

**UNIVERSITY OF MASSACHUSETTS
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**MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE**

**Wednesday, December 4, 2013; 10:00 a.m.
Amherst Room
225 Franklin Street – 33rd Floor
Boston, Massachusetts**

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

Committee Members Absent: Trustee Campbell

University Administration: President Caret; General Counsel Heatwole; Senior Vice President Wilda; Chancellors Subbaswamy, Motley, Grossman, Meehan and Collins; Director of Internal Audit David

Grant Thornton: Brian Page; Claire Esten; Brittany Kelley; Mary Foster

Documents Used:

- Internal Audit Update, Doc. T13-117
- Internal Audit Charter Doc. T06-061, as amended
- University's Annual Financial Statements, Doc. T13-111
- Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133, Doc. T13-112
- Internal Control Letter, Doc. T13-113

Chair Furman convened the meeting at 10:28 a.m. and stated that the Committee had been provided with draft minutes of the September 11, 2013 meeting and asked for any corrections. With no corrections, the minutes were approved.

Chair Furman welcomed Director of Internal Audit David and Internal Audit Senior Manager McCormick and outlined the agenda that included Mr. David's report and Grant Thornton's presentation of the results of their audits and other required communications.

Report by the Director of Internal Audit:

Mr. David briefly described the elements of the Internal Audit Charter ("Charter") and how Internal Audit meets its responsibilities as they are outlined. He highlighted a number of Internal Audit's key responsibilities and areas of focus, including how its unique reporting relationship provides for its independence from University Management; how risk based audits are chosen and executed; and how protocols that are in place ensure efficiency and the integrity of audit results. He then went on to describe the components of an organization's risk management program and how Internal Audit can support the University's effort to formalize its risk management processes and then evaluate it. To underscore the value that Internal Audit provides the University in addition to its core responsibilities, Mr. David finished his remarks by

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highlighting examples of when Internal Audit provided value-added consultation and assistance to Management. It was noted that the Charter was reviewed to ensure that it met the Institute of Internal Audit's *International Professional Practices Framework, including the International Standards for the Professional Practice of Internal Auditing* ("the Standards") and needs of the University.

Chair Furman asked how often Internal Audit is independently audited. Mr. David replied that the Standards require that an external assessment be performed once every five years and described how that Standard can be met.

Chair Furman requested the **Approval of the Internal Audit Charter**. Chair Furman asked for questions or discussion. It was moved, seconded:

To recommend that the Board take the following action:

To approve the revisions to the Internal Audit Charter as contained in Doc. T06-061, as amended.

The Chair asked for a vote and the motion passed unanimously.

Report by Grant Thornton:

Mr. Page, Grant Thornton's Engagement Partner, introduced the engagement team and outlined their presentation. Mr. Page began by stating that the audit resulted in an unqualified audit opinion. He then reported that there were no significant modifications to the audit plan as it was presented to the Committee. Mr. Page, Ms. Esten, Engagement Partner and Ms. Kelley, Senior Manager then presented their firm's audit results and required communications to the Committee.

Ms. Kelley reviewed each area of significant audit focus and results, which included cash and investments, contribution revenue, tuition revenue, grant revenue, capital assets, debt, investigations of fraud and program service revenue. She then explained that Grant Thornton relied on the expertise of specialists for testing the valuation of certain investments and accruals.

Ms. Kelley summarized the accounting adjustments identified during the audit and referred to Appendix A of their presentation, which provides a summary of unrecorded adjustments and recorded adjustments. Chair Furman inquired about the definition of unrecorded adjustment. Ms. Kelley explained that management had determined that because the adjustments were deemed to be immaterial to the financial statements they were not made. Ms. Esten described a number of circumstances in which adjustments were not recorded. She added that the engagement team was comfortable with Management's assessment of the adjustments.

Ms. Esten reported on the major programs reviewed for the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Audit, which included financial aid and research and development. She noted that there were four findings identified – three compliance findings and one control finding. A discussion followed about control findings compared to compliance findings that included an overview of the findings and the status of Management's remediation.

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Ms. Esten then went on to discuss internal control matters and noted that there were no material weakness or significant deficiencies identified during the course of the audit and highlighted control recommendations that were communicated to Management. Trustee Buonomo noted that the results of this audit are a significant accomplishment in an organization of the University's size.

Chair Furman asked how the audit transpired by comparison to last year. Senior Vice President Wilda and Ms. Esten responded. They noted that overall the audit went well and there were some delays in the close process related to the UMass Building Authority and the UMass Foundation that are being addressed. Ms. Esten also noted the UMass Building Authority's delays in the close process were due to resource constraints. It was noted that additional accounting personnel were recently hired by the UMass Building Authority to remediate the delays.

Chair Furman asked about the status of the University's disaster recovery and business continuity program and suggested that a session be held on that topic in a future Committee meeting. She also asked if a private executive session with Grant Thornton was necessary. It was noted by Mr. Page that they did not require one. Discussion ensued. Chair Furman then suggested that one should be held periodically to ensure that there is an opportunity to discuss any matters that the Audit Committee or the audit firm believe should be discussed.

Mr. Page provided details on technical updates, including changes to cost circulars and changes to the data collection form proposed by the OMB.

Ms. Foster, Managing Director, highlighted trends in higher education, which included a look at strategic and public policy issues facing universities. Ms. Foster also discussed Moody's and Standard & Poor's mid-year outlook for higher education and the top information technology issues in higher education according to EDUCAUSE. Ms. Foster also described the trends Grant Thornton is seeing with regard to their higher education clients, including spending policies with regard to quasi-endowments and non-financial data controls. Discussion ensued.

Chair Furman requested the approval of the **University's Financial Statements, Grant Thornton's Report on Federal Financial Assistance Programs**, and the **Internal Control Letter**. Chair Furman asked for questions or discussion. It was moved and seconded:

To recommend that the Board take the following action:

To approve the University's Annual Financial Statements as contained in Doc. T13-111.

And further,

To recommend that the Board approve the following:

Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133 (Doc. T13-112)

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Internal Control Letter (Doc. T13-113)

The Chair asked for a vote and the motion passed unanimously.

There being no other business, the meeting adjourned at 11:27 a.m.

Kate Wilkinson
Staff Assistant