

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARMOOUTH•LOWELL•WORCESTER

MINUTES OF THE MEETING OF THE  
COMMITTEE ON ADMINISTRATION, FINANCE AND AUDIT

Thursday, January 23, 2003; 8:00 a.m.

Board Room

One Beacon Street – 26<sup>th</sup> Floor

Boston, Massachusetts

**Committee Members Present:** Chair Dubilo; Vice Chair Karam; Trustees Babineau, Briggs, Dawood, DeFaria, Fey, Mahoney, Powers, Rainey and Zane

**Committee Members Absent:** Trustees Agganis, Giblin, McCarthy and Moes

**University Administration:** President Bulger; General Counsel O'Malley; Vice Presidents Botman, Gray, Julian and Lenhardt; Chancellors Lombardi, Gora, MacCormack and Hogan; Ms. Wilda, University Controller; Mr. O'Riordan, Budget Director; Vice Chancellors for Administration and Finance Hatch, MacKenzie, Zekan and Goodwin; Deputy Chancellor Stanton; Mr. Harrison, Director of Auditing

**Faculty Representatives:** Professor May, UMASS Amherst; Professor Schwartz, UMASS Boston; Professor Carter, UMASS Lowell

**Guests:** Mr. Hanley, Mr. Gabranski and Ms. Gregory, PricewaterhouseCoopers

Chair Dubilo convened the meeting at 8:09 a.m. The first item on the agenda was **Consideration of Minutes of the Prior Meeting of the Committee.**

It was moved, seconded and

**VOTED:** To approve the minutes of the October 24, 2002 meeting of the Committee.

Under the **Chair's Report**, Chair Dubilo reported that the Committee will consider several audits today. Of special interest is the Federal Funds Audit A-133; this audit reflects marked improvement from 40 citations in 2000 to 16 in 2001 to four in 2002. The staff takes their responsibilities with the audit process seriously and he thanks them for their efforts.

The next item was the **Vice President's Report**. Vice President Lenhardt reiterated the improvements made to the A-133 Audit and reported on the Performance

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Measurement System. What are we doing about the capital infrastructure system, which will be discussed today, and what are we trying to accomplish?

Vice President Lenhardt also mentioned the progress of the Management Council (Chancellors and Vice Presidents) formed as a result of last year's retreat. The Council meets regularly and has been discussing procurement. Changes have been made to benefits for new employees, less vacation, sick and personal days and has had a positive impact on accrued liabilities.

Chair Dubilo then welcomed Trustee Ellen Zane as the newest member of this Committee.

The next item was the **President's Report**. President Bulger spoke of the fiscal and economic difficulties facing the Commonwealth but stressed the University's intentions to meet the teaching and research goals of the Commonwealth and its citizens.

President Bulger reported that Mr. Dennis Jones, a national expert on higher education, programming and finance will speak at the meeting of the Committee of the Whole on February 12<sup>th</sup>. Mr. Jones will outline the national picture for higher education and how others are coping with difficult fiscal decisions.

President Bulger also reported that Konarka Technologies started in 2000 is based on the work of the late UMASS Lowell professor, Sukant Tripathy. His dream was to bring electric light to the rural areas of India.

President Bulger reported that last week he had met with the University-wide Union leadership and noted that it was a very good beginning and his plan is to continue the dialogue.

As a final note, President Bulger also thanked those employees that work to meet the University's audit obligations.

Vice President Lenhardt then introduced the discussion item, **Capital Repair and Improvement Performance Indicators**. The repair and upkeep of the University's buildings is one of our top priorities. Indicators for these priorities have been developed and will be incorporated into the annual Performance Measurement System. The first measure we are proposing to put forward is age of facility ratio. He then acknowledged the work of Vice Chancellor Zekan from the Dartmouth campus for his help with this project. The goal would be to monitor whether or not we are making improvements to the ratio.

Vice President Lenhardt also reported on three additional ratios:

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- The Maintenance Ratio (the level of routine plant maintenance spending relative to available revenues; derived from annual financial statement data and could provide for peer analysis);
- The Annual Renewal Effort Ratio (indicates the amount of unrestricted revenues invested in the plant annually);
- Deferred Maintenance Ratio (sets a baseline value of deferred maintenance costs and track capital spending aimed at reducing those costs against the overall investment in plant; we would want to reduce the ratio through direct investments in deferred maintenance projects).

It is expected that the age of facility ratio will be brought before the Board for approval in the March/April cycle of the Performance Measurement System.

Mr. Harrison, Director of Auditing introduced the next three items:  
**PricewaterhouseCoopers Audit Reports:**

- University Management Letter, FY2002 Financial Report
- Report on Massachusetts Student Financial Assistance Programs in Accordance with Mass Office of Student Financial Assistance Attestation Guide
- Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133.

Mr. Harrison then provided an update on an issue raised at the last Committee meeting regarding the Sarbanes-Oxley Act of 2002. This Act is for publicly traded companies in order to increase public confidence with financial markets by strengthening corporate responsibility. While the University is not legally required to comply with sections of this Act, the Act is being met with great interest; to adopt appropriate practices that are consistent with the Act especially in measuring the effectiveness of the system of internal control.

Mr. Hanley began by reporting on significant accounting policies and practices. In FY2002, the University adopted GASB (Government Accounting Standards Board Statement) No. 34, adopted an amendment to GASB Statement No. 34 and GASB Statement No. 37. The adoption of these statements resulted in a restatement of the beginning net assets as of July 1, 2001.

Ms. Gregory then described the Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133. The purpose of this audit is to review the University's compliance with requirements in administrating federal programs. The University has three major programs that were considered: Research and Development, Student Financial Aid and the Cooperative Extension on the Amherst campus Program.

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Ms. Gregory then identified small instances of noncompliance.

Ms. Gregory introduced the next Audit Report: Report on Massachusetts Student Financial Assistance Programs in Accordance with Mass Office of Student Financial Assistance Attestation Guide. She reported that there were no items of non-compliance.

Mr. Hanley then discussed a report distributed to the Committee outlining required Communications which included the Auditor's Responsibility Under Generally Accepted Auditing Standards, the Significance of Accounting Policies, Management Judgments and Accounting Estimates and Significant Audit Adjustments.

Mr. Gabranski reported on future reporting standards being raised and answered a question from President Bulger about PricewaterhouseCoopers being independent of the University.

Mr. Hanley and Mr. Gabranski briefly described the Comments and Recommendations regarding the University Management Letter, FY2002 Financial Report. Vice President Lenhardt reported the need to review the contract for PricewaterhouseCoopers, which is scheduled to expire in a year's time. This would be a good time to establish a fresh view of the audit review process.

Some of the Auditor's recommendations included the University looking at the way it closes its books which consists of reporting consolidated financial information on a periodic basis. It was also recommended that the University close the books more than once a year.

Additional recommendations included tracking fixed assets, which would include a complete physical inventory of the University's fixed assets and retention of legacy data, which would include the development and archiving strategies for the mainframe applications.

There was a question about a "hot site" or a disaster recovery plan for University data. Vice President Gray responded that the Management Council is considering a total University Data Center which would include disaster recovery.

It was moved, seconded and

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

1. University Management Letter, FY2002 Financial Report (**Doc. T03-015**)

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2. Report on Massachusetts Student Financial Assistance Programs in Accordance with Mass Office of Student Financial Assistance Attestation Guide **(Doc. T03-011)**
3. Report on Federal Financial Assistance Programs in Accordance with OMB Circular A-133 **(Doc. T03-012)**

The next item for action was **Audit Reports**. Mr. Harrison briefly reported on each Audit and noted some of the Audit recommendations. He also provided a status report of current audits, state audit reviews and federal reviews. Of particular note was that the State Audit Office will be reviewing the Amherst campus with a preliminary survey of all campus activities.

It was moved, seconded and

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

1. International Programs Office Audit Report, UMASS Amherst **(Doc. T03-001)**
2. WFCR-FM and Friends of WFCR, Inc. Combined Financial Statements and Auditors Report; WFCR-FM Management Letter; Communication Letter to the Board of Trustees for WFCR-FM and the Friends of WFCR, Inc. **(Doc. T03-004)**
3. WUMB-FM Radio Financial Statements and Supplementary Information; WUMB-FM Management Letter; Communication Letter to the Board of Trustees for WUMB-FM **(Doc. T03-003)**
4. Student Activities Trust Fund, UMASS Amherst, Campus Activities Office Operations **(Doc. T03-002)**
5. Statement of Revenues and Expenditures of the Intercollegiate Athletic Department, UMASS Amherst **(Doc. T03-013)**
6. Report on the Minuteman Court Club and the UMASS Athletic Fund **(Doc. T03-014)**
7. Audit Activity Report **(Doc. T03-010)**

There being no further business to come before the Committee, the meeting was adjourned at 9:50 a.m.

Barbara F. DeVico  
Secretary to the Board of Trustees