

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER

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

Friday, September 25, 2009; 10:00 a.m.

Amherst Room

225 Franklin Street – 33rd Floor

Boston, Massachusetts

Committee Members Present: Chair Boyle; Trustees Collins and Johnston

Committee Members Absent: Trustees DeSisto and Tocco; Chairman Manning

University Administration: President Wilson; General Counsel Heatwole; Senior Vice Presidents Gray and Williams; Chancellors Holub, Motley, MacCormack, Meehan and Collins; Vice Chancellors for Administration and Finance Hatch, O'Connor, McLaughlin, Yestramski and Jenal; Mr. Douglas, Budget Director; Ms. Wilda, University Controller; Mr. Harrison, Director of Internal Auditing; Mr. Watkins, Mr. Sarazen and Mr. McCormick, Internal Auditing, Senior Auditors; Executive Vice Chancellor Maloney; Mr. O'Riordan, Associate Vice Chancellor for Financial Services; Associate Vice Chancellor Mitchell; Ms. Mathias, Procard Administrator, UMass Worcester; Mr. Dubach, CIO/Special Assistant to Chancellor, UMass Amherst

Faculty Representatives: Professor May, UMass Amherst; Ms. Gibbs, UMass Dartmouth

PricewaterhouseCoopers: Marcy Culverwell, Senior Manager

Chair Boyle convened the meeting at 10:21 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 June 3, 2009 meeting of the Committee.

Today's agenda includes a summary report from Director of Internal Audit, Mr. Harrison, which will include updates on various System-wide audit activity; and other non-action items that he provided to the Committee, with recommendations for the acceptance of two internal audit reports, and an update on the Campus Procard Programs. The Committee will hear an update from Senior Vice President Gray on Collaborative Info-Technology Security

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Vulnerability Assessments. We will conclude in Executive Session to discuss Employee Disciplinary Matters and Pending Litigation.

Chair Boyle then announced the award of certifications for Mr. Scano and Mr. McCormick, Internal Auditing, Internal Auditors.

Under the **Report by the Director of Audit**, Mr. Harrison announced that Marcy Culverwell, PricewaterhouseCoopers Engagement Senior Manager is in attendance today, as well as Internal Auditors Lance Watkins, Daniel Sarazen and Brian McCormick.

Bonnie-Anne Mathias, the campus Procard Administrator from the Medical School is also in attendance to help with any detailed questions on Procard after the short presentation.

The last two years the Office of the State Comptroller instituted a formal conference call regarding the annual financial report status, which must include the Audit Committee Chair at a minimum, along with PricewaterhouseCoopers Partner Mr. Williams, University Controller Christine Wilda, and Senior Vice President David Gray. Last year a few Trustees participated in the call. The target is to make this arrangement on or about October 15th.

Referencing the **Quarterly Activity Summary**, Mr. Harrison indicated that external reviews and reports by PricewaterhouseCoopers will be reported on at the December 2nd meeting of the Committee. The plan is to have the Annual Financial Report, the Federal Audit Report, and the Management Letter available for review and acceptance at that date. The other required external contracted audits are all in place and on schedule.

We have been working on a number of completely unplanned items lately; unfortunately they demand attention without delay, and take quite a lot of effort due to the investigative nature of the project. Most of the items call for discussion only in an Executive Session forum of which a few will be discussed today.

We have settled into a quiet period on state and federal audits, the first time in a very long time not having a lot of activity. All audits that are in process are going fine. Yesterday the UMass Lowell IT state report was received and will be submitted at the next meeting once confirmed with campus management.

The goal to perform Information Technology departmental reviews for those areas that have self-managed systems has now moved away from Amherst and Mr. Sarazen's efforts are now focused on other campuses, with active reviews on-going at the Dartmouth and Boston campuses.

A follow-up review of the Disaster Recovery/Business Continuity Planning that Mr. McCormick concluded almost three years ago has been initiated. At the time it was stated that the review should be considered one of the top five most important audits to come before the

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Committee, and that statement still stands today. This follow-up will be at a much higher level, primarily looking to determine a current status.

Under the **Information Items**, Mr. Harrison reported on the items sent to the Committee members last week. That package included internal report memos on a few subjects that involved Personnel and Employee Disciplinary actions, the details of which will be discussed in Executive Session. Also included was a copy of the State Auditor's Office report on their work on the Boston campus, which had a team on site periodically from late 2006 to mid-2008, with the report just published this summer. Internal Audit actively assisted the campus in this review with all State comments resulting in very good campus action plans.

Mr. Harrison also commented on the 2009 Audit Newscast.

The next item on the agenda was **Information Technology Security Assessment Update**. Mr. Harrison reported that this initiative is headed by Senior Vice President Gray and sponsored by the University's Security Cabinet, in collaboration with the CIO Council and Internal Audit.

President Wilson first announced the promotion of Mr. Harrison from Director of Internal Auditing to Associate Vice President for Auditing.

Senior Vice President Gray then reported on his initiative regarding Information Technology Security Assessment. Under his leadership, this collaborative effort included the University's Security Cabinet, the CIO Council, and Internal Audit. His slide presentation highlighted the results of a System-wide security vulnerability assessment, and included a summary of key information technology security risks, recommendations, initiatives taken already, and areas requiring further attention.

Mr. Harrison then reported on the **Procurement Operations, UMass Medical School**. This evaluation is part of the goal to review the purchasing operations cycle at all University locations. The Medical School is complete and the Boston campus is almost finished. The review at the Amherst campus will be last. This is one of the most important business functions at the University.

Senior Auditors Christine Galica and Sarah Mongeau performed this work with great assistance and cooperation from the Financial and Administrative staff at the Medical School. Overall no major weaknesses in internal controls were noted, but several suggestions for improvement were offered, all of which were fully accepted by management and their very detailed response plans were incorporated into the report.

The Medical School Purchasing department has developed some sophisticated business best-practices in the areas of Procard, and in lab supplies, and construction process flows that have been shared with other campuses.

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The next item was **Information Technology General Controls at select Amherst Campus Departments**. Senior Information Technology Auditor, Daniel Sarazen, concluded the seventh report and has now moved on to visit a limited number of departments at other campuses. This report is for the Auxiliary Services area, an area chosen due to the campus' self-managing various information technology systems and applications. The focus is directly on the security of the physical environment, how access to the applications and data is being managed, intrusion prevention, antivirus and firewalls, and the backing up of data.

The next item was a brief presentation on the **Purchase Credit Card Program Overview**. Mr. Harrison reported that this presentation is at the request of Chair Boyle who has shown an interest in the procard program over the past year or two. He then provided an overview of the program.

The Purchase Credit Card Program is a publicly bid program. The Bank holder is JPMorganChase. The last completed bid process took place in 2004. Purchase Directors are planning to issue a Request for Bid Proposals in early 2010.

The development of the program was created from a UMass Amherst Administrative re-design initiative in January 1996. Internal Audit was a member of the working team that was set up. A pilot program issuing 50 cards was developed at the Amherst campus in late 1996. The purpose was to cut the paper volume processed on campus; significantly reduce paperwork associated with ordering and payment; maintain financial control over small purchase with a readily available audit trail, provide hard data on purchase activity with vendors in order to negotiate discounts and certain benefits; and provide additional revenue based upon rebates.

The program has had extensive independent audit coverage including a full follow-up audit of all programs in 2007. There is continual monitoring during any investigation of employee intentional misuse of the card.

Internal controls for the program include the requirement of each cardholder to attend training, detailed written User Guides, cardholder application and agreement requirement, a dedicated program administrator at each campus, limits placed on each card, reconciliation and recordkeeping rules.

Internal Auditing considers the Post Review Function to be the most important operating control of the program. The post review consists of daily bank transaction monitoring, risk based criteria to flag certain attributes, and scheduled plan for audits of each cardholder.

Chair Boyle then called for a motion to recommend that the Committee accept the following audit reports: **the Procurement Operations Review at the UMass Medical School** and the **Information Technology General Controls Review at Auxiliary Services, UMass Amherst**.

It was then moved, seconded and

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

1. Procurement Operations, UMass Medical School (Doc. T09-041)
2. Information Technology Controls Reviews, UMass Amherst Auxiliary Services (Doc. T09-040)

Chair Boyle then announced that the Committee would enter into **Executive Session** to consider **Employee Disciplinary Matters and Pending Litigation**. The Committee will not reconvene in Open Session, and the Secretary will call the Roll.

It was moved, seconded and

VOTED: To enter into **Executive Session** for the purpose of considering **Employee Disciplinary Matters and Pending Litigation**.

Chair Boyle voted for the motion as did Trustees Collins and Johnston.

Mr. Harrison asked the Chancellors, along with Vice Chancellors Hatch, O'Connor, McLaughlin and Yestramski, Senior Auditors Lance Watkins, Brian McCormick and Dan Sarazen, Associate Vice Chancellor Mitchell and Executive Vice Chancellor Moloney to stay for the Session.

The time was 11:21 a.m.

Zunilka Barrett
Assistant Secretary to the Board