



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued May 22, 2014

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## University of Massachusetts System

For the period July 1, 2009 through June 30, 2012





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Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

May 22, 2014

Robert L. Caret, President  
University of Massachusetts  
Office of the President  
225 Franklin Street, 33<sup>rd</sup> Floor  
Boston, MA 02110

Dear President Caret:

I am pleased to provide this performance audit of the University of Massachusetts system. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2009 through June 30, 2012. My staff discussed the contents of this report with management of the university, and their comments are reflected in this report.

I would also like to express my appreciation to the University of Massachusetts for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read 'SMBump'.

Suzanne M. Bump  
Auditor of the Commonwealth

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## EXECUTIVE SUMMARY

The University of Massachusetts (UMass) was established in 1863 as Massachusetts Agricultural College, located in Amherst. It became known as Massachusetts State College in 1932 and became the University of Massachusetts in 1947. The Worcester and Boston campuses were established in 1962 and 1964, respectively, and the Lowell and Dartmouth campuses were incorporated into the UMass system in 1991. UMass is funded through various sources, including an annual state appropriation; student tuition and fees; and research grant funding from federal, state, and private sources.

The objectives of our audit were as follows:

- To determine whether adequate controls are in place to ensure that expenditures for management consultants, bonus pay and awards, outside attorney/legal services, information-technology professionals, and space rental are properly authorized, classified, and adequately documented.
- To determine whether purchasing and procurement practices in the areas of management consultants, outside attorney/legal services, information-technology professionals, and space rental comply with applicable UMass procurement policies.
- To review the process for calculating the campus assessments used to support the President's Office's central services and determine whether indirect costs from grants are being used to fund the campuses' contribution for those services.
- To determine whether the indirect costs from grants are in accordance with grant agreement provisions for administrative and overhead cost percentages.

### *Summary of Findings*

Our review of UMass bonuses<sup>1</sup> paid during fiscal years 2010, 2011, and 2012 showed that while there was improvement in documentation for bonus payments made in fiscal years 2011 and 2012, there were still inconsistencies in supporting documentation maintained as backup for bonus payments totaling \$2,047,153, indicating that improvements in documentation are needed to support these payments.

- We tested bonus payments related to the UMass Medical School (UMMS) senior leadership incentive compensation plan (ICP) effective July 1, 2009, a goal-based system in which

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<sup>1</sup> Bonuses are something given or paid in addition to what is usual or expected. The term usually applies to money in excess of what is normally received or strictly due, given in consideration of superior achievement or as a share of profits.

employees develop their goals in relation to the overall UMMS strategic plan. Based on our review of 29 chancellor-authorized ICP payments totaling \$1,693,480, made during fiscal years 2010, 2011, and 2012, we determined that documentation maintained as backup for ICP payments totaling \$1,679,653 was missing or insufficient. UMMS officials were unable to provide us with scorecards for 9 ICP payments totaling \$475,959, and UMMS did not have adequate evidence of direct supervisory approval or review on the scorecards for 19 ICP payments totaling \$1,203,694. A scorecard is a document that details the employee's annual goals and the percentage of each goal achieved. This percentage is then incorporated into the goal achievement worksheet, which is used to calculate and summarize all ICP bonuses for the fiscal year and is signed by the chancellor authorizing payment. Additionally, our testing found that for 3 of these 29 payments, the percentage achieved shown on the goal achievement worksheet was different from the percentage on the employee's scorecard, and there was no documentation explaining the changes. Without proper documentation and evidence of supervisory review, UMMS cannot assure the Office of the State Auditor (OSA) that bonus payments were properly earned and calculated or that any payout changes were justifiable.

- In fiscal years 2010 and 2011, UMMS paid bonuses to its chancellor totaling \$367,500 for which it could not provide any written documentation, including an employment contract, that established the criteria for earning bonuses or the factors considered for computation of the bonus payments. Although we did obtain evidence of the chancellor's base salary and internal memos authorizing the bonus payments, without the chancellor's employment contract and/or other documentation clearly specifying eligibility for a bonus or well-defined bonus criteria, UMMS could not assure OSA that the chancellor met the criteria for earning the bonuses and that they were calculated correctly.

### ***Recommendations***

- UMMS should review, strengthen, and adhere to the guidelines outlined in the ICP to ensure that the goal achievement process is fully documented, all supporting documentation is maintained on file, and the ICP is being administered consistently by all managers and the chancellor. At a minimum, the ICP should require that all employees' goal achievement records be maintained on file and contain documentation showing that the meetings between the employee and the manager and/or chancellor occurred at the beginning of the fiscal year as well as documentation showing that the manager and/or chancellor reviewed the records for goal achievement at the end of the fiscal year. Additionally, the ICP should be strengthened to include a process by which any changes to an employee's goal achievement percentage or final bonus payments are documented.
- UMMS should maintain proper supporting documentation for the chancellor's bonuses that includes clear and specific language outlining employee eligibility to participate in the bonus program, the requirements of the bonus program, and the calculation of bonus payments. The UMass Internal Audit department should review the chancellor's bonus payments for fiscal years 2010 and 2011, identify the criteria used in the bonus calculation, and determine whether the criteria and payments were reasonable.

## OVERVIEW OF AUDITED AGENCY

### *Background*

The University of Massachusetts (UMass) was established in 1863 as Massachusetts Agricultural College, located in Amherst. It became known as Massachusetts State College in 1932 and became the University of Massachusetts in 1947. The Worcester and Boston campuses were established in 1962 and 1964, respectively, and the Lowell and Dartmouth campuses were incorporated into the UMass system in 1991. The UMass system is governed by a 22-member board of trustees with the president overseeing the five-campus system and a chancellor leading each campus. UMass has approximately 70,000 graduate and undergraduate students enrolled throughout the system.

According to its website, UMass's mission is "to provide an affordable and accessible education of high quality and to conduct programs of research and public service that advance knowledge and improve the lives of the people of the Commonwealth, the nation, and the world."

UMass is funded through various sources, including an annual state appropriation; student tuition and fees; and research grant funding from federal, state, and private sources. UMass also generates revenue through its Commercial Ventures and Intellectual Property division; UMassOnline, the online degree- and certificate-granting program; and programs for continuing education and corporate education. Below is a summary of revenue received by UMass for fiscal years 2010, 2011, and 2012.

### Summary of Revenue (in thousands of dollars)

Revenue Source	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Operating Revenue			
Tuition and Fees (Net of Scholarship Allowances)	\$ 539,306	\$ 597,200	\$ 659,180
Grants and Contracts	564,438	543,727	536,031
Auxiliary Enterprises	252,610	272,020	297,956
Other Operating Revenue	735,964	816,166	562,360
Total Operating Revenue	<u>\$ 2,092,318</u>	<u>\$ 2,229,113</u>	<u>\$ 2,055,527</u>

Revenue Source	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Non-Operating Revenue			
Federal Appropriations	5,922	5,826	6,845
State Appropriations	428,958	505,799	517,392
State Appropriations—Federal Stimulus Funds	150,639	37,897	10
Other Non-Operating Income	103,917	119,709	65,738
Non-Operating Federal Grants	–	70,643	73,908
Non-Operating Revenue	<u>\$ 689,436</u>	<u>\$ 739,874</u>	<u>\$ 663,893</u>
Other Revenue			
Capital Appropriations, Grants, and Other Sources	47,616	62,824	193,913
Capital Contribution	29,810	–	–
Other Additions	9,729	4,016	2,317
Total Other Revenues	<u>\$ 87,155</u>	<u>\$ 66,840</u>	<u>\$ 196,230</u>
Total Revenues	<u>\$ 2,868,909</u>	<u>\$ 3,035,827</u>	<u>\$ 2,915,650</u>

Note: Information in this table was obtained from UMass's audited financial statements.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the University of Massachusetts (UMass) system for the period July 1, 2009 through June 30, 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were as follows:

- To determine whether adequate controls are in place to ensure that expenditures for management consultants, bonus pay and awards, outside attorney/legal services, information-technology professionals, and space rental are properly authorized, classified, and adequately documented.
- To determine whether purchasing and procurement practices in the areas of management consultants, outside attorney/legal services, information-technology professionals, and space rental comply with applicable UMass procurement policies.
- To review the process for calculating the campus assessments used to support the President's Office's central services and determine whether indirect costs from grants are being used to fund the campuses' contribution for those services.
- To determine whether the indirect costs from grants are in accordance with grant agreement provisions for administrative and overhead cost percentages.

To accomplish our objectives, we familiarized ourselves with applicable General Laws and board of trustees-approved policies and procedures on the UMass website. We reviewed reports of prior audits from Grant Thornton LLP and PricewaterhouseCoopers LLP conducted for fiscal years 2010, 2011, and 2012. Additionally, we analyzed UMass expenditure data from the PeopleSoft system (the financial accounting and reporting software used by UMass), compared these data to state accounting records in the Massachusetts Management Accounting and Reporting System (MMARS), and interviewed knowledgeable UMass officials to gain a better understanding of the data. The MMARS data used for this analysis constitute the official procurement and accounting records of the Commonwealth, are widely accepted as accurate, and form the basis for the



Commonwealth's audited financial statements. Accordingly, our audit did not involve a comprehensive assessment of the reliability of source Commonwealth data. However, we did perform analytical procedures such as comparisons, recalculations, and observations of original source documentation to confirm that the MMARS information we used was consistent with other available information. Based on that analysis, we concluded that the data used were of sufficient reliability for the background information, sampling methodology, and other purposes of our audit. Additionally, in order not to duplicate efforts, we tested the UMass independent auditor's testing of the university's information system (PeopleSoft) for data-reliability purposes. Based on our understanding of the UMass system gained through interviews and testing, we determined that its data were also sufficiently reliable for the purposes of this report.

To achieve our objectives, we interviewed multiple UMass officials at each location (Amherst, Boston, Dartmouth, the Donahue Institute,<sup>2</sup> Lowell, the President's Office, and Worcester) to assess the effectiveness of oversight and monitoring controls in place to ensure that expenditures were properly authorized, classified, and adequately documented. These expenditures were for management consultants, bonus pay and awards, outside attorney/legal services, information-technology professionals, and space rental. We judgmentally selected a total of 118 of the 41,144 expenditures during our audit period for our internal control testing. Because of missing, unsigned, or incomplete supporting documentation discovered in our initial testing of expenditures for bonus pay and awards, we expanded our testing by judgmentally selecting an additional 30 bonus expenditures to test. We used the same sample of 148 to conduct our tests of compliance to determine whether these expenditures were processed in compliance with applicable laws, regulations, and UMass policies and procedures. We obtained and reviewed relevant backup documentation including, but not limited to, purchase orders, payment requisition approval status screen prints, lease agreements, procurement contracts, interdepartmental service agreements, retainer agreements, invoices, bid proposals or sole source justification forms, signature-authorization documentation, employment contracts, UMass Medical School senior leadership incentive compensation plan goal achievement worksheets, goal summary documents (scorecards), and UMass internal e-mails and memos. We then determined whether these expenditures were properly authorized, classified, adequately documented, and in compliance with applicable UMass

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<sup>2</sup> The Donahue Institute is the President's Office's public service, outreach, and economic development unit.

procurement policies. The results of our sampling were not intended to be projected over the entire population.

To gain an understanding of the process for calculating the campus assessments used to support the President's Office's central services and determine whether costs charged to grants include the campuses' contribution for those services, we conducted meetings with officials from the President's Office and the UMass Internal Audit department along with the vice chancellor of Administration and Finance from each of the UMass campuses (Amherst, Boston, Dartmouth, Lowell, and Worcester). We also contacted UMass officials via telephone to discuss how indirect costs are accounted for at each UMass location. We obtained, reviewed, and recalculated the President's Office revenue calculation worksheet that details the amount of the central assessment<sup>3</sup> that each campus owed for fiscal years 2010 through 2012. We traced amounts from the President's Office revenue calculation worksheet to the amounts listed on the actual bills sent to each campus for our audit period and then to the related campus journal entries for payment.

To determine whether the administrative and overhead cost percentages from grants were in accordance with grant agreement provisions, we met with the UMass director of Grant and Contract Administration, who explained that there may be multiple projects within each grant and that each grant project may have a different indirect cost rate percentage. Therefore, within each grant, there may be multiple indirect cost rate percentages for the administrative and overhead costs. We obtained and reviewed a list of grants by grant project that listed each indirect cost rate percentage. We selected a judgmental sample of three grant projects from each fiscal year within our audit period from each UMass location with grant activity during our audit period (Amherst, Boston, Dartmouth, Donahue Institute, Lowell, and Worcester), resulting in a total test of 54 grant projects. We compared the actual grant project indirect cost rate percentage to the indirect cost rate percentage that is federally approved by the United States Department of Health and Human Services (HHS) to confirm that the indirect cost rate percentage used did not exceed the HHS-approved rate. Additionally, we obtained and reviewed a list of the indirect cost expenditures for fiscal years 2010 through 2012, which, according to the UMass director of Grant and Contract Administration, equals the total amount of indirect cost funds received.

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<sup>3</sup> Central assessments are costs charged to each campus to support central services such as internal audit, accounting, and information-technology services.

Based on our audit, we have concluded that, for the period July 1, 2009 through June 30, 2012, except for the issues addressed in the Detailed Audit Results and Findings section of this report, UMass maintained adequate internal controls over financial and management activities and complied with applicable laws, regulations, policies, and contractual requirements in the areas tested.

At the conclusion of our audit, we provided a copy of this report to UMass officials for their review and comments. In response, UMass provided us with written comments, which we considered in drafting this report.

## DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

### 1. Improvements are needed in documentation of bonus payments.

The documentation maintained as backup for bonus payments totaling \$2,047,153 was inconsistent, as detailed in the Audit Results section below. Although we noted that the University of Massachusetts Medical School (UMMS) showed improvement in documentation for bonus payments made in fiscal years 2011 and 2012, there were still inconsistencies in the documentation maintained. Therefore, UMMS could not provide the evidence necessary to assure the Office of the State Auditor (OSA) that certain bonus payments were properly earned and calculated or that any payout changes were justifiable.

#### a. Documentation is missing or insufficient for UMMS incentive compensation plan payments.

Based on our review of 29 chancellor-authorized senior leadership incentive compensation plan (ICP) payments totaling \$1,693,480, made during fiscal years 2010, 2011, and 2012, we determined that documentation maintained as backup for ICP payments totaling \$1,679,653 was missing or insufficient, as detailed below.

#### *Authoritative Guidance*

UMMS's ICP was established to promote UMMS's interests by strengthening its ability to attract, motivate, and retain senior leadership employees, as well as to focus senior leadership employees on critical performance goals and to reward them for achieving these goals. The ICP outlines the requirements for participation in the plan and the receipt of bonus payments. Specifically, it states that the measures (goals) within each employee's scorecard are to be reviewed and approved by the chancellor at or near the beginning of the fiscal year. The scorecard is a document that details the employee's annual goals and the percentage of each goal achieved. It is used in the calculation of potential ICP bonus payments. The measures (goals) on the employee's scorecard are derived from the overall UMMS strategic plan.

The ICP states, "Following completion of the fiscal year, the Vice Chancellor, Administration and Finance, will prepare a summary of organization performance against each ICP measure [goal]. All of the supporting documentation and potential payout calculations will be made available to the Chancellor." Payments (if any) are based on the employee's percentage of goal achievement from the scorecard; their approved incentive opportunity, which ranges from 0%

to 30%; their base salary at the close of the fiscal year; and the available allocation of funds (if any). The ICP also states, "Actual payouts are subject to the absolute and exclusive discretion of the Chancellor." Although the chancellor has the authority to make changes to bonus payouts, in order to maintain an appropriate audit trail, ensure that the employee is aware of the change and the reasons for it, and ensure that the change was not the result of data-entry error, sound business practices advocate that such changes should be adequately documented and explained to ensure that all payouts are justifiable.

Evidence of management review is a key element of strong internal controls and is necessary to ensure that goal achievement is accurately documented on the scorecard. Without evidence of management review of goals, there is no assurance that the employee goals were approved or achieved and therefore there is no assurance that the bonus payments made were accurate. Prudent business practices dictate that management should ensure that all bonus payments are adequately supported with evidence of management reviews and approvals of employee goals at the beginning of the fiscal year and goal achievement at the end of the fiscal year.

#### ***Current Practices***

The UMMS controller, compensation director, and director of Human Resources explained how they implement the ICP. An employee documents his or her goals on a scorecard and meets with his or her manager to have the goals approved at or near the beginning of the fiscal year. During the year, the employee and manager discuss progress toward those goals. At the end of the year, the employee documents the percentage achieved for each goal and has the percentages reviewed by his or her manager. After the manager reviews the goal achievement on the employee scorecard, the information on goal achievement is forwarded to the vice chancellor for Administration and Finance to include on the vice chancellor's goal achievement worksheet, which is used to calculate and summarize all ICP bonuses for the fiscal year. The chancellor reviews, can make changes to, and approves the goal achievement worksheet.

#### ***Audit Results***

Based on our testing, inconsistencies in the documentation maintained as evidence for ICP payments totaling \$1,679,653 fall within the following three categories of deficiency:

1. **Missing Scorecards:** UMMS officials were unable to provide us with scorecards for 9 (31%) out of 29 ICP payments tested. Thus these 9 ICP payments, which ranged in value from \$12,563 to \$120,000 and totaled \$475,959, do not have adequate backup documentation to determine whether they were made accurately.
2. **Lack of Evidence of Management Review of Goals and Goal Achievement:** Our testing revealed that 19 out of 20 ICP payments that had scorecards were awarded to employees without evidence of direct supervisory approval or review. These 19 payments totaled \$1,203,694 and ranged from \$9,266 to \$180,000. Sixteen (84%) of the 19 scorecards were missing evidence of direct supervisory approval or review at both the beginning and the end of the fiscal year. The remaining 3 out of 19 scorecards had a signature indicating direct supervisory approval at the beginning, or review at the end, of the fiscal year, but not at both times.
3. **Percentages Achieved Changed without Documentation:** As part of our testing, we compared the percentages achieved from the employee's scorecard to the goal achievement worksheet that is signed by the chancellor authorizing the payment. Our testing revealed that for 3 out of the 20 ICP payments noted in 2 above, the achieved percentage shown on the goal achievement worksheet was different from the percentage on the employee's scorecard, and there was no documentation explaining the changes. Respectively, the three payments were increased by 3.1%, increased by 1.1%, and decreased by 7.1% on the goal achievement worksheet as opposed to the employee scorecard. Therefore, two bonus payments were increased by a combined total of \$5,414 and one bonus payment was decreased by \$1,138 without documentation explaining the reasons for the changes.

***Reasons for Missing or Insufficient Documentation***

According to UMMS officials, fiscal year 2010 was the first year that payments were made for the ICP and there was a learning curve so that the documentation was inconsistent. UMMS officials also stated that it was very difficult to ensure that all documentation was complete because of the busy and conflicting schedules of the personnel involved. They felt that as long as the chancellor or his designee signed off on the goal achievement worksheet, that satisfied the requirements for backup documentation. Additionally, they explained that the ICP does not require manager/chancellor signatures on the employee scorecards or written evidence for any changes made by the chancellor. In OSA's view, the lack of detail in the ICP regarding maintenance of scorecards, a clearly defined review process, and documentation of chancellor changes to bonus payouts contributed to the inconsistencies in supporting documentation for the ICP bonus payments.

***Recommendation***

UMMS should review, strengthen, and adhere to the guidelines outlined in the ICP to ensure that the goal achievement process is fully documented, all supporting documentation is maintained on file, and the ICP is being administered consistently by all managers and the chancellor. At a minimum, the ICP should require that all scorecards be maintained on file and contain documentation showing that the meetings between the employee and the manager and/or chancellor occurred at the beginning of the fiscal year as well as documentation showing that the manager and/or chancellor reviewed the scorecards for goal achievement at the end of the fiscal year. Additionally, the ICP should be strengthened to include a process by which any changes to an employee's goal achievement percentage or final bonus payments are documented.

***Auditee Response***

*UMMS is committed to ensuring that its Senior Leadership Incentive Compensation Plan (ICP) is fully documented, with all supporting documentation maintained in central Human Resources (HR) files and that the ICP continues to be administered consistently by all managers and approved by the Chancellor. . . .*

*. . .*

- 1. UMMS HR will have responsibility to administer the ICP Plan and maintain all evidentiary documentation thereof consistently and in accordance with the ICP Plan document.*
- 2. The following documentation will be maintained in central HR files:*
  - a. A copy of the Goal Summary Document (GSD) (referred to as "scorecard" by OSA) for goals that are mutually established by the participant and manager at the beginning of the fiscal year. The GSD will be signed by both the participant and manager.*
  - b. A copy of the Goal Summary Document (GSD) with the goal achievement results after review by the participant and manager at the end of the fiscal year. The GSD will be signed by both the participant and manager.*
  - c. A copy of the Goal Achievement Worksheet (GAW) Summary (referred to in the ICP Plan document as "summary of organization performance") signed by the chancellor with the final goal achievement percent and the incentive payment amount for each participant.*
  - d. If, in any case, the goal achievement percentage on the Goal Summary Document (GSD) is different from the percentage on the final Goal Achievement Worksheet (GAW) Summary that change will be documented.*

*The above procedures will be in place effective with the FY2014 ICP plan year.*

***Auditor's Reply***

Based on its response, UMMS is taking measures to address our concerns in this area.

**b. Documentation is missing for bonuses paid to the UMMS chancellor.**

In fiscal years 2010 and 2011, UMMS paid bonuses to its chancellor totaling \$367,500; however, it could not provide OSA with any written documentation, including an employment contract, that established the criteria for earning bonuses or the factors considered for computation of the bonus payments. Although we did obtain compensation screen prints of the chancellor's base salary from the Human Resources department and internal memos from the former president authorizing the bonus payments, without the chancellor's employment contract and/or other documentation clearly specifying eligibility for a bonus or well-defined bonus criteria, UMMS could not assure us that the chancellor met the criteria for earning the bonuses and that they were calculated correctly.

***Authoritative Guidance***

Prudent business practice dictates that the University of Massachusetts (UMass) must maintain documentation to support all accounting transactions, including things such as bonus payments. Institutions should maintain documentation of employee eligibility to receive bonuses, the requirements of the bonus program, and the calculation of the bonus amounts. Supporting documentation is the evidence maintained to substantiate decisions, events, and transactions that have occurred. For example, institutions should maintain employment contracts on file to support payments, including bonus payments, made to employees. Although UMass does not specifically require backup documentation for bonuses in its existing bonus-related policies, other UMass internal policies and processes related to business expenses require invoices or other documentation to support expenditures.

***Reasons for Missing Documentation***

Although we requested documentation to support these payments, UMMS could not provide us with an official copy of the chancellor's contract or other documentation that detailed eligibility and/or criteria for the bonus payments made in fiscal years 2010 and 2011. UMMS did not have a copy of the chancellor's contract in his file or with any other human-resources record.



**Recommendation**

UMMS should maintain proper supporting documentation for the chancellor's bonuses that includes clear and specific language outlining employee eligibility to participate in the bonus program, requirements of the bonus program, and the calculation of bonus payments. The UMass Internal Audit department should review the chancellor's bonus payments for fiscal years 2010 and 2011, identify the criteria used in the bonus calculation, and determine whether the criteria and payments were reasonable.

**Auditee Response**

*The number reported in the statement "paid bonuses to its Chancellor totaling \$367,500" is incorrect. This number includes non-bonus annuity payments to the Chancellor of \$102,900 and bonus payments of \$264,600.*

- 1. The University provides employment contracts for individuals in the Chancellor position. [The] Chancellor . . . had been Chancellor at the Boston campus before assuming the interim, and eventually permanent, appointment as Chancellor of the Medical School. The employment contract for his new position as Chancellor of the Medical School had not yet been executed at the time of the bonus payments mentioned in this observation. Therefore, the aforementioned bonus payments were based on his performance and achievements during the interim and approved by the President of the University. As it did for fiscal years 2012 and 2013, the University will continue to maintain appropriate supporting documentation for the Chancellor's bonus, including contracts which outline eligibility and bonus program requirements, and bonus calculations. In addition, the University will have Internal Audit review the Chancellor's fiscal years 2010 and 2011 bonus payments to confirm reasonableness.*

**Auditor's Reply**

While we agree that there were both annuity and bonus payments made to the Chancellor, these payments totaling \$367,500 were classified in the University's accounting system as "bonus payments." As noted above, sound business practices dictate that all compensation paid to an employee, regardless of its classification or related circumstances, should be properly documented. For this reason, we maintain that because UMMS could not provide us with a contract or other relevant documentation detailing the Chancellor's compensation, UMMS could not assure us that the Chancellor was eligible and met the criteria for the additional compensation paid out. We agree that all future bonus payments should have the appropriate supporting documentation detailing eligibility and bonus program requirements.

**OTHER MATTERS**

During the course of our audit fieldwork, University of Massachusetts (UMass) officials, in compliance with Chapter 647 of the Acts of 1989,<sup>4</sup> brought to our attention two alleged thefts that are now being investigated by UMass personnel and local law-enforcement agencies. According to Chapter 647 of the Acts of 1989, the Office of the State Auditor (OSA) is required to determine the amount involved and the internal control weaknesses that contributed to or caused the thefts, make recommendations for corrective action, and make referrals to appropriate law-enforcement officials. In view of the ongoing investigations, we elected to suspend our review of this issue during our audit. However, at the conclusion of these investigations, OSA will meet with UMass's internal audit staff to review the circumstances surrounding the investigations, determine the internal control weaknesses that contributed to the thefts, and review the corrective action taken by UMass to ensure that such incidents do not occur in the future.

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<sup>4</sup> Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies, requires that "all unaccounted for variances, losses, shortages, or thefts of funds or property [be] immediately reported to the state auditor's office."

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## APPENDIX

### University of Massachusetts System

#### *University of Massachusetts President's Office*

According to the University of Massachusetts (UMass) website,

*The Office of the President of the University of Massachusetts provides overall leadership to the entire University and its five campuses pursuant to the direction of the UMass Board of Trustees.*

*The President's Office primary responsibilities are:*

- *Represent the University to the Governor, Legislature, Executive branch agencies, state agencies, the federal government and other major external constituencies;*
- *Coordinate strategic planning, academic affairs, management and fiscal affairs, information systems, legal matters, and human resources management;*
- *Evaluate the performance of chancellors and campuses; and*
- *Provide support for the University's Board of Trustees.*

*The Office manages, through the department of Management and Fiscal Affairs, the University's Central Administrative Services, which include University Information Technology Services, University Auditing, the University Budget Office, and Human Resources including labor relations, the Treasurer's Office, and the University Controller's Office.*

*Overall planning and policy development and initiation of University-wide programs are also carried out through the President's Office.*

#### ***The Donahue Institute***

The Donahue Institute, according to its website, is “the public service, outreach, and economic development unit of the University of Massachusetts President’s Office.”

#### ***University of Massachusetts—Amherst***

The University of Massachusetts—Amherst, the university’s flagship campus, was established as Massachusetts Agricultural College in 1863. In 1931, with the increase in the number of students and a broadening of the curriculum, the college became Massachusetts State College. In 1947, it became the University of Massachusetts at Amherst. After World War II, the university’s facilities, programs, and enrollment grew, with an increase to 10,500 students by 1964. Over the next 40 years, the university continued to build new facilities including the campus center, library, fine arts center, visitors’ center, and two research centers. As of fall 2011, the University of Massachusetts—Amherst had approximately 28,000 students.

***University of Massachusetts—Boston***

In 1964, the Massachusetts legislature established the University of Massachusetts—Boston, the second university in the UMass system, in 1965 in Park Square in downtown Boston. Nine years later, the university moved to its present location on Columbia Point in Dorchester. In 1982, Boston State College was incorporated into University of Massachusetts—Boston. The university took over Boston State College's graduate and undergraduate programs in education, criminal justice, nursing, and regional studies, as well as its evening division. As of fall 2011, UMass Boston had approximately 15,700 students.

***University of Massachusetts—Dartmouth***

The college that would become the University of Massachusetts—Dartmouth was established in 1962 when the state legislature merged the New Bedford Textile School and the Bradford Durfee Textile School into Southeastern Massachusetts Technological Institute (SMTI). A new campus was constructed on a 700-acre site in North Dartmouth. In 1969, SMTI became Southeastern Massachusetts University, and in 1991, it joined the UMass system. The University of Massachusetts—Dartmouth has expanded beyond its North Dartmouth campus, opening the School for Marine Science and Technology and the Star Store campus in New Bedford and the Advanced Technology and Manufacturing Center in Fall River. In 2010, the University of Massachusetts—Dartmouth established a law program through a \$23 million donation of assets (e.g., buildings and technology) from the Southern New England School of Law in Dartmouth. There were approximately 9,200 students enrolled at the Dartmouth law school as of fall 2011.

***University of Massachusetts—Lowell***

The University of Massachusetts—Lowell formed from the 1975 merger of the Lowell Normal School, a teaching college founded in 1894, and the Lowell Textile School, a technical school founded in 1895. UMass Lowell had 15,431 students enrolled in fall 2011.

***University of Massachusetts Medical School—Worcester***

The University of Massachusetts Medical School—Worcester (UMMS) was founded in 1962 and is the Commonwealth's only public medical school. The current Worcester location was selected in 1965, and the first class graduated in 1974. In the mid-1970s, a medical science building and teaching

hospital were built. A PhD program in the biomedical sciences was established in 1979, followed by the Graduate School of Nursing in 1986. UMMS had 1,189 students enrolled in fall 2011.