

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

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

Wednesday, November 19, 2008; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts

Committee Members Present: Chair Boyle; Trustee Collins; Chairman Manning

Committee Members Absent: Trustees Johnston, Rego and Tocco

University Administration: President Wilson; General Counsel Bench; Executive Vice President Julian; Vice Presidents Lenhardt and Gray; Chancellors Holub, Motley, Meehan and Collins; Mr. Harrison, Director of Auditing; Ms. Wilda, University Controller; Vice Chancellors for Administration and Finance Hatch, O'Connor, McLaughlin, Yestramski and Jenal

Faculty Representatives: Ms. Gibbs, Librarian, UMass Dartmouth

PricewaterhouseCoopers: Mr. Paul Hanley, Engagement Partner; Ms. Zenaida Guarin, Senior Manager

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

It was moved, seconded and

VOTED: To approve the minutes of the September 10, 2008 meeting of the Committee.

Chair Boyle then announced that the Agenda for today's meeting includes a summary report from Director of Internal Audit, Robert Harrison, which will include updates on various System-wide audit activity. Mr. Harrison will be seeking acceptance of one internal audit report and four contracted annual audit reports. He will also make note of other non-action items that were provided to Committee members in a separate mailing.

Mr. Paul Hanley, Engagement Partner, and Ms. Zenaida Guarin, Senior Manager from PricewaterhouseCoopers, our general audit firm, will discuss the annual audits requiring Committee action. They include the University's Annual Financial Report; the Federal Financial

Audit Committee
November 19, 2008

Assistance Programs Review; the State Student Financial Assistance Programs Review; and the annual Letter to Management.

The next item was the **Report by the Director of Auditing**. Mr. Harrison indicated that today's agenda will mostly focus on the important annual contracted reviews by PricewaterhouseCoopers. The quarterly System-wide Activity Summary has been provided to keep the Committee up-to-date on audit related events around the University System, and there is one internal audit report, as well as some informational items.

Thanks to the hard work of Controller Wilda and the PricewaterhouseCoopers team, the required conference call last month to the State Comptroller regarding our financial statements went well and was on time. Trustees Boyle, Manning, Tocco and Collins participated in the call.

Mr. Harrison emphasized that the Audit Reports have been planned, completed, and brought forward for vote action earlier than has been the practice for many years. He asked the Committee to vote on the DRAFT reports in order to recommend them for approval by the full Board on December 11th. However, there are some minor edits to the Federal A-133 Draft due to a late settled finding, and a correction to the financials draft on the Statement of Cash Flows. Specific edits will be shared with Chair Boyle prior to the December Board meeting. All final published Audit Reports will be sent to the Committee members shortly after.

This phase concludes the three-year audit contract with PricewaterhouseCoopers, Controller Wilda and Mr. Harrison will discuss with the Chair, prior to the next meeting, the pros and cons of taking advantage of the two one-year extension of service which was requested in the original bid for services process.

Mr. Hanley's role as the University's Engagement Partner has reached the 7-year partner rotation requirement according to PricewaterhouseCoopers policy. We are fortunate to have the PricewaterhouseCoopers U.S. Higher Education Practice headquartered in Boston.

Mr. Harrison then reported on the **Informational Items** sent to the Committee members and President Wilson. He commented that specific details of the incidents of the three internal memorandums regarding employee payroll overpayments could be discussed in Executive Session. From these incidents the Worcester campus has enacted communication efforts to reinforce policy and procedures to managers and payroll administrators. Internal Audit has initiated a study to determine if there are similar situations at other campuses.

The Committee also received a Draft Memorandum describing plans to solicit Long-Range Audit Plan input. A copy of the current Plan with all audit subjects status denoted will go to all Board members, executive management from all campuses, the President's Office, and all audit liaisons. An updated Audit Plan may be presented for recommendation at the next meeting of the Committee.

**Audit Committee
November 19, 2008**

The Audit department newsletter was introduced at the previous meeting. We have been able to distribute it at a few locations, and are waiting to distribute it to other employees. The intent is for all employees to receive the newsletter. The department is quite proud of the initial reception, positive calls and suggestions for future issues. Chair Boyle asked if the newsletter would be available through email. Mr. Harrison indicated that they currently do not have the particular function for email distribution in place.

Chair Boyle then asked if the employee payroll overpayment was limited to one campus or if this is an issue on all of the campuses. He also asked if there have been any attempts to defraud the University. Mr. Harrison indicated that it was not. The problem was discovered by audit liaisons after asking the campuses to determine if there were overpayment issues of which a few appeared immediately. Internal Audit is working closely with Central Human Resources to develop indicators of employee(s) termination. Our work on this will help the campuses to put procedures in place that address the issue. More information will be presented at the next meeting of the Committee.

Under the **Quarterly Activity Summary**, Mr. Harrison indicated that the Summary serves the purpose of showing all activity that Internal Audit is involved in, including state and federal business; it denotes those reviews closed in the last quarter and lists newly initiated projects.

Efforts on the Independent Management Review for the Commercial Ventures and Intellectual Property program have proceeded nicely. Interviews have taken place with at least 30 individuals; the interview process being the key step for such a study. We met with Chancellor Holub this week and have similarly scheduled meetings with all Chancellors soon, and hope the fieldwork winds down by the end of December.

Mr. Harrison then reported on the **Report on Information Technology General Controls at the Amherst Campus Police Department**. This report continues efforts to visit a number of campus departments that self-manage their Information Technology systems and applications, that are not under the day-to-day purview of the campus central Data Center Operations. The Police Department was one location identified by the Amherst campus in working with the Chief Information Officer. Information Technology Auditor, Dan Sarazen, will continue to review three other departments before moving on to other campuses. All observations and recommendations to help the department operate a more secure environment were fully accepted and changes or improvements instituted promptly.

Chairman Manning asked why the departments are not part of centralized controls. Mr. Harrison responded that the Police Department for example may have federal criminal justice databases and a division of information technology. There are models for centralized control areas that review day-to-day data, however, some of it boils down to volume, which would be quite a huge change in the environment in the central office.

**Audit Committee
November 19, 2008**

It was then moved, seconded and

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

The Information Technology Controls Review – UMass Amherst Police Department (Document T08-101)

Paul Hanley and Zenaida Guarin from PricewaterhouseCoopers then briefed the Committee on the Fiscal Year 2008 Contracted Audits.

Mr. Hanley reported on the audit results for the **University of Massachusetts Annual Financial Report**, the **Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133**, and the **Massachusetts Office of Student Financial Assistance Compliance Attestation Reports for the Boston and Lowell Campuses**.

The audit of the University's Financial Statement is substantially complete. A draft of the report is included in the draft financial statements. This is a complex statement and one item on the cash flow statement remains under review. This report will conclude shortly.

The Federal Grants Audit is complete. There was one finding on immaterial non-compliance in regards to the authorization of an invoice, which will be included in the final A-133 Federal Report. The finding does not change the unqualified or clean report and there were no significant instances of non-compliance within the federal programs.

The audit of the Massachusetts Student Financial Aid awards in accordance with Massachusetts OSFA is similar to the report on federal grants. Procedures at the Boston and Lowell campuses are complete, with one finding on each campus of immaterial non-compliance. Each campus has corrected the issues, and there is no significant finding in the report.

All of the audits were issued a clean or unqualified opinion. On one last note Mr. Hanley reported that the Worcester City Campus Corporation audit is complete, and a report will be issued in the near future. The UMass Foundation audit and the UMass Dartmouth Foundation audit are almost complete.

Mr. Hanley then reported that the Required Communications to the Board require periodically communicating certain matters with respect to the University's audit directly to the Committee. The standards require PricewaterhouseCoopers to ensure that the Committee receives additional information regarding the scope and the results of the audit to enhance the information flow and assist in overseeing the financial reporting and disclosure process for which management is responsible. This communication of the auditor is responsibility under Generally Accepted Auditing Standards and Governmental Auditing Standards. This includes evaluating internal controls at the University relevant to the responsibilities of those charged

Audit Committee
November 19, 2008

with governance in overseeing the financial reporting process, including identifying any material weaknesses.

The auditor is also responsible for providing views on significant accounting policies, alternative treatments within generally accepted accounting principles, and the auditor's judgment about the quality of accounting policies. There are some significant accounting estimates and judgments around investments, the accrual of employee compensated absences, the accrual for worker's compensation liability and fringe benefits, the allowance for doubtful accounts, and the useful lives of capital assets. Mr. Hanley briefly touched upon other matters contained within the Required Communications to the Board such as significant accounting policies and audit adjustments, management judgments and accounting estimates, consultation with accountants, significant issues encountered during the audit and fraud and illegal acts.

Chair Boyle asked Mr. Hanley how does UMass size up to other educational institutions. Mr. Hanley commented that although there are challenges, the University is strong financially due to years of long-term focus, and is moving in the right directions and getting better every year. Having capital programs in place, strong financial indicators, revenue diversity, increasing applications and federal research and development will further help the University. Mr. Hanley also commented that the University has no problems, as he understands it, as a "going concern".

Ms. Guarin provided an overview on the **Annual Letter of Comments and Recommendations**. The Management Letter is the Letter of Comments and Recommendations in regards to Accounting and Operating Controls and Procedures. This year three matters were noted. Ms. Guarin reported on two: the internal controls over financial reporting and compliance and the PeopleSoft grants management module implemented in 2007. Most of the areas of recommendation have been implemented.

Mr. Hanley reiterated Mr. Harrison's earlier comment that his role as the University's Engagement Partner has reached the 7-year partner rotation limit according to PricewaterhouseCoopers policy; this is for the protection of the University. Mr. Harrison indicated that the 7-Year rotation matches the University's Audit Committee Charter clause, and NACUBO recommended industry guidelines.

President Wilson thanked Mr. Hanley and commented that he is pleased with the progress that has been made since 2003.

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

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

1. The University of Massachusetts Annual Financial Report (Doc. T08-097)

Audit Committee
November 19, 2008

2. The Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133 (Doc. T08-098)
3. The Massachusetts Office of Student Financial Assistance Compliance Attestation Reports for the Boston and Lowell Campuses (Doc. T08-099)
4. The Annual Letter of Comments and Recommendations with Respect to Accounting and Operating Controls and Procedures (Doc. T08-100)

Chair Boyle adjourned the meeting at 11:13 a.m.

Zunilka Barrett
Assistant Secretary to the Board