

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

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

Wednesday, March 5, 2008; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts

Committee Members Present: Chair Boyle; Vice Chair Johnston; Trustees Collins, and Tocco; Chairman Manning

Committee Members Absent: Trustees O’Shea and Rego Weathers; Vice Chairman Karam

University Administration: President Wilson; Interim General Counsel Bench; Vice Presidents Lenhardt, Gray and Julian; Mr. O’Riordan, Budget Director; 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, Griffin and Jenal; Mr. McCormick, Audit Manager and Senior Information Technology Auditor

Faculty Representatives: Ms. Gibbs, Librarian, UMass Dartmouth

PricewaterhouseCoopers: Mr. Paul Hanley, Engagement Partner

Chair Boyle convened the meeting at 11:11 a.m. He indicated that the Committee will hear a summary report from Mr. Harrison, Director of Internal Audit, which will include brief status updates on the various audit activity at the five campuses and the President’s Office. He will be seeking acceptance of four internal audit reports and four external contracted audit reports.

Mr. Harrison will report on a number of non-action items that were provided to Committee members in a separate mailing. Audit Manager and Senior Information Technology Auditor Brian McCormick and Vice President and Chief Information Officer David Gray will provide the Committee with briefings on two important information technology subjects.

Chair Boyle then asked for a motion to **Approve the Minutes of the Prior Meeting of the Committee.**

It was moved, seconded and

VOTED: To approve the minutes of the November 28, 2007 meeting of the Committee.

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The next item was the **Report by the Director of Auditing**. Mr. Harrison indicated that this reporting quarter reflects a variety of activity around the University's campuses; some Trustee-approved audit plan projects were concluded and some external required audits were published. References to audit activity are reflected on the System-wide Activity Summary.

Mr. Harrison noted that the Committee members were sent a number of informational items, along with eight reports which will be discussed. Brian McCormick, Audit Manager and Senior Information Technology Auditor and Vice President and Chief Information Officer David Gray will provide the Committee with briefings on two important information technology subjects.

Highlights referencing the two-page quarterly activity summary included:

- Work was completed at the Lowell campus for Receipting/Cash Handling locations. Fieldwork has begun at the Dartmouth campus. As resources become available similar studies will be performed at the other campuses.
- Fieldwork on the follow-up to the President's Office Central Offices Procurement Operations. In conjunction with the long-range Audit Plan, we also plan to begin purchasing function operational reviews at all campuses in the coming months.
- We began working with each campus Student Financial Aid Office & Bursar's Office regarding student private lending information provided to the public on our web sites or linked sites.
- We are working with University Information Services and the Human Resources Upgrade Project team to procure pre-implementation assessment services from PricewaterhouseCoopers.
- We are looking into getting a Quality Assessment Review of the Internal Audit Department. This was in the plan for fiscal year 2008 and we are now at a point where an independent assessment would be very helpful. Any results would be directed to President Wilson and this Committee.
- There is little to report back this quarter for State Audit Office projects and Federal Agency reviews. One new active review is the State Auditor's Information Technology audit group which started a review at the Dartmouth campus.
- PricewaterhouseCoopers will present their fiscal year 2008 Audit Services Plan to the Committee in May.
- The President's Office operations and compliance review and the Boston Chancellor Transition review will be presented to the Committee in May.

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Mr. Harrison reported on the separate informational items sent to the Committee members and President Wilson. Highlights included:

- A complete copy, along with the press releases, for the conclusion of the State Auditor's Office review at UMass Dartmouth on the Estuaries Project was sent to the Committee. The news releases from Auditor DeNucci's Office and from the Dartmouth campus were a good summary of the results and responses.

Chair Boyle indicated that Trustee O'Shea (who was not present) had some concerns related to conflicts of interest as it related to the procurement process. Chancellor MacCormack indicated there was an appearance of conflict of interest but the campus assured itself that no actual conflict appeared. The faculty was advised and offered additional training relating to conflicts of interest matters. Vice Chancellor Zekan indicated that in response to the Ethics Commission they are seeking advice on how to handle similar issues that may arise in the future.

- Following a similar review at the Lowell campus transition reviews within the Chancellor's Offices at the Amherst and Worcester campuses were conducted. The focus of the reviews was to:
 - test compliance of business transactions of the departing Chancellor and immediate offices to University and campus policy;
 - conduct a study of the existence and awareness of the overarching, entity level control environment emanating from the Chancellor's office;
 - review specific areas of inquiry under the purview of the Chancellors as requested by President Wilson and/or the current Chancellor.

At UMass Amherst the additional scope included the review of the internal control structure and business processes of the independent UMass Amherst Foundation.

At UMass Worcester steps to document key administrative actions around the Executive Incentive Compensation Program and employment agreements, prior and during the transition period were included.

While no significant compliance issues were noted during the transaction testing, comments were offered on the entity level environment and identified operational improvement areas within the UMass Amherst Foundation, and the operation of the Medical School Executive Incentive Compensation Program. The review for the Boston campus is almost complete and will be presented to Committee members at the next meeting.

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There was a brief discussion about concerns with the Medical School's Executive Incentive Compensation Program, particularly with the compensation of public administrators. Chancellor Collins indicated that there were problems in the past with the administration of the program. The appropriate management structure is now in place to assess and administer the compensation program. He indicated that there needs to be some assessment of the current compensation structure, and proposed the request of an RFP to evaluate the current compensation program. Chair Boyle indicated that the Compensation Committee should be involved with compensation packages above \$250 thousand dollars.

- A memorandum was issued by Senior IT Auditor, Brian McCormick, denoting his bi-annual review of the payroll check printing test; this is part of the Disaster Recovery Planning led by Vice President Gray's group, University Information Technology Services.
- One final item is the newly implemented Management Satisfaction Survey. The survey was sent out last week looking for feedback on our audit process.

Mr. Harrison reported on the **Audit Reports** for action today. Highlights included:

- Information on the Amherst and Lowell campuses Intercollegiate Athletic Programs were included in the mailing that was sent to the Committee. NCAA review is an annual requirement for Amherst, and a triennial requirement at the Lowell campus, this one being the first since new NCAA rules came out.
- There are four external contracted reports – these are due to outside regulatory agency requirements, and they must be done by an independent party. Long term bid requests are prepared for these types of audits and they are funded by the campus.
- Internal Auditor Derek Scano was responsible for UMass Lowell's internal audit on Revenue/Cash Receipting Locations. The campus agreed with all of Mr. Scano's observations and recommendations, and has already completed the issuance of a new Lowell Collection Security Guidelines and held a meeting with all staff involved at the revenue locations. Additionally, the Comptroller's Office will be visiting each area in March to confirm operational compliance.
- Collaborative efforts began a little over a year ago on the subject of Data Privacy and Security Risk, and "Ethical Hacking", a self-test of the vulnerability of our electronic information. The internal audit offers a written summation of this important and most necessary review. Vice President and Chief Information Officer David Gray provided a brief summation on the background, results, and next steps.

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- The final report is an Interim Status Report on the collaborative project of reaching compliance with the Payment Card Industry Data Security Standards, standards set up by the credit card issuers, VISA and MasterCard and others, that apply to all merchants that process, store, or transmit cardholder data. This effort is lead by the Treasurer's Office, along with University Information Systems, Internal Audit, and all campus information technology areas. Senior IT Auditor, McCormick completed the Interim report and provided a brief update on this important requirement.

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

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

1. WFCR-FM and Foundation Combined Financial Report and Communications Letter (Doc. T08-001)
2. WUMB-FM Financial Report, Internal Control and Communications Letter (Doc. T08-002)
3. UMASS Amherst Report on the Application of Agreed Upon Procedures at the Intercollegiate Athletic Program (Doc. T08-003)
4. UMASS Lowell Report on the Application of Agreed Upon Procedures at the Intercollegiate Athletic Program (Doc. T08-004)
5. Internal Audit Report on the UMASS Lowell Cash Receipting Locations (Doc. T08-005)
6. Internal Audit Report on the UMASS Amherst Athletic Department Advances Process (Doc. T08-006)
7. Internal Audit Report on the University's Systems Vulnerability Study (Doc. T08-007)
8. Internal Audit Report on the Payment Card Industry Data Security Standards (Doc. T08-008)

The meeting adjourned at 11:59 a.m.

Zunilka Barrett
Assistant Secretary to the Board