

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER

**MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE**

**Tuesday, February 15, 2005; 1:30 p.m.
Engineering Conference Room-Kitson Hall 309
One University Avenue
University of Massachusetts
Lowell, Massachusetts**

Committee Members Present: Chair White; Trustee McCarthy; Chair Karam

Committee Members Absent: Vice Chair Boyle; Trustees Dubilo and Fey

University Administration: President Wilson; General Counsel O'Malley; Vice Presidents Chmura, Julian and Lenhardt; Chancellors Lombardi, Motley, MacCormack, Hogan and Lazare; Mr. Harrison, Director of Auditing; Ms. Wilda, University Controller; Vice Chancellors for Administration and Finance O'Connor, Zekan and Griffin; Deputy Chancellor Stanton

PricewaterhouseCoopers: Mr. Paul Hanley, Engagement Partner; Ms. Dorian Gregory, Senior Manager

Chair White convened the meeting at 1:35 p.m. Mr. Harrison, Director of Auditing provided a brief overview of his position which includes the performance, coordination and monitoring of all University audit matters including internal audits, external contracted audits and state and federal audits.

Mr. Harrison discussed some of the items listed in the **Audit Activity Reports:**

- the State Auditor's Office is in the process of evaluating the Tuition Remission process at the University and all state and community colleges. We have coordinated a five campus reply to a lengthy questionnaire and data request. The Office will study the surveys and proceed to select field visits at certain schools;

- the State Audit Office initiated a state-wide review of computer viruses and virus software – UMASS Boston is among the locations scheduled for a site visit;

- the State Audit Office has completed their review of the University Treasurer's Office; We are now waiting to review the revised draft which will become a public document at which time the report will come to this Committee as an informational item;

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- at the request of the Lowell campus, we have developed an audit service for an operational review of the Continuing Studies and Corporate Education Division; the audit is in process and results will be reviewed by the Committee at its next meeting;

- the campuses will be asked to issue an annual notice to employees regarding the fraud policy, fraud guidelines and conflict of interest; new this year is a reference to the computer usage and data security responsibilities.

Mr. Harrison reported on the **Status of the Sarbanes-Oxley Act** included in the package. The University has adopted many provisions of the Act to improve business practices. He also reported that PricewaterhouseCoopers was asked to perform a pre-implementation review of the Intercampus Student Information System. These services help identify the risks related to controls over financial reporting.

Chair White asked Mr. Paul Hanley and Ms. Dorian Gregory from PricewaterhouseCoopers to provide a briefing on **1) The Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133; 2) The Report on Massachusetts Student Financial Assistance Programs for the Amherst and Dartmouth campuses** and **3) The Comments and Recommendations with Respect to Accounting and Operating Controls and Procedures, also referred to as the Management Letter.**

Mr. Hanley provided a brief explanation of the auditing process within PWC's domain. Professor Schwartz had a question about the Auditing firm and if they report on the UMASS Foundation's compliance as well as performance. Chair White indicated that the UMASS Foundation has its own Board of Directors that determines their auditing process.

Trustee McCarthy had several questions about the number of employees in the Auditing Department. Chair White asked Mr. Harrison to brief the Committee about how the Auditing Department works.

Mr. Harrison reported that he has been responsible for the internal auditing functions for the past three and a half years as the sole employee. When a campus has a specific need we co-source with an internal audit services firm. PricewaterhouseCoopers has assisted along the way with allowable services that fall under the heading of the Sarbanes-Oxley Act. It is mandatory that the federal work be independently out-sourced.

Ms. Gregory then briefed the Committee on the **A-133 Audit**. Of particular note was the schedule of expenditures of federal awards that include total major programs: \$294,790,826. She also noted that the results of the tests of compliance with the laws and regulations disclosed no instances of noncompliance that are reported under the Government Auditing Standards.

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Ms. Gregory reported on the Massachusetts Student Financial Assistance Program. It was determined that the Amherst and Dartmouth campuses have complied with the requirements as specified in the Massachusetts Office of Student Financial Assistance and the Student Financial Assistance Attestation Guide. The examination did disclose instances of immaterial noncompliance described in the report.

Mr. Hanley reported on the Accounting and Operating Controls and Procedures. With regards to the Accounting and Finance issues, the University has continued to adopt many of the practices contained in the Sarbanes-Oxley Act; the recommendation is that the University continue to monitor the legislative and regulatory process around this Act.

Mr. Hanley discussed the Internal Controls over Financial Reporting and Compliance recommendations. It was recommended that there be a University-wide policy with regard to preparation, review and timely resolution of financial account reconciliations. The University should continue to standardize a set of internal control policies and make an overall assessment of the status of its internal control policies, processes and procedures.

Mr. Hanley discussed briefly the Internal Control Maturity Framework which touched on how records are maintained and transactions recorded. Lastly, was the subject of Internal Audit Function. It was suggested that the University have a policy in place that monitors and tests the University's policies and procedures for the internal audits.

Trustee McCarthy stressed the responsibility of this Committee to oversee the audits and the audit process. He also inquired about the length of the contract for the outside auditors. PricewaterhouseCoopers has been contracted for the FY05 audit at which time their contract will end. The Audit Committee will take part in the outside auditor selection process.

Professor Schwartz had a question about checking the state's correctness in their assessment as far as the fringe benefit issue. Vice President Lenhardt and Deputy Chancellor Stanton explained the process.

It was then moved, seconded and

VOTED: To recommend that the Board accept the following Audit reports:

1. Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133 (**Doc. T05-011**)
2. Report on Mass Student Financial Assistance Programs in Accordance with the Mass Office of Student Financial Assistance (OSFA), UMASS Amherst, UMASS Dartmouth (**Doc. T05-012**)

3. Comments and Recommendations with Respect to Accounting and Operating Controls and Procedures (the Management Letter) (**Doc. T05-019**)

Chair White then called on Mr. Harrison to provide a briefing on the following contracted financial statement audits that are required by external oversight agencies: **4) The Intercollegiate Athletic Department agreed-upon procedures, UMASS Amherst, 5) The Minuteman Court Club and UMASS Athletic Sports Activity Fund agreed-upon procedures, 6) The WUMB-FM financial statements, the WUMB Auditor's Report on Internal Control, and the Communication Letter to the Board of Trustees, 7) The WFCR-FM and Friends of WFCR, Inc. combined financial statements, the associated Management Letter, and the Communication Letter to the Board of Trustees, UMASS Amherst.**

Mr. Harrison first reported on the University's Audit Charter which lists the many duties and responsibilities of the Audit Committee. Said Charter states the duty of the Committee to appoint the University's independent external auditor. A copy of the Charter will be mailed out in the near future.

Mr. Harrison briefly described the contracted financial statement audits that are required by external oversight agencies.

It was moved, seconded and

VOTED: To recommend that the Board accept the following Audit reports:

4. Intercollegiate Athletic Department, UMASS Amherst, Agreed-Upon Procedures (**Doc. T05-014**)
5. Minuteman Court Club and UMASS Athletic Sports Activity Fund, Agreed-upon Procedures (**Doc. T05-015**)
6. WUMB-FM Financial Statements, the WUMB Independent Auditor's Report on Internal Control, and the Communication Letter to the Board of Trustees (**Doc. T05-013**)
7. WFCR-FM and Friends of WFCR, Inc. Combined Financial Statements, the WFCR-FM Management Letter, and the Communication Letter to the Board of Trustees (**Doc. T05-016**)

Mr. Harrison then provided a briefing on the Internal Audit Department generated **Review of the Purchasing Function within the President's Office.** This review was commissioned to study and evaluate the purchasing function. A series of management recommendations were made to improve the existing operations and internal control environment.

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Chair White requested that this area be included in an audit follow-up in the future.

It was moved, seconded and

VOTED: To recommend that the Board accept the following Audit report:

8. Office of the President/Central Administration Purchasing Function Review (**Doc. T05-018**)

Trustee McCarthy had a question about the state auditor's team. Mr. Harrison replied that the team operates under their own schedule and can set up office on a particular campus for a year at a time. The second question was about the fee charged by outside Audit firms for the co-sourced internal audits. Chair White indicated that he has received a proposal regarding the internal audit department's growth and will be discussing this with Vice President Julian.

The meeting adjourned at 3:15 p.m.

Barbara F. DeVico
Secretary to the Board of Trustees