University of Massachusetts  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying schedule of expenditures of federal awards includes the federal grant agreements or award transactions of the University of Massachusetts' Amherst, Boston, Dartmouth, Lowell and Worcester Medical School campuses and the Office of Central Administration ((exclusive of University of Massachusetts Building Authority and University of Massachusetts Dartmouth Foundation, Inc., which have no significant federal funding) "University") for the year ended June 30, 2006 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Administrative Cost Allowance
Included in amounts reported as expenditures on the schedule of expenditures of federal awards, the University received $771,626 in administrative cost allowances from the Department of Education for its use in administering student financial assistance programs as follows:

<table>
<thead>
<tr>
<th>Program</th>
<th>Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Perkins Program</td>
<td>$446,325</td>
</tr>
<tr>
<td>Federal Work Study</td>
<td>325,301</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$771,626</strong></td>
</tr>
</tbody>
</table>

2. Nature of Program

By definition, the programs included herein are federally funded. As such, funding is at the discretion of the Federal government. However, management has received no indication of discontinuance other than normal completion.

3. Pass-Through Funds

Pass-through funds are funds received by the University indirectly from the federal government through a primary recipient. Included in the total Federal assistance of $343,675,189 on the schedule of expenditures of federal awards for the year ended June 30, 2006 is $48,797,824 of pass-through funds.
4. **Subrecipients**

Included in the total federal assistance of $343,875,189 on the schedule of expenditures of federal awards for the year ended June 30, 2006 is $29,918,884 of federal awards provided to subrecipients. The following is a summary of the primary subrecipient amounts passed through the University for the fiscal year ended June 30, 2006:

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture Research Basic and Applied Research</td>
<td>10.001</td>
</tr>
<tr>
<td>Grants for Agricultural Research, Special Research Grants</td>
<td>10.200</td>
</tr>
<tr>
<td>Grants for Agricultural Research Competitive Research Grants</td>
<td>10.206</td>
</tr>
<tr>
<td>Initiative for Future Agriculture and Food Systems</td>
<td>10.302</td>
</tr>
<tr>
<td>Integrated Programs</td>
<td>10.303</td>
</tr>
<tr>
<td>Cooperative Extension Service Program</td>
<td>10.500</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>10.551</td>
</tr>
<tr>
<td>Forestry Research</td>
<td>10.662</td>
</tr>
<tr>
<td>ITA Special Projects</td>
<td>11.113</td>
</tr>
<tr>
<td>Coastal Zone Management Administration Awards</td>
<td>11.419</td>
</tr>
<tr>
<td>Climate and Atmospheric Research</td>
<td>11.431</td>
</tr>
<tr>
<td>Cooperative Science and Education Program</td>
<td>11.455</td>
</tr>
<tr>
<td>Unallied Science Program</td>
<td>11.472</td>
</tr>
<tr>
<td>Miscellaneous Department of Commerce</td>
<td>11.n/a</td>
</tr>
<tr>
<td>Basic and Applied Scientific Research</td>
<td>12.300</td>
</tr>
<tr>
<td>Military Medical Research and Development</td>
<td>12.420</td>
</tr>
<tr>
<td>Basic Scientific Research</td>
<td>12.431</td>
</tr>
<tr>
<td>Air Force Defense Research Sciences Program</td>
<td>12.800</td>
</tr>
<tr>
<td>Miscellaneous Department of Defense</td>
<td>12.n/a</td>
</tr>
<tr>
<td>Lead-Based Paint Hazard Control in Privately-Owned Housing</td>
<td>14.900</td>
</tr>
<tr>
<td>Sport Fish Restoration</td>
<td>15.605</td>
</tr>
<tr>
<td>Assistance to State Water Resources Research Institutes</td>
<td>15.805</td>
</tr>
<tr>
<td>National Cooperative Geologic Mapping Program</td>
<td>15.810</td>
</tr>
<tr>
<td>Outdoor Recreation Acquisition, Development and Planning</td>
<td>15.916</td>
</tr>
<tr>
<td>National Institute of Justice Research, Evaluation, and Development Project Grants</td>
<td>16.560</td>
</tr>
<tr>
<td>Police Corps</td>
<td>16.712</td>
</tr>
<tr>
<td>WIA Adult Program</td>
<td>17.258</td>
</tr>
<tr>
<td>Disability Employment Policy Development</td>
<td>17.720</td>
</tr>
<tr>
<td>Department of State - Miscellaneous</td>
<td>19.995</td>
</tr>
<tr>
<td>Highway Planning and Construction</td>
<td>20.205</td>
</tr>
<tr>
<td>State Planning and Research</td>
<td>20.515</td>
</tr>
<tr>
<td>University Transportation Centers Program</td>
<td>20.701</td>
</tr>
<tr>
<td>Miscellaneous Department of Transportation</td>
<td>20.n/a</td>
</tr>
<tr>
<td>Aerospace Education Services Program</td>
<td>43.001</td>
</tr>
<tr>
<td>Technology Transfer</td>
<td>43.002</td>
</tr>
</tbody>
</table>
MAJOR PROGRAMS

Research and Development

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>43.n/a</td>
<td>78,692</td>
</tr>
<tr>
<td>45.162</td>
<td>(300)</td>
</tr>
<tr>
<td>45.163</td>
<td>1,250</td>
</tr>
<tr>
<td>47.041</td>
<td>2,208,748</td>
</tr>
<tr>
<td>47.049</td>
<td>1,045,155</td>
</tr>
<tr>
<td>47.050</td>
<td>30,061</td>
</tr>
<tr>
<td>47.070</td>
<td>406,979</td>
</tr>
<tr>
<td>47.074</td>
<td>351,182</td>
</tr>
<tr>
<td>47.076</td>
<td>2,828,111</td>
</tr>
<tr>
<td>59.037</td>
<td>1,267,729</td>
</tr>
<tr>
<td>64.n/a</td>
<td>8,496</td>
</tr>
<tr>
<td>66.456</td>
<td>9,161</td>
</tr>
<tr>
<td>66.511</td>
<td>51,636</td>
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<tr>
<td>66.606</td>
<td>164,729</td>
</tr>
<tr>
<td>66.708</td>
<td>11,840</td>
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<tr>
<td>66.n/a</td>
<td>17,646</td>
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<tr>
<td>81.049</td>
<td>575,432</td>
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<tr>
<td>84.116</td>
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<td>84.336</td>
<td>8,258</td>
</tr>
<tr>
<td>84.928</td>
<td>(3,248)</td>
</tr>
<tr>
<td>84.n/a</td>
<td>53,366</td>
</tr>
<tr>
<td>93.107</td>
<td>460,647</td>
</tr>
<tr>
<td>93.110</td>
<td>411,234</td>
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<tr>
<td>93.113</td>
<td>202,237</td>
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<tr>
<td>93.118</td>
<td>15,000</td>
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<tr>
<td>93.121</td>
<td>108,703</td>
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<td>93.142</td>
<td>84,433</td>
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<tr>
<td>93.145</td>
<td>1,259,786</td>
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<td>93.173</td>
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<tr>
<td>93.184</td>
<td>37,750</td>
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<tr>
<td>93.197</td>
<td>5,000</td>
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<tr>
<td>93.213</td>
<td>259,953</td>
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<tr>
<td>93.226</td>
<td>234,387</td>
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<tr>
<td>93.230</td>
<td>20,393</td>
</tr>
<tr>
<td>93.242</td>
<td>718,519</td>
</tr>
</tbody>
</table>
### MAJOR PROGRAMS

#### Research and Development

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>93.243</td>
<td>6,033</td>
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<tr>
<td>93.247</td>
<td>105,749</td>
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<tr>
<td>93.262</td>
<td>165,954</td>
</tr>
<tr>
<td>93.279</td>
<td>221,016</td>
</tr>
<tr>
<td>93.283</td>
<td>210,564</td>
</tr>
<tr>
<td>93.286</td>
<td>163,508</td>
</tr>
<tr>
<td>93.361</td>
<td>66,637</td>
</tr>
<tr>
<td>93.393</td>
<td>275,645</td>
</tr>
<tr>
<td>93.394</td>
<td>40,550</td>
</tr>
<tr>
<td>93.399</td>
<td>155,614</td>
</tr>
<tr>
<td>93.631</td>
<td>10,000</td>
</tr>
<tr>
<td>93.632</td>
<td>(14,855)</td>
</tr>
<tr>
<td>93.768</td>
<td>883,040</td>
</tr>
<tr>
<td>93.779</td>
<td>244,731</td>
</tr>
<tr>
<td>93.837</td>
<td>220,998</td>
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<tr>
<td>93.838</td>
<td>407,641</td>
</tr>
<tr>
<td>93.839</td>
<td>177,410</td>
</tr>
<tr>
<td>93.846</td>
<td>3,788</td>
</tr>
<tr>
<td>93.847</td>
<td>455,145</td>
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<td>93.848</td>
<td>250,227</td>
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<td>93.849</td>
<td>272,542</td>
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<td>93.853</td>
<td>21,147</td>
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<tr>
<td>93.855</td>
<td>152,757</td>
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<tr>
<td>93.856</td>
<td>1,958,317</td>
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<tr>
<td>93.889</td>
<td>918,854</td>
</tr>
<tr>
<td>93.865</td>
<td>496,222</td>
</tr>
<tr>
<td>93.866</td>
<td>54,229</td>
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<td>93.879</td>
<td>687,229</td>
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<tr>
<td>93.919</td>
<td>5,935</td>
</tr>
<tr>
<td>93.969</td>
<td>6,750</td>
</tr>
<tr>
<td>93.989</td>
<td>77,589</td>
</tr>
<tr>
<td>93.995</td>
<td>6,793</td>
</tr>
<tr>
<td>93.n/a</td>
<td>456,120</td>
</tr>
<tr>
<td>98.n/a</td>
<td>2,385,495</td>
</tr>
<tr>
<td>99.n/a</td>
<td>40,796</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,811,466</strong></td>
</tr>
</tbody>
</table>

#### Other Programs

- Clinical Research Training Grants
- Clinical Research Centers
- Clinical Research Grants
- Cancer of National Significance
- Cancer Control
- Developmental Disabilities Projects of National Significance
- Developmental Disabilities University Affiliated Programs
- Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities
- Health Care Financing Research, Demonstrations and Evaluations
- Heart and Vascular Diseases Research
- Lung Diseases Research
- Blood Diseases and Resources Research
- Arthritis, Musculoskeletal and Skin Diseases Research
- Diabetes, Endocrinology and Metabolism Research
- Digestive Diseases and Nutrition Research
- Kidney Diseases, Urology and Hematology Research
- Extramural Research Programs in the Neurosciences and Neurological Disorders
- Allergy, Immunology and Transplantation Research
- Microbiology and Infectious Diseases Research
- Pharmacology, Physiology, and Biological Chemistry Research
- Child Health and Human Development Extramural Research
- Aging Research
- Medical Library Assistance
- Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs
- Grants for Geriatric Education Centers
- Senior International Fellowships
- Adolescent Family Life Demonstration Projects
- Miscellaneous Department of Health and Human Services
- Miscellaneous United States Agency for International Development
- Default CFDA Number
### MAJOR PROGRAMS

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.552</td>
<td>23,550</td>
</tr>
<tr>
<td>17.260</td>
<td>43,928</td>
</tr>
<tr>
<td>17.720</td>
<td>612,746</td>
</tr>
<tr>
<td>19.415</td>
<td>20,000</td>
</tr>
<tr>
<td>47.076</td>
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<tr>
<td>84.047</td>
<td>271,280</td>
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<tr>
<td>84.325</td>
<td>88,692</td>
</tr>
<tr>
<td>84.333</td>
<td>26,465</td>
</tr>
<tr>
<td>84.334</td>
<td>35,357</td>
</tr>
<tr>
<td>93.632</td>
<td>10,000</td>
</tr>
<tr>
<td>93.768</td>
<td>128,047</td>
</tr>
<tr>
<td>94.009</td>
<td>221,592</td>
</tr>
</tbody>
</table>

**Total Other Federal Assistance**  
2,107,418

**Total Awards to Subrecipients**  
$ 29,918,884
5. Loan Advances

The following schedule presents new loans processed by the University for eligible students under federal student loan programs and federally guaranteed loan programs for the year ended June 30, 2006:

<table>
<thead>
<tr>
<th>Direct Loan Programs:</th>
<th>Federal CFDA #</th>
<th>Amount Disbursed</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perkins Loan</td>
<td>84.038</td>
<td>$7,788,353</td>
<td>$39,939,821</td>
</tr>
<tr>
<td>Nursing Student Loan</td>
<td>93.354</td>
<td>2,900</td>
<td>56,099</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7,791,253</td>
<td>39,995,920</td>
</tr>
<tr>
<td>William D. Ford Federal Direct Loan Programs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stafford/Ford Loans</td>
<td>84.268</td>
<td>78,413,521</td>
<td></td>
</tr>
<tr>
<td>Parent Loans for Undergraduate Students</td>
<td>84.268</td>
<td>22,881,639</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>101,295,160</td>
<td></td>
</tr>
<tr>
<td>Family Education Loan Programs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stafford Loans</td>
<td>84.032</td>
<td>6,639,807</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>6,639,807</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>115,726,220</td>
<td></td>
</tr>
</tbody>
</table>

The Perkins Loan Program is administered directly by the University and balances and transactions are included in the University's financial statements.
PART II

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE
Report of Independent Auditors on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
In Accordance With Government Auditing Standards

To the Board of Trustees of
University of Massachusetts

We have audited the financial statements of University of Massachusetts ((exclusive of University of Massachusetts Building Authority and University of Massachusetts Dartmouth Foundation, Inc.) the "University") as of and for the year ended June 30, 2006, and have issued our report thereon dated, November 8, 2006. In that report we indicated the extent of our reliance on the reports of other auditors in the conduct of the audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the University of Massachusetts Building Authority and University of Massachusetts Dartmouth Foundation, Inc. were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect University of Massachusetts's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the University of Massachusetts in a separate letter issued in draft form as of the issuance of this report.

This report is intended solely for the information and use of the University's Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 8, 2006
Report of Independent Auditors on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance
In Accordance With OMB Circular A-133

To the Board of Trustees of
University of Massachusetts

Compliance
We have audited the compliance of University of Massachusetts ((exclusive of University of Massachusetts Building Authority and University of Massachusetts Dartmouth Foundation, Inc.) "the University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The University's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with the following compliance requirements specified by the Federal Perkins Loan Program and described in the OMB Circular A-133 Compliance Supplement:

- Contact with the borrower during the grace period
- Billing and collection procedures
- Reporting accounts in default to the credit bureau
- Processing payments
- Maintaining repayment records

Compliance with these requirements was audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the University's compliance with those requirements, is based solely on the reports of the other auditors.
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University’s compliance with those requirements.

In our opinion, based on our audit and the reports of the other auditors, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs and are identified as findings 06-02 through 06-07.

**Internal Control Over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, except as noted in the following paragraph, we considered the University’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We did not consider internal control over compliance with the following compliance requirements specified by the Federal Perkins Loan Program and described in the OMB Circular A-133 Compliance Supplement:

- Contact with the borrower during the grace period
- Billing and collection procedures
- Reporting accounts in default to the credit bureau
- Processing payments
- Maintaining repayment records

Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the University’s internal control over those compliance requirements, is based solely upon the reports of the other auditors.
Our consideration and the other auditors’ consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness. Also, the reports of the other auditors noted no matters involving the internal control over compliance and its operation that they considered to be a material weakness.

This report is intended solely for the information and use of the University’s Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

December 18, 2006
PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Part I – Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes 

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Number(s)</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various</td>
<td>Research and Development</td>
</tr>
<tr>
<td>Various</td>
<td>Student Financial Assistance</td>
</tr>
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<td>17.720</td>
<td>Disability Employment Policy Development</td>
</tr>
<tr>
<td>64.325</td>
<td>Special Education Personnel Preparation to Improve Services and Results for Children with Disabilities</td>
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</table>

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Audittee qualified as low-risk audittee? yes no
Part II – Financial Statement Finding Section

The following section includes all findings related to the audit of the University's financial statements that are required to be reported under auditing standards generally accepted in the United States of America and Government Auditing Standards.

Reportable Condition No. 06-01

Central Administration

Condition
During 2006, we noted that the University had not completed comprehensive reconciliations between its bank balance and the general ledger balances for its cash accounts due to the lack of cohesive control procedures over the reconciliation of cash. A comprehensive reconciliation includes the identification of the differences between the bank balance and general ledger balance as of a point in time, and provides a detailed and supportable explanation as to what encompasses the difference.

In addition, during the course of the audit we noted that the University’s financial statements required adjustment for certain investing related transactions (e.g. Securities Lending) in order for the financial statements to be presented in accordance with generally accepted accounting principles.

Effect
The impact of not performing a comprehensive reconciliation between the bank balance and the general ledger is that a potential risk exists that improper or erroneous transactions could occur in either the bank, and or the general ledger not be identified, and or investigated by the responsible parties in a timely manner. Also, because the University’s internal accounting relies heavily on the movements of cash among general ledger accounts, comprehensive reconciliation between the bank and the general ledger is a primary control in ensuring that all financial statement line items are properly stated at a point in time, and that a comprehensive reconciliation would identify if a material misstatement to the financial statements had been made.

Recommendation
We recommend that all cash accounts be reconciled on a monthly basis. Further, reconciliation items should be investigated and resolved in a timely be manner and the general ledger should be adjusted when necessary, and in a timely manner. Finally, we recommend that the cash reconciliations be reviewed and approved by someone independent of the reconciliation process, and that this review be performed no later than 45 days of the end of the previous month.

We recommend that as a component of the exercise of reconciling cash and investment accounts outlined above, that the University review its investment activities regularly to determine if additional reporting in the General Ledger is warranted in order to ensure compliance with generally accepted accounting principles.

Management’s View and Corrective Action Plan
See the University’s views and corrective action plan.
Part III – Federal Award Findings and Questioned Costs Section

The following section identifies instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133, Section 510.

Department of Education - Student Financial Assistance Cluster of Programs

Compliance Requirements: Special Tests and Provisions - Federal Work Study Agreements

Finding No. 06-02

Dartmouth Campus

Federal Programs Involved Federal CFDA Number
Department of Education
Federal Work Study (Award Year 2005/2006) 84.033

Criteria
Per 34CFR675.16(a)(2), "Regardless of who employs the student, the institution is responsible for ensuring that the student is paid for work performed".

Per 34CFR675.19(b)(2)(ii), "The institution shall also establish and maintain program and fiscal records that -- include a payroll voucher containing sufficient information to support all payroll disbursements".

Condition
We noted that for two out of fifteen students selected for testing, the campus failed to ensure that the time for which the student is compensated agreed to the time recorded on corresponding timesheet. We noted that one student was paid for 14 hours based on a timesheet of 24 hours. Upon further review by the campus it was noted that six of the seven students included on the specific department's payroll register for that payroll period were compensated inaccurately (underpaid or overpaid). We noted that the second student was paid for 11 hours based on a timesheet containing 15 hours.

We further noted that for two out of the thirty time sheets reviewed for the above fifteen students the campus was unable to provide sufficient documentation supporting the time worked by the students.

Cause
Certain campus departments did not fully review timesheets for accuracy.

Effect
Students involved in the Federal Work Study Program may not receive the correct compensation for hours worked.
Amount of Questioned Costs and How Computed
Total over-payment of $395.25, and under-payment of $117.50.

Recommendation
We recommend that the campus enhance its internal controls over calculation and payment of Federal Work Study compensation review procedures and those department supervisors recalculate the students' time based on the supporting timesheet before authorizing payment to ensure students are properly paid for work performed. We recommend that all Federal Work Study students be recalculated for the year for all periods and that the student's compensation is corrected. We recommend that the campus ensure all supporting documentation is maintained and filed appropriately.

Management's Views and Corrective Action Plan
See the University's views and corrective action plan.
University of Massachusetts  
Schedule of Findings and Questioned Costs  
June 30, 2006

Compliance Requirements: Special Tests and Provisions - Student Loan Repayments

Finding No. 06-03

Dartmouth Campus

Federal Programs Involved Federal CFDA Number
Department of Education
Federal Perkins Program (Award Year 2005/2006) 84.038

Criteria
Per 34CFR674.42(b), "an institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required."

Condition
We noted that two out of ten students selected for Perkins Loan Program testing were mailed their exit interview materials more than thirty days after the date of withdrawal notification recorded in the student's file. We noted that the students were mailed exit counseling materials between 38 to 40 days late.

Cause
Lack of a formal communication process between departments at the campus.

Effect
Students may not receive exit interview materials within 30 days of notifying the campus of their withdrawal.

Amount of Questioned Costs and How Computed
No costs are questioned as the finding pertains to the transfer of information.

Recommendation
We recommend that the campus enhance and emphasize effective means of communicating required information between campus departments to ensure that the campus conducts exit counseling sessions or mails counseling materials in a timely manner and in accordance with Federal regulations.

Management's Views and Corrective Action Plan
See the University's views and corrective action plan.
Compliance Requirements: Special Tests and Provisions - Student Status Changes

Finding No. 06-04

Amherst Campus

Federal Programs Involved

<table>
<thead>
<tr>
<th>Department of Education</th>
<th>Federal CFDA Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Stafford and Stafford/Federal (Award Year 2005/2006)</td>
<td>84.268</td>
</tr>
<tr>
<td>Student Loan Program</td>
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</tr>
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Criteria
Per 34CFR685.309(b)(1-2)(i), "A school shall – (1) upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who – (i) enrolled at that school but has ceased to be enrolled on at least a halftime basis."

Condition
We noted that for seven out of thirty students selected for Student Status Confirmation Report testing, the campus failed to notify the National Student Loan Clearinghouse that the student withdrew within the required time frame in accordance with Federal Regulations. We noted that the Clearinghouse was notified 63 days late.

Cause
There may be an administrative delay in processing the student's exit information.

Effect
Student’s status at the National Student Loan Clearinghouse may not be accurate.

Amount of Questioned Costs and How Computed
No costs are questioned as the finding pertains to the transfer of information.

Recommendation
We recommend that the campus develop and implement effective means of communicating required information between campus departments to ensure that the campus submits changes in status to the National Student Loan Clearinghouse in a timely manner and in accordance with Federal regulations.

Management’s Views and Corrective Action Plan
See the University’s views and corrective action plan.
Compliance Requirements: Special Tests and Provisions - Student Status Changes

Finding No. 06-05

Dartmouth Campus

Federal Programs Involved Federal CFDA Number
Department of Education
Federal Stafford and Stafford/Federal (Award Year 2005/2006) 84.268
Student Loan Program

Criteria
Per 34CFR685.309(b)(1-2)(i), "A school shall – (1) upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who – (i) enrolled at that school but has ceased to be enrolled on at least a halftime basis."

Condition
We noted that for twenty out of thirty students selected for Student Status Confirmation Report testing, the campus failed to notify the National Student Loan Clearinghouse that the student withdrew within the required time frame in accordance with Federal Regulations. We noted that the Clearinghouse was notified from 4 to 43 days late.

Cause
There may be an administrative delay in processing the student’s exit information.

Effect
An individual student’s status at the National Student Loan Clearinghouse may not be accurate.

Amount of Questioned Costs and How Computed
No costs are questioned as the finding pertains to the transfer of information.

Recommendation
We recommend that the campus develop and implement effective means of communicating required information between the Dartmouth campus and Central Administration to ensure that the campus submits changes in status to the National Student Loan Clearinghouse in a timely manner and in accordance with Federal regulations.

Management’s Views and Corrective Action Plan
See the University’s views and corrective action plan.
Compliance Requirements: Special Tests and Provisions - Verification

Finding No. 06-06

Amherst Campus

Federal Programs Involved

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<th>Department of Education</th>
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<tr>
<td>Federal Perkins Loan Program (Award Year 2005/2006)</td>
<td>84.038</td>
</tr>
<tr>
<td>Federal Pell Grant Program (Award Year 2005/2006)</td>
<td>84.063</td>
</tr>
</tbody>
</table>

Criteria
Per 34CFR668.59, if the information on the ISIR (Institutional Student Information Report) changes as a result of the verification process, an institution must take that newly updated information into account when awarding Federal funds for that award year.

Condition
We noted that for four out of fifty five students selected for student eligibility testing, updated student information as a result of the verification process was not accurately entered into the system. As a result of the errors, students were not awarded the appropriate amounts of Federal funds.

Cause
Human error in processing the information submitted by the students.

Effect
Student's whose verification information was entered incorrectly were not properly awarded.

Amount of Questioned Costs and How Computed
Students were over awarded $500 and $4,000 in the Federal Supplemental Educational Opportunity Grant and Federal Perkins Loan, respectively. There was also a net over award of $3,900 in the Federal Pell Grant Program.

Recommendation
We recommend that the campus review its process related to the manual data entry of verification information and ensure that all necessary review procedures are in place and operating effectively to prevent data entry errors. We also recommend that the campus correct the specific errors identified by refunding the over-award to the Federal Program and reimbursing the student's account with institutional funds.

Management's Views and Corrective Action Plan
See the University's views and corrective action plan.
Compliance Requirements: Special Tests and Provisions - Verification

Finding No. 06-07

Dartmouth Campus

Federal Programs Involved Federal CFDA Number
Department of Education
Federal Pell Grant Program (Award Year 2005/2006) 84.063

Criteria
Per 34CFR668.59, if the information on the ISIR (Institutional Student Information Report) changes as a result of the verification process, an institution must take that newly updated information into account when awarding Federal funds for that award year.

Condition
We noted that for five out of fifty five students selected for student eligibility testing, updated student information as a result of the verification process was not accurately entered into the system. As a result of the errors, students were not awarded the appropriate amounts of Federal funds.

Cause
Human error in processing the information submitted by the students.

Effect
Student’s whose verification information was entered incorrectly were not properly awarded.

Amount of Questioned Costs and How Computed
As a result of the exceptions noted above, students were over awarded $5,375.

Recommendation
We recommend that the campus review its process related to the manual data entry of verification information and ensure that all necessary review procedures are in place and operating effectively to prevent data entry errors. We also recommend that the campus correct the specific errors identified by refunding the over-award to the Federal Program and reimbursing the student’s account with institutional funds.

Management’s Views and Corrective Action Plan
See the University’s views and corrective action plan.
University of Massachusetts

Summary Schedule of Prior Year Audit Findings

OMB Circular A-133 for fiscal year ended June 30, 2006
(For the prior year ended June 30, 2005 findings)

RESEARCH AND DEVELOPMENT CLUSTER OF PROGRAMS

Finding 05-01: Cash Management - Amherst Campus

Original Response - The Amherst Campus will work with the University Treasurer’s Office and the University Controller’s Office to develop, document, and implement a policy to identify and monitor monies received on an advance basis to ensure interest earned in excess of $250 is remitted annually to the U.S. Department of Health and Human Services, Payment Management System, Rockville, MD 20852. This process will be implemented by the end of fiscal year 2006.

Status

The Amherst Campus has implemented a policy developed in conjunction with the University Treasurer and Controller’s Offices which identifies and monitors monies received in advance from Federal sponsors for the purpose of calculating and remitting interest earned on said funds in excess of $250 as required by the U.S. Department of Health and Human Services. This policy was effective June, 2006 and implemented retroactively to April, 2004.

Contact Person(s):
Andrew P. Mangels, Controller (413) 545-1675
Christine M. Wilda, University Controller (508) 856-8823

Finding 05-02: Cash Management – Worcester Campus

Original Response - The Worcester Campus will work with the University Treasurer’s Office and the University Controller’s Office to develop, document, and implement a policy to identify and monitor monies received on an advance basis to ensure interest earned in excess of $250 is remitted annually to the U.S. Department of Health and Human Services, Payment Management System, Rockville, MD 20852. This process will be implemented by the end of fiscal year 2006.
Status

The Worcester Campus has implemented a policy developed in conjunction with the University Treasurer and Controller’s Offices which identifies and monitors monies received in advance from Federal sponsors for the purpose of calculating and remitting interest earned on said funds in excess of $250 as required by the U.S. Department of Health and Human Services. This policy was effective June, 2006 and implemented retroactively to April, 2004.

Contact Person(s):
Nancy Vasil, Chief Financial Officer (508) 856-8606
Christine M. Wilda, University Controller (508) 856-8823

Finding 05-03: Equipment and Property Management - Lowell Campus

Original Response - The Lowell Campus now has the tools to be fully compliant and will use such tools to perform an inventory in compliance with federal requirements.

Within the past 12 months the Lowell campus completed the task of recording all property purchased with federal funds in the newly installed Asset Management System. Each piece of equipment purchased with federal funds is coded with a unique identifier that allows us to identify it as such. We now have the capability to identify all of our federally funded property and to assure ourselves that it was physically counted within a current two year period. Within the past 6 months we have refined the reports being generated from the new system and management will use these reports to ascertain the inventory has been fully completed.

Status

For fiscal year ended June 30, 2006 the Lowell Campus successfully completed a physical inventory that was fully compliant with federal requirements.

Contact Person:
Charles J. Gisondi, Comptroller (978) 934-3521

Finding 05-04: Reporting - Amherst Campus

Original Response - The current annual close process of the University is approximately 15 days after year-end and therefore does not allow the Amherst campus to comply with a 15 day reporting deadline. The Amherst campus will work with the University Controller’s Office during the planned upgrade of the Financial System to determine if the annual closing period can be shortened to allow for compliance with
Federal and State reporting deadlines. The Amherst campus will comply with all 45 day filing requirements through increased management oversight of the filing process.

**Status**

The Amherst campus complied with all 45 day filing requirements during fiscal year 2006 and continues to evaluate the closing processes in the upgraded financial system to enable compliance with the 15 day filing requirement.

**Contact Person(s):**
Andrew P. Mangels, Controller
(413) 545-1675

Submitted 10/30/06
Robert M. Harrison
Director of Audit
508-856-8863
December 21, 2006

PricewaterhouseCoopers LLP
125 High Street
Boston, MA 02110

The University of Massachusetts is pleased to submit our Management Views and Corrective Action Plan responses to the Fiscal Year ended June 30, 2006 Report on Federal Financial Assistance Programs in Accordance With OMB Circular A-133.

Sincerely,

[Signature]

Robert M. Harrison
Director of Audit

(508) 856-8863

Encl.
University of Massachusetts

2006 Management’s Views and Corrective Action Plans

OMB Circular A-133 Audit
Schedule of Findings and Questioned Costs
For the year ended June 30, 2006

(Reference FY 2006 A-133 for Complete Findings Narratives)

Central Administration
Finding 06-01

The University concurs with all aspects of the recommendation and will complete comprehensive cash and investment reconciliations on a monthly basis. Appropriate adjustments will be made to the general ledger on a timely basis. Monthly reconciliations will be reviewed by the University Controller.

The Treasurer’s Office has also addressed the impact of the fiscal year 2006 staffing vacancies which contributed to the delay in timely reconciliations. University administration has effectuated a plan to bring in all necessary resources that participate in the ongoing cash reconciliation processes including each campus Controller and Bursar. The intent of which is to develop and document refinements in the process which will address the observations noted above. In addition, the University has contracted with a third party to review reconciliation procedures in the Treasurer’s Office.

Contact Person(s):
Stephen W. Lenhardt, Vice President & Treasurer (617) 287-7010
Philip J. Marquis, Associate Treasurer (508) 856-4700
Christine M. Wilda, University Controller (508) 856-1424

STUDENT FINANCIAL ASSISTANCE CLUSTER OF PROGRAMS

Compliance Requirements – Federal Work Study
Dartmouth Campus
Finding 06-02

UMD agrees with both the Federal Work Study condition(s) noted and the recommendation. UMD maintains internal controls to ensure time recorded into the University’s system, is time worked – which is supported by supervisor signature, however as noted these procedures were not followed in the review of the Federal Work Study Program at UMD for fiscal year ending June 30, 2006. In fiscal year 2007, UMD will perform additional internal audit payroll audit reviews to ensure that UMD’s policies are enforced. Non-compliance with these policies will be addressed with additional training or other support necessary to ensure adequate controls are established.
Contact Person(s):
Jeffrey L. Robinson, Controller  (508) 999-9180
Bruce Palmer, Financial Aid Director  (508) 999-8634

Compliance Requirements – Exit Counseling
Dartmouth Campus
Finding 06-03

Beginning with the Fall 2006 semester the Bursar’s Office will be using reports that retrieve the necessary information from the Student Records component of the PeopleSoft Student Administration system.

The following reports will be reviewed Bi-weekly:

- Students that withdraw and are current or previous Perkins loan borrowers.
- Students who do not return in a semester and are current or previous Perkins loan borrowers.
- Students who drop enrollment to less than 6 credits and are current or previous Perkins loan borrowers.

Bursar’s Office staff will review these lists and send out exit interviews to the appropriate students.

Previous to the creation of the above mentioned reports, we relied on emails from the Registrar’s Office of students who withdrew. We would then determine if the withdrawn students were Perkins loan borrowers, if so we would send an exit interview packet. We found that if a student failed to return or dropped below 6 credits it was more difficult for us to identify. Periodically we would go through our Enrolled Borrowers report from Campus Partners to verify enrollment and catch any students that fall into the above mentioned categories. The past process was very time consuming and labor intensive which has resulted in an inability to process the exit interview information in accordance with Federal regulations.

Contact Person(s):
Jeffrey L. Robinson, Controller  (508) 999-9180
Bruce Palmer, Financial Aid Director  (508) 999-8634
Kathy Eubanks, Bursar  (508) 999-8608
Compliance Requirements – Student Status Confirmation  
Amherst Campus  
Finding 06-04

The reporting to the clearinghouse was delayed; however, it did not affect the exit processing of Direct Loans or Federal Perkins Loans. Exit processing occurs prior to the students’ separation in anticipation of their graduation.

The campus is in the process of installing software from the National Student Clearinghouse to assist with the accurate reporting of graduated students.

Contact Person(s):
Andrew P. Mangels, Controller  (413) 545-1675  
Kenneth Burnham, Director of Financial Aid Services  (413) 545-0356

Compliance Requirements – Student Status Confirmation  
Dartmouth Campus  
Finding 06-05

The University will immediately go to an every-month submission cycle which will improve timeliness of data reported to Clearinghouse.

Contact Person(s):
Jeffrey L. Robinson, Controller  (508) 999-9180  
Bruce Palmer, Financial Aid Director  (508) 999-8634  
Carnell Jones, Registrar  (508) 999-8618

Compliance Requirements – Institutional Student Information Report  
Amherst Campus  
Finding 06-06

The University agrees with this finding and has worked to implement additional quality control procedures. The staff responsible for verification reviews the data entry and now the Associate Director of Counseling performs additional random monthly spot checks to review the accuracy of the verification.

Incorrect awards and/or over-awards have been corrected.

Contact Person(s):
Andrew P. Mangels, Controller  (413) 545-1675  
Kenneth Burnham, Director of Financial Aid Services  (413) 545-0356
Compliance Requirements – Institutional Student Information Report
Dartmouth Campus
Finding 06-07

The University concurs with this finding and will establish additional quality control procedures in 2006 – 2007 to ensure accuracy of verification data. New quality control procedures include: All verification documents will receive a second review by another staff member in addition to the review performed initially. The second review will not be by the same staff member who performed the first review. Additionally, student verification documents will be selected randomly for a third review by the Director.

Contact Person(s):
Jeffrey L. Robinson, Controller (508) 999-9180
Bruce Palmer, Financial Aid Director (508) 999-8634