

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER

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

**Wednesday, September 5; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts**

Committee Members Present: Chair McCarthy; Vice Chair Boyle; Trustee Rego Weathers; Chairman Tocco; Vice Chairman Manning

Committee Member Absent: Trustee O’Shea

University Administration: President Wilson; Interim General Counsel Bench; Vice President Lenhardt; Chancellors Cole, Motley, MacCormack, Meehan and Collins; Mr. Harrison, Director of Auditing; Ms. Wilda, University Controller; Vice Chancellors for Administration and Finance Hatch, O’Connor, Zekan and Griffin; Deputy Chancellor Stanton; Ms. Galica; Mr. Watkins, Internal Auditors

Faculty Representatives: Professor May, UMASS Amherst; Ms. Gibbs, Librarian, UMASS Dartmouth; Professor Carter, UMASS Lowell

Chair McCarthy convened the meeting at 10:13 a.m.

The first item on the agenda was **Consideration of Minutes of the Prior Meeting of the Committee.**

It was moved, seconded and

VOTED: To approve the minutes of the May 30, 2007 meeting of the Committee.

On behalf of the Board of Trustees, Chairman Tocco offered his condolences to Trustee McCarthy. There are two passions Trustee McCarthy has—the firefighters he represents and the University. Shauna Cahill, who was a sophomore at UMass Dartmouth is the daughter of Paul Cahill one of the firefighters that died in Boston. Chairman Tocco then asked for a 30 seconds moment of silence to pay respect to Mr. Cahill, his colleagues, and all the firefighters that do such great work. He then announced that having discussed this morning with Chancellor MacCormack and members from the Dartmouth campus, tuition and fees are going to be waived for Shauna Cahill for the rest of her tenure at UMass Dartmouth. Shauna is part of our family and is suffering a great deal right now. Chancellor MacCormack has been working very closely with her and is fully supportive of this as is President Wilson.

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Chair McCarthy thanked Chairman Tocco and the entire University. This University has been supportive throughout the sad times for the firefighters in this state. During the Worcester tragedy in 1999 the Medical School opened their entire facility to us and were just outstanding helping people with their lives for 14 straight days and certainly showed the commitment that this University has to the state. He indicated that it would be an honor if he could present this action for Shauna Cahill at the Board meeting. The outreach from the Commonwealth of Massachusetts has been incredible.

Chancellor MacCormack mentioned that Kevin, the nephew of Paul Cahill is also a new freshman at the Dartmouth campus.

Chair McCarthy then reported that there will be a summary report from Mr. Harrison, the Director of Auditing which will include a brief status update on the various audit activities of the five campuses and the President's Office. Mr. Harrison will take us through the three action items. They recently completed reviews of the time and labor recording process at UMass Dartmouth and at the Medical School, as well as a review of all the University Procard programs.

The next item was the **Report by the Director of Auditing**. Mr. Harrison introduced two members of his Audit staff, Christine Galica and Lance Watkins. Both are involved in a number of audit projects.

Mr. Harrison reported on three informational items sent to the Committee members, President Wilson, and General Counsel Bench. The first item was an internal memorandum outlining an unannounced surprise visit to the Medical School Bursar's Office to perform a cash count. The purpose was to confirm the assigned cash on hand, determine what that department is accountable for, and make observations about the control environment. The visit was met with full cooperation by the Bursar's Office staff. The second item was an informational brochure published by our professional association, the Institute of Internal Auditors. This is a good compilation from our organization that talks about the audit business. The third item was a copy of an earlier memorandum on a need for some formal acknowledgment of review of the annual audited financial statements. This became necessary due to the State Comptroller's Office formalizing the requirement for substantially completed financial statements to be provided on or before October 15. University Comptroller Wilda is working with PricewaterhouseCoopers to meet that timeframe. The Committee will be provided the financials draft sometime around that date for review.

Mr. Harrison reported on the quarterly **Audit Activity Summary**. A number of items were closed since the last reporting quarter including three action items that are on today's agenda. The proposal process for internal audit support services, which gives the Auditing Office a pool of approved vendors and hourly rates good for a three-fiscal year term has been completed. He reported that CPA firms are under contract for all fiscal year 2007 required external audits. The Federal A133 audit, the Mass Student Financial Aid audit, and the University Management Letter will be presented at the November meeting of the Committee in addition to the Annual

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Financial Report.

A few State Audit Office projects and federal agency reviews are now all closed out. The campuses continue to work hard in addressing requests for these outside agency reviews, especially Amherst and Boston. The State Auditor's Office has completed their review of the Mass Estuaries Project. This is an almost two-year effort of on-site work and draft discussions, and we await closing steps from them. The Committee and President Wilson will receive copies of any external agency reviews resulting in a report.

A number of items are expected to come before the Committee in November. These will include a Transitional Review performed for at the Lowell campus. A meeting with Chancellor Meehan is set for next Monday. With other leadership changes taking place, a similar Transition Review is planned for the Amherst campus with the fieldwork starting Monday of next week as well. Transitional Reviews for Boston and the Medical School will also be planned soon. A plan is also underway to do a compliance review of the President's Office. An internal auditor will work on that project this fall. The auditing team is also working on organizing reviews of cash handling locations and their operational controls for all of five campuses.

President Wilson thanked everyone for their participation and complete cooperation with ongoing audit functions.

Chancellor Meehan indicated that the Lowell campus is having its transitional review meeting Monday; a committee has been created and has been meeting with faculty and department chairs.

Chair McCarthy asked a question about the change in format procedure for the President's Office in reporting cash balances. PricewaterhouseCoopers is on site at the Treasurer's Office for the next 4-5 weeks in order to prepare the financial statement. There is a monthly reconciliation and the Controller's Office reviews it quarterly.

Mr. Harrison then reported on the next items for action, **Internal Audit Report on Time and Labor Reporting, UMASS Dartmouth, Internal Audit Report on Time and Labor Reporting, UMASS Worcester, and Follow-Up Review of Procard Administration, all University Programs.** The Audit Office has concluded the Time Labor Review at UMass Dartmouth and the Medical School, these being part of the commitment to review time reporting practices at all locations. Prior reports were completed for Amherst, Boston, Lowell and the President's Office. Christine Galica has worked very closely with Vice Chancellor Zekan and the Human Resources and Payroll staff to provide a summary of the Dartmouth review.

Ms. Galica reported that the staff at UMass Dartmouth was very cooperative, considerate and helpful. The time and labor reporting audit looks only at internal controls over timekeeping practices at the department level and not in the central payroll office. To conduct the audit a sample of departments were selected for review based on management discussions of high-risk

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factors like minimal vacation usage, significant overtime, and history of prior audit findings. The results of our report are based solely on the surveyed departments which may not be representative of all departments on campus. Our recommendations encompass five major areas: A standard time collection process and completeness control; a control over accuracy; segregation of duties over processing and approval; PeopleSoft improvements; and the Athletics department's discretionary administrative policy. The following was recommended:

- That UMass Dartmouth adopt a universal timesheet where all employees state whether they have incurred exception time or not, to insure completeness over payroll processing;
- That timekeepers utilize the available PeopleSoft reports to reconcile hours logged into the system with the hours reported by employees. Annual timekeeper refresher training may also reinforce effective timekeeping practices;
- That timekeepers not be allowed to enter their own time, and that a timesheet approval control over supervisor's time be established;
- That the Rapid-Log method of time entry be configured for student payroll in order to improve processing time, and that security access be updated quarterly;
- That an automated time entry system be considered in the next PeopleSoft upgrade;
- That employees enter their own hours on a daily basis, and the PeopleSoft night edits would catch errors such as inadequate paid time-off time accruals. Weekly employees' time would be posted subject to supervisory approval;
- That a policy be formalized for the Athletics Department and recorded in a fail-safe reporting system that incorporates supervisory approvals and a backup system.

Ms. Galica indicated that for all of these observations both the campus and University management have provided detailed action plan responses.

Trustee Boyle had a question on the time and labor reporting procedure at the Lowell campus. How a certain piece of paper may be used to account for time can vary by campus. PeopleSoft offers a campus many options on how they want to implement a reporting system. The Lowell campus decided they will have a pre-payroll improvement policy where every employee completes a time sheet. Chancellor McCormack suggested asking the Vice Chancellors for Administration and Finance to take a look at what might work. There are differences in some collective bargaining agreements that have to be accounted for. The Chancellors would be open to recommendations about what would make this work.

Mr. Harrison reported on Time Labor Review at the Medical School. Lance Watkins handled this project. Mr. Watkins evaluated practices at eight sampled departments with excellent results. The background section of the report provides information about the particulars of the Medical School, some due to their collaboration with Memorial Health. Mr. Watkins received complete cooperation, especially from HR System Support Manager Carol Dugard and the campus Controller Michael Stanton.

Trustee Boyle asked a question about the recurring issue of unused vacation leave. Exposure

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is now up to \$58 million, and it is \$20 million at the Worcester campus. Mr. Harrison indicated that there are caps on unused time. The caps have continually changed, with different caps for different categories of people. For some individuals that cap can be as high as 512 hours of vacation time. Vice President Lenhardt indicated that there is a 64 day cap on unused vacation time for the oldest employees, and there is no cap on sick time. An employee can only receive 20% of their benefited sick time if they take state retirement. If they leave and don't retire they do not receive any sick time. The Medical School and some of the other campuses have reduced the vacation time for new employees to a lesser number. Deputy Chancellor Stanton stated that going from 64 days to 40 days is a step to reduce the liability in the future.

Deputy Chancellor Stanton indicated that with the cooperation of the President's Office, the Medical School has been able to address this problem in terms of the liability function. We've dropped the existing vacation max from 64 days over five years to 40 days. After further discussion on establishing campus' caps Vice President Lenhardt indicated that the caps have been lowered for all new employees across the University. The new cap is 44 days from 64. This was a management initiated reduction. Vice President Lenhardt will provide further information on this issue at a future meeting of the Committee.

Mr. Harrison reported on the outsource review of the follow-up to the six Pro card programs. We scoped this review to check into the status of audit recommendations made in 2003 covering all five campuses and the President's Office Procard activity. It was initiated as part of our responsibility to perform follow-up reviews of past work and this involved time and effort by all procard administrators, procurement directors, and their campus audit liaisons. The results were exceptionally positive, with 84 of the original 88 distinct audit comments addressed fully. The report's Appendix is "very detailed" and provides good reference guidance for the campus procard administrators. From a pilot program that started in 1996 on the Amherst Campus, the program has grown to 4,176 cardholders with a spend of over \$48 million.

It was then moved, seconded and

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

Internal Audit Report on Time and Labor Reporting, UMASS Dartmouth.
(Doc. T07-059)

It was then moved, seconded and

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

Internal Audit Report on Time and Labor Reporting, UMASS Worcester.
(Doc. T07-060)

It was then moved, seconded and

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

Follow-up Review of Procard Administration. (Doc. T07-068)

There being no further business, Chair McCarthy adjourned the meeting at 10:59 a.m.

Zunilka Barrett
Assistant Secretary to the Board