

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

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

Wednesday, May 28, 2008; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts

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

Committee Members Absent: Vice Chair Johnston; Trustee Tocco; Vice Chairman Karam

University Administration: President Wilson; Vice Presidents Lenhardt and Gray; 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; Mr. Sarazen, Information Technology Internal Auditor

Faculty Representatives: Ms. Gibbs, Librarian, UMASS Dartmouth

PricewaterhouseCoopers: Mr. Paul Hanley, Engagement Partner; Ms. Bethany Lacy, Financial Statement Manager

Chair Boyle convened the meeting at 10:20 a.m. and asked for the **Approval of the Minutes of the Prior Meeting of the Committee.**

It was moved, seconded and

VOTED: To approve the minutes of the March 5, 2008 meeting of the Committee.

Chair Boyle then provided an overview of today’s agenda. Director of Internal Audit, Mr. Harrison will provide a summary report which will include brief status updates on the various System-wide audit activity; he will also ask for the acceptance of two internal audit reports completed on subjects in the Trustee Audit Plan. Mr. Harrison will also make note of the closure of other non-action audit items that were provided to Committee members in a separate mailing.

PricewaterhouseCoopers, the general audit firm, represented by Paul Hanley and Bethany Lacy will discuss the Annual Audit Plan for the University’s Fiscal Year 2008 contracted audits.

Mr. Harrison reported on the **System-wide Audit Activity Summary.** He indicated that all of the Fiscal Year ending 2008 external reviews are now under contract; all six reviews are annual requirements; today we will hear from Paul Hanley on plans for three of the reviews.

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There are three very active reviews with the State Auditor. Their Information Technology Division had initiated a review at UMass Dartmouth this past December, and a week or so ago began a review at UMass Lowell. These are described as studies of General IT controls for campus-based data shops, and in both cases the State Auditor has a team of 3–4 auditors on site. The Dartmouth team has indicated they'd be there through July. The Committee will receive the reports once they are issued.

The Internal Audit has begun similar efforts to study Information Technology Controls at key department managed systems and applications. Work will soon begin with the Amherst campus. This addresses the University's IT audit plan. A planning session has already been held with Chief Information Officer John Dubach. Mr. Daniel Sarazen is the new Information Technology Internal Auditor and he will be in charge of these reviews.

A number of items on the in-process list have been removed from the long list of Federal related inquiries. None of these resulted in any formal reporting to share. The understanding is that the agency was satisfied.

There are two new grant reviews by the Massachusetts Technology Collaborative (MTC) at the Dartmouth and Lowell campuses in which MTC contracts with a CPA firm to review costs on these grants. In most cases the visit is part of an Award Monitoring and Business Assistance Program, in which their goal is to assess our system of administering their grant funds.

Other internal audits being initiated this summer as resources become available include reviews of Cash Handling and Receipting Locations at other campuses. The goal is to visit all identified areas that handle University receipts. There was great feedback from the work at UMass Lowell, and UMass Dartmouth is almost done. A cycle of purchasing function operational reviews at the campuses will begin as a purchasing follow-up audit at the Central Offices is closed.

We are close to agreeing on a Statement of Work with University Information Technology Services and the Human Resources Application Upgrade Project teams to have PricewaterhouseCoopers provide pre-implementation assessment services. As part of that scope Internal Audit will devote a couple hundred hours to participate with PricewaterhouseCoopers and keep the contract within the project's desired budget.

Plans are still underway for an Independent Review of the Internal Audit department, similar to a quality assessment; if the budget allows it, we would like to find a firm to do the review and report back to the Committee on how the internal audit function was assessed.

There are plans to revisit the Long-Range Audit Plan this summer. The first Trustee-approved plan was discussed and approved by the Board in November 2006. The current plan reflecting all projects worked on will be sent to the Trustees, campus audit liaisons, Chancellors and

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executive management at all campuses and the President's Office seeking their input. A detailed request will be included for everyone to consider potential audit topics based on perceived and known risk, concluding with an updated long-range proposed audit plan for the Committee's acceptance.

Mr. Harrison indicated that his target is to have a couple of in-progress internal audits to the Committee by September. These include the UMass Dartmouth Executive Offices Review (Chancellor MacCormack), and the Dartmouth cash receipting locations, as well as the Central Office Purchasing follow-up audit.

Three separate **Informational Items** were sent to the Committee members and President Wilson. The first item included the final Transition Review which is a series of four reviews that were made. The last review was at UMass Boston. The focus was to test compliance of business transactions of the departing Chancellor and immediate offices to University and campus policy, including purchasing, purchase credit cards, and travel reimbursement, and time & labor; and, to conduct a study of the existence and awareness of the overarching, entity level control environment that emanates from the Chancellor's Office. While no significant compliance issues were noted during the transaction testing, comments were offered on the entity level environment for consideration by the Chancellor. This particular review was provided to Chancellor Motley, and also shared with Chancellor Collins. Chair Boyle thanked Chancellor Collins for his leadership and the tone he set while at the Boston campus.

Second, Committee members were provided with a series of three memorandums regarding work at a campus department addressing various finance allegations. These clearly involve personnel issues. Mr. Harrison will speak individually with Committee member having a particular question. The final item is an updated binder providing information on where the Audit Department stands, the staff, and the department and committee charters.

Mr. Hanley from PricewaterhouseCoopers then provided a summary of the **Fiscal Year 2008 Audit Services Plan**. The principal objective of the audit work during FY08 is the expressed opinions of the fair presentation of the University's combined financial statements as of and for the year ending June 30, 2008; the University's compliance with the provisions of OMB Circular A-133 with respect to federal grants, contracts and student financial aid programs extended by the University during FY08; and compliance with the requirements of the Massachusetts Office of Student Financial Assistance on the Boston and Lowell campuses. Audits are performed in accordance with auditing standards generally accepted in the U.S. and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the U.S. as well as the Massachusetts Office of Student Financial Assistance Guide.

In addition to the letter of recommendations with respect to accounting and operating controls and procedures PWC will report to the Audit Committee its profession's required communication related to the annual audit, and provide to management and the Committee updates on new accounting and reporting developments.

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The next items for action were the **Internal Audit Report – UMass President's Office Compliance Review** and **Internal Audit Report – Student Financial Aid Preferred Lender Practices Review**. The two internal audit reports were recently completed.

Daniel Sarazen was responsible for the Internal Audit Report on Student Financial Aid Preferred Lender Practices. He has been with the department just a few short months, but immediately tackled the 5-campus review. The Internal Audit department initiated and concluded this review of practices surrounding the selection of Private Alternative Educational Lenders that each campus presents to the students and their parents. Private educational loans have been a national news topic for almost a year now.

All of the campuses were visited and each Financial Aid Director was interviewed, and on-line information/web was reviewed, as well as UMass Online. As a result of Mr. Sarazen's review, it was concluded that the University does not have exposure related to inappropriate relationships with private lenders. Opportunities to improve the transparency of the lender selection process were identified, as well as advice on how to bring the campuses in compliance with the newly issued Trustee Policy on vendor relationships, and all locations replied appropriately.

The Internal Audit Report of the University's Executive Offices at 225 Franklin Street concentrated on the processing of business expenditures, purchase credit cards, and employee reimbursements, including approval controls and documentation practices. Everyone in the President's Office cooperated to the fullest. Mr. Harrison thanked Kim Medeiros, the Business Manager for the Franklin Street Offices for all of her help.

Findings indicate that internal controls and systemic procedures over expenditure activity are operating within University policy. Our charge is to make certain the President, and his executive areas approach perfection in business processing. Various suggestions were made which were all accepted by management, along with a plan for implementation. We intend to include this type of review for the Chancellors' Offices, on a biennial basis as well. It is good business practice to do a regular review for our chief executive officers.

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

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

1. UMass President's Office Compliance Review (Doc. T08-041)
2. Student Financial Aid Preferred Lender Practices Review (Doc. T08-040)

The meeting adjourned at 11:07 a.m.

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Zunilka Barrett
Assistant Secretary to the Board