Context

In 10 of 40 instances, federal reports were not filed with the National Institutes of Health (“NIH”) by the date specified in the contract. In accordance with individual grant agreements, each grant specifies reporting deadlines. Based on the results of our testing as stated above, it appears that these filing dates are not always being met. This is a repeat finding from the prior year.

Effect

As a result of the untimely filing of the reports, the University is not in compliance with the terms of the grant agreements.

Cause

The late filings are due to two factors. First, Sponsored Financial Reporting (“SFR”) had a backlog of reports due to fluctuations in workload and in the associated staffing levels. Second, information used by SFR to generate accurate and timely financial reports is obtained from a variety of sources, both within and outside the University. There were delays encountered in receiving and compiling the necessary information from sources external to SFR.

Recommendation

The University should ensure that employees in all departments involved with federal programs are aware of the significance of providing the necessary information to complete the reports in a timely basis. Additionally, the University should evaluate its procedures and systems used to prepare and submit financial reports, and make changes as necessary to complete the reports on a timely basis.

Management Response

The University concurs with the auditors’ finding and recommendation and will continue to address this issue. Efforts underway to improve the timeliness of filing sponsored reports include:

- The installation of the JD Edwards system which now provides management of SFR reports measuring individual performance and timeliness of submission, which has increased accountability;
- Identification of common “barriers” (including workload) to timely reporting which has led to implementation of new and revised departmental procedures to alleviate the “barriers”; and

- Education of all the departments with sponsored programs as to the importance of providing the necessary information to complete reports/invoices timely, through presentations at user group meetings and at academic departmental meetings.

The University is working diligently toward improving the timeliness of report submission. In addressing this issue, it has been determined that cultural, as well as procedural and systems changes are needed to increase the timeliness of report submission to an acceptable level. The University will continue to closely monitor the JD Edwards reports on timeliness and will work to remedy the underlying causes for late submission, whether within SFR or other University departments.

Finding 04-02—Morris Campus

Program Name:	Federal Perkins Loan Program
CFDA:	84.038
Questioned Cost:	\$4,700
Criteria or Specific Requirement	Loan Collection Procedures

Condition/Context

In 2 of 40 instances (one student for \$4,200 and one student for \$500), the University could not provide the original signed and executed promissory notes. In accordance with the Federal Register 34 CFR 674.19(e)(4), “An institution shall keep the original promissory notes and repayment schedules until the loans are satisfied. If required to release the original documents in order to enforce the loan, the institution must retain certified true copies of those documents.” In the prior year there was a finding related to original signed and executed promissory notes at the Twin Cities Campus in the health profession loans program CFDA: 93.342.

Effect

Collectibility of loan may be impaired and the University is not in compliance with 34 CFR 674.19(e)(4).

Cause

In both instances, the promissory notes are for loans awarded on the Morris campus. In the past, the majority of Morris promissory notes were paper notes. The paper was held at the Morris campus until the student exited school, at which time the notes were forwarded to Student Financial Collections (Twin Cities) for holding. In the case of the first student, it was determined that only \$500 in paper promissory notes was missing. The other \$2,000 in promissory notes labeled missing, was actually signed for electronically on the PeopleSoft system. Student Financial Collections has contacted the borrower and requested he sign a new \$500 promissory note. In the case of the second student, the loan was paid in full prior to the audit. Therefore, no additional process is required.

Recommendation

The University should work to ensure that each student loan be evidenced by a properly executed promissory note and should safeguard the note against fire, theft, and tampering.

Management Response

Student Financial Collections has asked Morris staff to direct their students to the electronic promissory notes whenever possible, so paper notes do not have to travel between the campuses. When and where paper

notes still exist, Morris staff will now transfer the promissory note to the imaging system as well as send the paper note to Student Financial Collections immediately upon signing. Student Financial Collections has set up a report to track paper notes listed as signed within the PeopleSoft system, and whether they have received the corresponding paper note or not.

Finding 04-03—Morris Campus

Program Name:	Student Financial Assistance Programs
CFDA:	Various
Questioned Cost:	\$1,200
Criteria or Specific Requirement	Verification documentation

Condition/Context

In 1 of 6 instances, the income and taxes paid reported on the ISIR data was not updated based on the verification through supporting tax documents. In accordance with the Federal Register 34 CFR 668.57, for acceptable documentation “an institution shall require an applicant selected for verification to verify Adjusted Gross Income (“AGI”) and U.S. income tax paid.”

Effect

The University did not update ISIR earnings when AGI, income earned from work, and U.S. income tax paid was verified in accordance with 34 CFR 668.57. This could result in incorrect levels of funding.

Cause

Income was not updated once verified.

Recommendation

The University should review its procedures in relation to 34 CFR 668.57 to ensure all necessary documentation is obtained during the verification procedures.

Management Response

The University did collect all necessary documentation for verification in accordance with 34 CFR 668.57. The University has the verification form on file indicating that the student did not file a tax return and reported no income earned. The student reported on the ISIR earnings of \$1,200. Since verification documents showed \$0 earnings, the University should have changed the ISIR data to reflect \$0 earnings. The EFC is the same with \$0 of earnings or \$1,200 of earnings; therefore, the aid given to the student was accurate. The University will more closely monitor our review of verification documents and update ISIRs correctly.