

UNIVERSITY OF MASSACHUSETTS
AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER

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

Wednesday, November 28, 2007; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts

Committee Members Present: Chair Boyle; Trustees Collins, Manning, Rego Weathers and O’Shea; Chairman Tocco

Committee Members Absent: Vice Chair Johnston

University Administration: President Wilson; Interim General Counsel Bench; Vice Presidents Lenhardt, Gray and Julian; Mr. MacKenzie, Executive Director, Building Authority; Chancellors Cole, Motley, MacCormack, Meehan and Collins; Mr. Harrison, Director of Internal Audit; Ms. Wilda, University Controller; Vice Chancellors for Administration and Finance Hatch, O’Connor, Zekan and Griffin; Deputy Chancellor Stanton; Mr. Mangles, UMASS Amherst Controller

Faculty Representatives: Ms. Gibbs, Librarian, UMASS Dartmouth

PricewaterhouseCoopers: Mr. Paul Hanley, Engagement Partner; Ms. Claire Esten, Senior Manager

Chair Boyle convened the meeting at 10:15 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 September 5, 2007 meeting of the Committee.

Chair Boyle then indicated that Mr. Harrison, Director of Internal Audit, will provide the Committee with a summary report on the various audit activity at the five campuses and the President’s Office. Mr. Harrison will also make mention of a number of non-action items that were provided to Committee members. Vice President Lenhardt will provide an update on the Risk Management Councils’ work on Emergency Preparedness, and the Human Resources Task Force on Background Checks.

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Our general audit firm, PricewaterhouseCoopers, represented by Paul Hanley, the Engagement Partner, and Claire Esten, Senior Manager, will discuss four items that require Committee action: the University's Annual Financial Report, the Federal Financial Assistance Programs Review, the State Student Financial Assistance Programs Review, and the Annual Letter to Management regarding Accounting and Operating Controls and Procedures. The meeting will conclude with a brief Executive Session.

The next item was the **Report by the Director of Internal Audit**. Mr. Harrison indicated that at the request of the Chair he had a small informational packet for the Committee members which includes information about the current staff, the Operating Charter of the Internal Audit Department, the Trustee approved Audit Committee Charter, and the most recent long-range Audit Plan.

Audit activity continues to be strong at the University. As with each reporting Quarter, most references will be reflected on the one-page System-wide Activity Summary, which provides all the direct audit matters in process that the Committee needs to be aware of in the interest of full disclosure. Committee members were also sent a number of informational items. Most importantly the Committee will be asked to accept the four completed items contracted with PricewaterhouseCoopers: the Financial Report, the Federal and the State Assistance Audits, and the Management Letter. Mr. Hanley and Ms. Esten from PricewaterhouseCoopers will speak to these Reports.

Two updates from the last meeting: first, the suggested informal meeting on the financial statements was held on October 15th; thanks to the hard work of University Controller, Christine Wilda and the PricewaterhouseCoopers team. That meeting allowed us to meet the State Comptrollers requirements request. Trustee Boyle, along with Trustees O'Shea and Rego Weathers, who participated by phone were satisfied with the summary provided by Ms. Wilda, Mr. Hanley and Ms. Esten.

As a follow-up to a question by Trustee Karam to the full Board meeting in September regarding contracted audit fees and limitations on liability, written response was provided to the Committee members; but just to confirm, the reply to Mr. Karam was a summary that "our standard contracts have no limitation on liability, and there are no provisions that would limit the audit firm's liability to the amount of their audit fee". This is completely cleared through the General Counsel's office and the Chair received all of the core contracts and was satisfied with that request.

Mr. Harrison reported that the five informational items that were sent to the Committee members and President Wilson do not require any action. The items included summary information regarding the review at UMASS Amherst on Defense Department Grants which will be discussed in Executive Session; there were two internal audit memorandums issued to campus management that dealt with incidents of wrongdoing; these involved personnel and denote all actions taken by the campus. Any discussion will be limited to Executive Session;

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correspondence for Trustee Karam's question was also included in the mailing; the Transitional Review at UMASS Lowell performed quickly in order to ensure closure and compliance with any prior administration expenditures, such as Travel and Entertainment, and Purchase Credit Card usage; while at the Lowell campus key interviews were held with 18 campus executives looking for any unbiased feedback to provide incoming Chancellor Meehan. We met with the Chancellor and his team, and provided the report which is for his use as he sees fit.

Mr. Harrison then indicated that he and Vice President Lenhardt want to make sure that the Committee is briefed on the status of two prior internal audit subjects, which Chairman Tocco and others have asked about. Vice President Lenhardt will provide a status update of the Risk Management Council and its addressing the audit on Emergency Preparedness, and the Human Resources Task Force and its addressing the audit on Background Checks.

Chair Boyle asked the Committee to consider a future discussion on the implementation of best practices concerning financial controls at each campus.

Vice President Lenhardt reported that the Risk Management Council meets once every two months; each campus is designated with an acting or permanent Risk Manager; the Council continues to deal with issues of disaster recovery, business continuity, and campus public safety issues because of the Virginia Tech incident; and are in the process of working to develop a University-wide approach to communications with faculty, students, and staff if a disaster takes place.

Two corporate incident management training sessions were held in which all levels of personnel from the campuses and President's Office participated. Some of the campuses run their own local incident simulation activity. The next step is to have the Chancellors participate in an emergency operation incident training session within the next few months. Ms. Wilda also has a very specific risk profile for the University which is developed and updated annually.

On Background Checks, a nine-member University Task Force was established, which met late in the year and presented a draft report to the President's Office which is under review. The general consensus is that there should be a common approach to background checks around verification of employment, educational attainment, and licensure. There are some other background approaches being considered in terms of financial, credit checks and so forth. There is disagreement on possibly conducting criminal background checks on all new employees. This remains under review and we will come back with the final set of policies and procedures within a maximum of six months of how to do a common approach on background checks.

Chairman Tocco asked for an update on the planning of a system-wide security exercise, and the need for a senior-level security expert at the President's Office to coordinate all the activities on each campus. President Wilson reported that a Task Force was put together and is working security across the campuses. On the senior-level security expert, that issue was delegated to

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Executive Vice President Julian. A decision was made not to hire one and get some external consulting help to look at it further. Both of these issues are in process.

Executive Vice President Julian forwarded information on a particular consulting firm that does this kind of work to Vice President Lenhardt and work is underway on the full RFP for the security experts. There were issues that people might disagree with, and all felt it necessary to go through some incident command training activity before doing a University-wide incident exercise. Chairman Tocco indicated a strong interest in knowing when the training will take place and the next steps on a security expert.

Chancellor Meehan commented that the Transitional Review performed at the Lowell campus was extremely helpful, and appreciates the fact that it was done through the President's Office. The campus is looking to implement all of the recommendations.

Referencing the one-page quarterly activity summary, Mr. Harrison reported the following:

- The department has begun to meet some Audit Plan subject work, particularly on the reviews for Receipting/Cash Handling locations. Work is winding down at the Lowell Campus, and a notice to begin work at Dartmouth was just initiated. The goal for that subject study is to include all campuses as soon as the proper resources are arranged;
- All activities in the President's Office are currently dealing with an intensive internal audit, mostly focused on compliance with University policy on business expenditures. President Wilson has made it very clear that he would like this area to represent excellence as an example;
- Transition reviews are ongoing at UMASS Amherst and the Medical School, and hope to start at UMASS Boston soon. Again, the reviews were initiated due to the change in leadership at the campuses. The Amherst review is actually completed and a report will be presented to the Chancellor and shared with the President and the Committee;
- The new Audit staff received great cooperation from every campus of all the fieldwork they have been doing. We are really seeing a difference between internal audit and external audit at the University.

State and Federal Agency Review:

- Progress on state and federal reviews continues. A preliminary Exit Meeting was held with the state audit team for the Boston review;

Mr. Harrison acknowledged the work of the campuses, especially the Campus Controllers and Grant Accounting Offices who spend a lot of time addressing requests for the outside Federal and State agency reviews.

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Other expected and likely March, 2008 Committee closure items:

- The last four externally contracted FY07 reviews will be presented in March. These are the radio stations and the NCAA programs for audits that are done and published by CPA firms;
- Internal Audit Reports will be completed for the work at UMASS Lowell, surveying all cash handling locations, and the study of the Athletic Team Advances process at Amherst;
- A formal “interim report” will be provided on our collaborative work with UITs with Vice President Gray’s group and the Treasurer on the subjects of the Payment Card Industry data security standards, and the Vulnerability/Ethical Hacking review.

Mr. Harrison reported on the staffing of his department. He has four full-time field audit staff members and President Wilson approved a search for two additional individuals. He would like to hire another information technology support person.

Chair Boyle asked about standardization concerning IT controls on the various campuses. Mr. Harrison responded that there are a number of very specific policies and subject matters that deal with security access controls, disaster recovery, and business continuity, which all take part in IT. Almost anything we do can relate to information technology. Vice President Gray indicated that we take secure access to the enterprise IT system very seriously. UITs is responsible for the Boston, Dartmouth, and Lowell systems; Amherst and the Medical School each run their own separate student systems and they are responsible for a security model relative to those localized student systems.

Mr. Hanley from PricewaterhouseCoopers then reported on the University of Massachusetts Annual Financial Report. A meeting was held on October 15 with the Audit Committee and the financial statements and most of the information contained therein was reviewed. He reviewed the status of PWC’s services to the University, their required communications, and the summary of adjusted differences. Three audit reports were issued: the Financial Statements of the University which includes its component units and its campuses; the Federal Grant Audit; and the Mass Student Financial Aid Audit for two of the campuses; a Letter of Comments and Recommendations Internal Controls was also issued.

Mr. Hanley is prepared to issue an unqualified or clean opinion on the financial statements of the University. The projected date for the report is December 14, which coincides with the Board meeting where the financial statements are finalized. The financial statements were issued in draft form and in a timely manner to the State Comptroller. All reports will be issued on time to meet any regulatory and/or Board of Trustee rules.

Ms. Esten then reported on the federal and state regulatory reports: the Report on Federal Financial Assistance Programs In Accordance With OMB Circular A-133, and the Report on

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Massachusetts Student Financial Assistance Programs in Accordance with the Massachusetts Office of Student Financial Assistance, OSFA. The total research expenditures this year is \$345 million compared to \$344 million for last year; the financial statement opinion is unqualified; there were no material weaknesses or significant deficiencies, but there were a couple of minor items noted; there are clean opinions in the reports on compliance and controls over federal programs.; there are instances of noncompliance that are required to be reported to the federal government. The OSFA is required every three years on a rotational basis so determined by the Commonwealth of Massachusetts. This year we performed it at the Amherst and Dartmouth campuses. There are no findings for both the Dartmouth and Amherst campus. Next year there will be a similar audit at the Boston and Lowell campuses.

Mr. Harrison reported that with respect to the audit of the grants, the timing of that probably takes as much time as the audited financial statements, because of the amount of grants and programs the University has.

Mr. Hanley then provided an overview on the Letter of Comments and Recommendations with Respect to Accounting and Operating Controls and Procedure. This year there are four matters that were noted, none of which are significant deficiencies or material weaknesses. He reported on two: the grants management module, and the monitoring of joint venture activities. With regards to the grants management module, one of the recommendations, now that a system is in place, is to look at best practices and continue to look at the University's processes. This would be a good year to go through the processes and controls to develop reports appropriately. Ms. Esten indicated that this was the biggest concern going into this year's audit. Putting in the grant module was a major effort across the University.

With the monitoring joint venture activities, the only comment was that while the University has grown, there are certain accounting and reporting policies that apply to what entities get included and excluded in the financial statements, and how do they come into the financial statements. If there are changes to structures and they can be contractual structures, there could be operational structures to be aware of. This would make sure that the people that have the accounting responsibility and expertise are made aware of the changes, so that these can be structured. The matters that we noted last year have been addressed; more importantly the matter of cash and cash reconciliations has been addressed at the Amherst campus.

Chair Boyle thanked Vice President Lenhardt, along with the campus Chancellor's and Controllers for their cooperation with the audits. The audit reports were very impressive. He had a question about the funding of the UMass Club. Mr. McKenzie, Executive Director of the Building Authority, reported that the Building Authority does have a 10-year contract with the UMass Club and was asked to undertake this project with Club Corporate America. The intention was not to spend any student monies or any appropriations on the Club; the monies used to subsidize the Club were gathered through refunding bonds. When the Club opened we had over 200 new members. We are almost up to a thousand at this point, and as membership

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grows, the amount of support has been declining. We believe the Club will be profitable by year's end.

There being no further discussion, it was moved, seconded and

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

1. University of Massachusetts Annual Financial Report (Doc. T07-097)
2. Report on Federal Financial Assistance Programs In Accordance With OMB Circular A-133 (Doc. T07-098)
3. Report on Massachusetts Student Financial Assistance Programs in Accordance with the Massachusetts Office of Student Financial Assistance (Doc. T07-099)
4. Annual Letter of Comments and Recommendations With Respect to Accounting and Operating Controls and Procedure (Doc. T07-100)

Chair Boyle announced that the Committee would enter into **Executive Session** to discuss **Audit Items Related to Personnel Actions**. The Committee will not reconvene in Open Session, and the Secretary will call the Roll.

Mr. Harrison asked Chair Boyle to extend an invitation to Controller Andrew Mangels, Vice Chancellors Hatch and O'Connor and Vice President Lenhardt to participate in the discussion.

It was moved, seconded and

VOTED: To enter into **Executive Session** for the purpose of discussing **Audit Items Related to Personnel Actions**.

Chair Boyle voted for the motion as did Trustees Collins, Manning, Rego Weathers, O'Shea; and Chairman Tocco.

The time was 11:40 a.m.

Zunilka Barrett
Assistant Secretary to the Board