

UNIVERSITY OF MASSACHUSETTS

AMHERST•BOSTON•DARMOOUTH•LOWELL•WORCESTER

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

Thursday, April 24, 2003; 8:00 a.m.

Board Room

One Beacon Street – 26th Floor

Boston, Massachusetts

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

Committee Members Absent: Trustees Agganis, Giblin, McCarthy, Moes, Powers and Rainey

University Administration: President Bulger; General Counsel O'Malley; Vice Presidents Botman, Gray, Julian and Lenhardt; Chancellors Lombardi, Gora, MacCormack and Hogan; 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 Disch, UMASS Boston; Professor Carter, UMASS Lowell; Dr. Cooke, UMASS Worcester

PricewaterhouseCoopers: Mr. Hanley

Chair Dubilo convened the meeting at 8:07 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 January 23, 2003 meeting of the Committee.

Under the **Chair's Report**, Chair Dubilo noted the concern about the University's budget and how we must continue to make plans that maintain the institution in as good a shape as possible.

Chair Dubilo continued by reporting that five financial indicators will be discussed today and the Chancellors have been asked to answer the following questions:

- Is your business plan sufficiently well thought out that you will achieve equal or better performance than that which is identified here?

Committee on Administration, Finance and Audit
April 24, 2003

- Will you be able to maintain the physical plant of your campus in adequate condition to be competitive?
- In light of the latest news on state support what general actions are you taking to cut expenses and/or raise revenue to meet the challenge of the next fiscal year?
- What level of cash reserve utilization do you plan for next year and the year after?
- What actions do you want the Trustees to take to assist you in your efforts?

The next item was the **President's Report**. President Bulger reported that the House Ways and Means Committee budget recommends an 18% cut to the University. This begins the first day of the debate about the financial course of the Commonwealth and public higher education.

President Bulger continued his report by stating the University would make the case that an investment in public higher education is a sound investment for the economy and good business. Stable public support is necessary if the University is to be successful in attracting non-state revenue through competitive federal grant processes and from private philanthropists.

President Bulger also mentioned that the University would keep its friends informed about the budget process by posting regular updates on the UMASS web site under the heading of Team UMASS. The House budget recognizes that the Governor's reorganization proposal is wrong for our students. He noted the fact that some ideas in the Governor's proposal should be investigated and there is agreement between the University's goals and those of the Governor.

There will be increased collaboration between community, state and university campuses and welcome support from the executive branch and the legislature as we move forward on these initiatives. We are currently in discussions with the legislature regarding several measures that will help the University become more efficient: relief from construction regulations that drive up our capital costs by 25 percent, relief from restrictions on the sale and leasing of University-owned property, relief from regulations that prevent the timely sale of bonds to finance University projects in cases where no state dollars or guarantees are involved.

There are several campus projects such as research facilities to fire alarm systems that are critical for the long-term benefit of the University. Over the last five years \$600 million has been spent on construction and maintenance of facilities to enhance teaching. We need to spend another \$600 to \$700 million over the next five years to remain competitive, attract quality students from out of state and build research centers that will help strengthen the economy.

Committee on Administration, Finance and Audit
April 24, 2003

We plan to work closely with the Governor and the Executive Office to pursue every strategy to save money and raise additional non-state revenue. The Chancellors will model various levels of budget cuts on the campuses doing the same across the central administration and in the President's Office while keeping the focus on high-quality teaching and research.

President Bulger concluded his report by thanking the Trustees, faculty, staff, senior management, alumni and students who have stayed the course during these difficult times.

The next item was the **Vice President's Report**. Vice President Lenhardt first reported that the PeopleSoft system is functioning very well; there have been many collaborative efforts between our business, payroll and accounting people. The next key issue will be how well it functions with the FY03 June 30 financials.

We have received \$23 million in state capital support for some maintenance projects and some new construction activity. Vice President Gray and campus IT directors are continuing to sponsor the computer bid buy program where they re-negotiate prices for computers and laptops saving \$450,000 since last spring.

Regarding the bond issue, we will continue to meet with the Secretary of Administration and Finance to discuss these issues and expect a final decision in the near future.

The first item for action was **Establishment of the Robert M. and Shirley S. Siff Chair in Family Health Research, UMASS Worcester**. Chancellor Lazare reported that the Siffs are longtime friends and major supporters of the University and founding members of the advisory committee of the UMASS Center for Adoption. The Siffs have a strong interest in adoption because Mr. Siff was adopted at a young age. This endowed chair will be used to conduct research in neurological and developmental disorders such as autism.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

In accordance with sections 1A(e) and 11 of Chapter 75 of the General Laws, to establish an endowed professorship in family health research at the University of Massachusetts Worcester to be known as the **Robert M. and Shirley S. Siff Chair in Family Health Research**. (Doc. T03-031)

The next item for action was **Approval of Parking Services Regulations, UMASS Amherst**. Chancellor Lombardi reported that the amendments to the Parking Regulations reflect changes to the parking policy process.

It was moved, seconded and

Committee on Administration, Finance and Audit
April 24, 2003

VOTED: To recommend that the Board take the following action:

To amend the Parking Regulations for the Amherst campus, as contained in Doc. T98-085A by adopting the changes thereto signified in Doc. T98-085A, as amended effective July, 2003. (Doc. T98-085A, as amended)

The next item was for discussion: **FY2002 Financial Ratios Peer Systems Analysis and FY2003 to FY2008 Financial Indicator Projections.** Vice President Lenhardt introduced this item by reporting that there are five ratios that are used to assess the University's financial condition on an annual basis. The five financial indicators are: Operating Margin, Financial Cushion, Debt Service to Operations, Endowment per Student and Age of Facilities.

Mr. O'Riordan then gave a presentation, which included the issues, challenges and opportunities facing the University. He also listed the reasons financial indicators are useful:

- encourage the setting of financial targets to manage against for success;
- identify performance against peers for benchmarking;
- provide an objective position of financial condition;
- measure short and long-term financial health;
- combine historic experience and projections for the future;
- reflect campus expectations and priorities including stated goals and strategies of campus financial planning;
- show impact of key revenue and expenditure items: state appropriation, student fees and enrollments, inflation, wages, capital plan.

Mr. O'Riordan continued his report by reviewing the anticipated and projected figures for each indicator.

Some of the highlights included:

- in FY2002 the University's operating margin was comparable to many of the peer systems. Campuses are projecting deficits for the near terms, through FY2005 and they are aiming for positive operating margins;
- in FY2002 the University as a whole had a financial cushion of 14.7% which was within the range for the peer systems. Each of the campuses continues to have financial cushions that are lower than the average for their peers;
- debt service to operations ratio is projected to increase over the next several years;
- all campuses are projecting increases in their endowment per student in the next five years;
- all campuses are projecting modest increases in annual private fundraising;

Committee on Administration, Finance and Audit
April 24, 2003

- continuous investments in plant including building renovations, infrastructure improvements, new construction and equipment upgrades all add to and improve the capital assets of the University and can reduce the average age of facilities ratio.

Trustee Mahoney then requested additional information about the level of investment in capital improvements at the University; Mr. O’Riordan indicated this data would be provided at the next meeting in the Capital Plan update.

The Chancellors then responded to the questions reported by the Chair in his report.

In conclusion, Chancellor Lombardi responded to a question about the need to bring in consultants to study some of these issues. Chancellor Lombardi did not believe consultants would provide any information that was not already known.

The next item for action was **Approval of the Audit Charter**. Mr. Harrison provided some background information on this subject. The recently passed federal Sarbanes-Oxley Act of 2002 was designed to properly review audit and ethical activity within financial institutions. While the Act does not currently apply to the University or non-public companies, the Audit Charter presented today would enhance the Board’s ability to meet financial oversight responsibilities with financial statements and systems of internal control.

Mr. Hanley from PricewaterhouseCoopers who helped prepare the Audit Charter joined the discussion and reiterated the need to set the tone for quality financial reporting and ethical behavior. The Committee Chair, the General Counsel and the Vice President for Management had also discussed the new Charter in detail.

Specifically, the Charter defines the purpose of the Committee’s functions on audit matters, explaining the duties and responsibilities and the auditor’s communications to the Board.

There was then a discussion about the lack of a particular certification by senior management. It was determined that General Counsel O’Malley would look into the issue and if so advised, the Committee could amend the Charter at a later date.

It was moved, seconded and

VOTED: To recommend that the Board take the following action:

To accept the administrative supplement to the Board of Trustees’ By-Laws, Doc. T91-100, Article III, Section 5c, Committee on Administration, Finance and Audit of the University of Massachusetts as outlined in Doc. T03-030.

**Committee on Administration, Finance and Audit
April 24, 2003**

The next item was the **Audit Activity Report**. There being no questions about the Report, it was moved, seconded and

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

Audit Activity Report (Doc. T03-027)

The meeting was adjourned at 10: 45 a.m.

Barbara F. DeVico
Secretary to the Board of Trustees