

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARTMOUTH•LOWELL•WORCESTER

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

**Wednesday, December 1, 2010; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts**

Committee Members Present: Chair Furman; Vice Chair Woolridge; Trustees Collins and Reid

Committee Members Absent: Trustees Fox and Johnston

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, Associate Vice President/University Budget Director; Ms. Wilda, University Controller; Mr. Harrison, Associate Vice President for Auditing; Senior Internal Auditors McCormick and Sarazen; Ms. Fisher, Internal Auditing

Faculty Representatives: Ms. Gibbs, UMass Dartmouth

PricewaterhouseCoopers: Glenn Williams, Engagement Partner; Brian Huggins, Senior Manager; Jewel Cornelius, Manager; Josiah Craver, Manager

Chair Furman convened the meeting at 10:18 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 22, 2010 meeting of the Committee.

Chair Furman reported that today's agenda includes the quarterly summary report from Internal Audit Associate Vice President Robert Harrison, which will include the acceptance of several internal audit reports and updates on System-wide audit activities. The University's general audit firm, PricewaterhouseCoopers, represented by Engagement Partner Mr. Glenn Williams, and Managers Mr. Brian Huggins, Mr. Josiah Craver and Ms. Jewel Cornelius, will discuss the annual audits requiring Committee action, including the University's Annual Financial Report, the Federal Financial Assistance Programs, and the Annual Letter to Management.

**Audit Committee
December 1, 2010**

Under the **Report by the Associate Vice President of Audit**, Associate Vice President Harrison acknowledged the PricewaterhouseCoopers team and the Internal Audit staff. He then highlighted a few key upcoming events.

Under the Audit Charter the Audit Committee approves the appointment and retention of the independent external audit firm. With the conclusion of PricewaterhouseCoopers' current 5-year contract, consideration must be made for FY2011 and forward. A plan for the proposal's process will be sent to the Chair and Vice Chair by the first week in January. The goal is to select a firm by May. The Central Procurement Director will be asked to manage the process, along with Controller Wilda and Senior Vice President Gray. An update of the plan will be presented in February.

The process of updating the Long-Range Audit Plan will be underway soon. Internal Audit has worked towards having a reasonable, risk-based, sensible, balanced, yet workable plan since the first plan five years ago. The goal is to have an updated Audit Plan by June.

Research on Electronic Workpaper and Case Management software products is underway. The software will be a move to saving paper usage and reducing storage needs, and will also help keep the internal auditing aligned with the Institute of Internal Auditors professional standards.

Referencing the **System-Wide Audit Activity Summary**, Associate Vice President Harrison reported that some planned and unplanned projects are underway, many reports on Information Technology Controls have been accepted, and to conclude the system-wide study on this subject planning with the Medical School began last week.

The external contracted audits for the radio stations and NCAA programs are all on target for completion and will be presented in February. The Amherst follow-up audit on Time & Labor reporting controls will also be presented.

Compliance surveys will be initiated at all campus locations, to provide assurances that the University has recognized and responded to certain Federal Legislation—one covers the Textbook Provisions of the Higher Education Opportunity Act of 2008, which deals with transparency in textbook costs and how these costs are presented to students and parents. Data Analytics is another area of audit attention, which searches for anomalies in the financial and payroll records that help identify unusual transactions needing further study, and are also used to detect fraud and other problems.

Associate Vice President Harrison then provided updates on the Amherst Revenue & Cash Receipting Locations Review and Follow-up to Prior Issued Internal Audits.

The **Amherst Revenue & Cash Receipting Locations Review** Audit concludes the five-campus study of this subject. These reviews were performed by Senior Auditors Lance Watkins and Derek Scano. The goal was to identify and review all areas that collect miscellaneous

**Audit Committee
December 1, 2010**

revenues. The report details a number of observations offered to improve the controls at various locations, which were accepted and adequately responded to by management. A general comment was made about the need for an updated and “disseminated-to-all” Cash Collection Security Guidelines, and a follow-up to a prior Bursar’s Office Audit was also included.

The **Follow-up Report to Prior Issued Internal Audits** was planned as a request of the Committee. The report was accomplished due to two factors 1) by contracting some hours with one of the approved co-sourcing audit services firms, and 2) by using a correspondence methodology with campus written attestation as to the status of the original recommendations. This method allowed the management of 16 prior audits with 171 specific recommendations as one request of the campus liaisons. Responsiveness was terrific and all of our requests were addressed timely.

Senior Auditor Dan Sarazen provided highlights of the **Lowell campus Decentralized IT Areas Review**. He developed a new and more efficient approach to the review. Associate Vice Chancellor O’Riordan and Vice Chancellor Yestramski were especially helpful.

The new process used at the Lowell campus reviewed all departments identified. Internal Audit provided decentralized departments with a presentation of controls to be tested; fieldwork began two months after the presentation; arrangements were made for the Campus Risk Manager and the ISO to meet with each department to ensure the decentralized departments were aware of the campus Disaster Recovery/Business Continuity Planning process.

The new process demystified the audit process; provided awareness of the controls, and why they exist; saw a significant reduction of logical access controls issues; and provided campus Senior Management with a high-level overview of their current governance structure and assisted in identifying campus-wide issues to focus their effort on. Key areas to be addressed include Governance (awareness/enforcement); Written procedures; and Asset and Data Inventories. The latter are most certainly the most complex to resolve. The new Information Security Policy is the first major step in addressing these weaknesses.

Senior Auditor Brian McCormick provided highlights of the first **Chief Executive Officers Compliance Review**. This review was conducted as a scheduled yearly system-wide review of the President and Chancellor’s business expense and contractual fringe benefit expenditure processing for calendar year 2009. It was concluded that business expenses were reasonable and appropriate, and supported by adequate documentation. There were no major weaknesses in the internal controls and University Policies.

Management agreed to implement Key System-wide Recommendations which include streamlining the business expense processing and reporting for the chief executive officers; establishing a central control function at each location within the Human Resources area to ensure contractual fringe benefits are properly tracked and administered; and keeping records of a detailed mileage log for all business miles driven per IRS rules requirement for University

**Audit Committee
December 1, 2010**

Provided Leased Vehicles, and that a qualified tax professional supervise the computation of the taxable portion of this benefit. The review for the 2010 calendar year of activity will be conducted in March 2011.

It was then moved, seconded and

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

1. Internal Audit Reports Follow-Up Review (Doc. T10-068)
2. Information Technology General Controls Review of UMass Lowell Decentralized IT Areas (Doc. T10-069)
3. Revenue/Cash Receipting Locations Review, UMass Amherst (Doc. T10-070)
4. Chief Executive Officers Compliance Review (Doc. T10-071)

Glenn Williams and the PricewaterhouseCoopers audit team then briefed the Committee on the **Annual - Financial Report, the Federal Financial Assistance Programs in Accordance with OMB Circular A-133, and the Annual Letter of Comments and Recommendations with Respect to Accounting and Operating Controls and Procedures.** A summary of the audit process and areas of primary focus was presented to the Committee.

Overall, there was excellent cooperation from all campuses; there were no disagreements with management; there were no material audit adjustments necessary, and they did not become aware of any instances of fraud or intentional misstatement to the financial statements. An unqualified opinion will be issued on the University's Financial Report. The Management Letter comments were noted as suggestions for exhibiting best practices. Mr. Williams commented further on enhancing the consolidated reporting process amongst all campuses and reporting entities and Chair Furman concurred that further IT integration would help that process.

The Federal Financial Assistance Programs in Accordance with OMB Circular A-133 Report Audit and sampling process was discussed. The report had several reportable findings due to the federal requirement for zero-tolerance in exception reporting, but PricewaterhouseCoopers noted nothing was of a significant or material nature.

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. T10-065)
2. The Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133 (Doc. T10-066)
3. The Annual Letter of Comments and Recommendations with Respect to Accounting and Operating Controls and Procedures (Doc. T10-067)

**Audit Committee
December 1, 2010**

Chair Furman thanked the PricewaterhouseCoopers team, University Controller Wilda, Associate Vice President Harrison, and Vice President Gray for their amazing work. She indicated that next year's Committee goals should include Internal Audit submitting materials sooner for review, and making additional integration of the financial system a priority.

The meeting adjourned at 11:32 a.m.

Zunilka Barrett
Assistant Secretary to the Board