

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
BOARD OF TRUSTEES FOR THE  
CONNECTICUT STATE UNIVERSITY  
CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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October 28, 2002

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**FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

We have examined the financial records of the Connecticut State University System Office (System Office) for the fiscal years ended June 30, 2000 and 2001.

Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the System Office's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the System Office's internal control structure policies and procedures established to ensure such compliance.

This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

**COMMENTS**

**FOREWORD:**

The Board of Trustees of the Connecticut State University operates primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes. In accordance with Section 10a-87 of the General Statutes, the Board of Trustees maintains Central Connecticut State University (CSU), Eastern CSU, Southern CSU, and Western CSU. These institutions are located in New Britain, Willimantic, New Haven and Danbury, respectively.

This audit report is intended to cover operations of the Connecticut State University System Office. Separate audit reports will be issued to cover operations of its constituent State Universities. Certain information pertaining to the system as a whole is included in this report for informational purposes.

## ***Auditors of Public Accounts***

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Section 10a-88 of the General Statutes provides for a Board of Trustees of the Connecticut State University. During the audited period, the Board of Trustees consisted of 18 members, 14 appointed by the Governor and four elected by the students enrolled at the institutions under the Board's jurisdiction. The members of the Board of Trustees of the Connecticut State University as of June 30, 2001, were:

Lawrence D. McHugh, Chairman  
Karl J. Krapek, Vice Chairman  
Lynn M. Hathaway, Secretary  
Richard J. Balducci  
William Detrick  
John A. Doyle  
Theresa J. Eberhard  
Joseph A. Mengacci  
L. David Panciera  
Ronald J. Pugliese  
John R. Sholtis, Jr.  
Father John P. Sullivan  
Mertie L. Terry  
Gail H. Williams  
Eddie E. Carte (elected by students at Central CSU)  
Diallo Outley (elected by students at Eastern CSU)  
Paul Serignese (elected by students at Southern CSU)  
Angela R. Zurowski (elected by students at Western CSU)

Other members who served during the audited period were:

Gregg S. Hannah  
Jamie Coady (elected by students at Southern CSU)  
Joseph D. Hartig (elected by students at Central CSU)  
Martin Moore (elected by students at Western CSU)  
Erik N. Pettersen (elected by students at Eastern CSU)

Dr. William J. Cibes, Jr., served as Chancellor of the Connecticut State University during the audited period.

### **Recent Legislation:**

The following notable legislative changes took effect during or around the audited period:

Public Act 99-285, Section 8, codified as Section 10a-99a, subsection (a), of the General Statutes, revamps the distribution of the State endowment fund matching grants for the Connecticut State University (CSU) system and its individual institutions. Section 9, codified as Section 4-37f, subsection (9)(D) of the General Statutes, requires CSU endowments to adhere to investment and spending policies that conform to the prudent investor standards of the

Connecticut Uniform Management of Funds Act. Section 11, codified as Section 10a-151b, subsection (b), of the General Statutes, gives public higher education constituent unit and institution heads more flexibility when they purchase equipment, supplies, and contractual services, allowing them to use competitive negotiations and raising the minimum cost thresholds over which competitive bidding or competitive negotiations are required. This act was effective on July 1, 1999.

Public Act 00-187, Section 24, codified as Section 10a-20a, subsection (c), of the General Statutes, increased the maximum State matching grant for CSU endowed chairs from \$750,000 to \$1,000,000, effective on May 26, 2000.

Public Act 00-204, Section 11, codified as Section 10a-99, subsection (d), of the General Statutes, requires CSU to waive tuition for dependent children of any State or municipal employee killed in the line of duty. This Section was effective June 1, 2000.

**Enrollment Statistics:**

Enrollment statistics of the Connecticut State University compiled by the System Office showed the following enrollments for full-time and part-time students during the audited period:

|                         | <u>1999-2000</u>     | <u>2000-2001</u>     |
|-------------------------|----------------------|----------------------|
| Full-time undergraduate | 17,768               | 18,462               |
| Full-time graduate      | <u>1,258</u>         | <u>1,311</u>         |
| Total full-time         | <u>19,026</u>        | <u>19,773</u>        |
| Part-time undergraduate | 7,776                | 7,805                |
| Part-time graduate      | <u>6,482</u>         | <u>6,587</u>         |
| Total part-time         | <u>14,258</u>        | <u>14,392</u>        |
| <b>Total enrollment</b> | <b><u>33,284</u></b> | <b><u>34,165</u></b> |

**RÉSUMÉ OF OPERATIONS:**

During the audited period, operations of the System Office were primarily supported by appropriations from the State's General Fund and by telecommunications fees credited to the Operating Fund.

**General Fund:**

Expenditures totaled \$3,556,402 and \$841,235 for the fiscal years ended June 30, 2000 and 2001, respectively. General Fund expenditures consisted entirely of an appropriation transfer to support the Year 2000 conversion.

**Dormitory Debt Service Fund:**

This fund is used to account for costs associated with Connecticut State University long-term debt. Such long-term debt includes both “self-liquidating” State general obligation bonds issued to fund certain Connecticut State University capital projects and bonds issued by the Connecticut Health and Educational Facilities Authority (CHEFA).

Operating transfers into the fund totaled \$13,288,884 and \$15,363,150 during the fiscal years ended June 30, 2000 and 2001, respectively. Payments for principal retirement and interest charges totaled \$16,730,464 and \$17,182,376 during those respective fiscal years. Resources accumulated in the fund to cover future debt service requirements totaled \$46,727,357 and \$47,739,888 as of June 30, 2000 and 2001, respectively.

Self-liquidating State general obligation bonds are general obligation bonds for which it has been determined that the portion of the costs attributable to certain projects funded by the issuances, such as dormitory renovation, should be covered by associated revenues. Though the bonds are liquidated from the resources of the General Fund, the General Fund is reimbursed for the associated costs. The Connecticut State University’s liability for such issuances was determined to be \$65,920,321 and \$61,431,008 as of June 30, 2000 and 2001, respectively.

CHEFA, which operates primarily under the provisions contained in Chapter 187 of the General Statutes, was created to assist institutions for higher education, health care institutions, nursing homes and qualified nonprofit organizations in the construction, financing and refinancing of projects. Outstanding CHEFA bonds issued on behalf of the Connecticut State University totaled \$92,470,000 and \$87,325,000 as of June 30, 2000 and 2001, respectively.

**Operating Fund:**

The Operating Fund was established under Section 10a-99 of the Connecticut General Statutes. Receipts of the Operating Fund, as reflected on the records of the State Comptroller, during the audited period and the preceding fiscal year are shown below.

|                                       | <u>1998-1999</u>   | <u>1999-2000</u>    | <u>2000-2001</u>    |
|---------------------------------------|--------------------|---------------------|---------------------|
| Educational fees                      | \$4,513,066        | \$5,106,663         | \$5,240,076         |
| Miscellaneous private donations       | 25,100             | 90,281              | 1,046,174           |
| Refunds of expenditures               | 102,122            | 237,155             | 267,787             |
| Other grants and transfers-restricted | <u>3,989,869</u>   | <u>5,820,007</u>    | <u>6,887,590</u>    |
| Total receipts                        | <u>\$8,630,157</u> | <u>\$11,254,106</u> | <u>\$13,441,627</u> |

As shown above, receipts for the Operating Fund totaled \$11,254,106 and \$13,441,627 for the fiscal years ended June 30, 2000 and 2001, respectively, compared with \$8,630,157 for the fiscal year ended June 30, 1999. The increase of \$2,623,949 in the 1999-2000 fiscal year was due primarily to an increase in the category of “Other grants and transfers – restricted” for the System Office’s portion of the General Fund appropriation. The increase of \$2,187,521 in the 2000-2001

fiscal year was comprised of a rise in the category of “Miscellaneous private donations” coupled with an increase in the category of “Other grants and transfers – restricted”.

Expenditures of the Operating Fund, as recorded by the State Comptroller, during the audited period and the preceding fiscal year are shown below.

|                      | <u>1998-1999</u>    | <u>1999-2000</u>    | <u>2000-2001</u>    |
|----------------------|---------------------|---------------------|---------------------|
| Personal services    | \$4,510,541         | \$5,536,241         | \$5,388,941         |
| Contractual services | 6,914,146           | 8,363,071           | 8,067,669           |
| Commodities          | 87,969              | 484,289             | 664,140             |
| Revenue refunds      | 80                  | 0                   | 0                   |
| Sundry charges       | 1,304,114           | 2,759,190           | (1,000,559)         |
| Equipment            | <u>326,324</u>      | <u>213,383</u>      | <u>113,107</u>      |
| Total Expenditures   | <u>\$13,143,174</u> | <u>\$17,356,174</u> | <u>\$13,233,298</u> |

Expenditures for the Operating Fund totaled \$17,356,174 and \$13,233,298 for the fiscal years ended June 30, 2000 and 2001, respectively, compared with \$13,143,174 for the fiscal year ended June 30, 1999. The large increase of \$4,213,000 in the fiscal year ended June 30, 2000, was primarily the result of a consulting services associated with the implementation of Banner. Banner is the Connecticut State University’s new client-server based administrative software. The large decrease of \$4,122,876 in the fiscal year ended June 30, 2001, was primarily the result of the System Office incorrectly reporting its Operating Fund checkbook balance to the State Comptroller at year-end during the audited period. This, in turn, led to a year-end adjustment of the State Comptroller’s books resulting in an understatement (some \$3,876,605) of Operating Fund sundry charges during the fiscal year ended June 30, 2001. (For further details on this weakness, see the subheading titled “Financial Data Reported to the State Comptroller” in the “Condition of Records” section of this report.)

**Grants Fund:**

The System Office accounted for certain non-Federal grants in the Inter-agency/Intra-agency Grants – Tax Exempt Proceeds Fund. This fund was used to record disbursements related to grant transfers financed by State of Connecticut tax-exempt bonds.

Expenditures totaled \$128,650 in the fiscal year ended June 30, 2001 and consisted primarily of purchases of telecommunications equipment and transfers between State agencies.

**Capital Equipment Purchases Fund:**

This Fund is used to account for the purchase of equipment financed by bond proceeds. Expenditures totaled \$16,199 and \$12,048 during the fiscal years ended June 30, 2000 and 2001, respectively, and consisted primarily of the purchase of equipment.

**Capital Projects Funds:**

Capital Projects Funds expenditures during the fiscal years ended June 30, 2000 and 2001 totaled \$ 5,586,763 and \$2,450,290, respectively. These expenditures included purchases of EDP hardware, telecommunications equipment, and improvements to buildings at the four State universities.

**Connecticut State University Foundation, Inc.:**

The Foundation is a private nonstock Connecticut corporation established for the purpose of receiving donations for the Connecticut State University. The Foundation is a legal entity separate and distinct from the Board of Trustees and is governed by a Board of Directors.

Sections 4-37e through 4-37j of the Connecticut General Statutes institute controls over organizations established for the benefit of State agencies and institutions. An audit of the books and accounts of the Foundation was performed by the Auditors of Public Accounts for the fiscal year ended June 30, 2000, in compliance with Section 4-37f, subsection (8) of the General Statutes. This report disclosed no material inadequacies in Foundation records and indicated compliance, in all material respects with Sections 4-37e through 4-37i of the General Statutes.

## CONDITION OF RECORDS

Our review of the financial records of the System Office revealed certain areas requiring attention, as discussed in this section of the report.

### **Leave and Attendance Records:**

*Criteria:* Leave and attendance records should be maintained in accordance with applicable bargaining unit contracts and Board of Trustees personnel policies.

*Condition:* We selected a sample of 25 employees for testing in each fiscal year. We noted six instances in the sample where leave and attendance records for sick leave and/or vacation leave were inaccurate.

*Effect:* The System Office was not in compliance with collective bargaining and management personnel policies.

*Cause:* Collective bargaining contract provisions and management personnel policies were not being followed.

*Recommendation:* The System Office should ensure that leave and attendance records are maintained in accordance with established criteria. (See Recommendation 1.)

*Agency Response:* “Although we agree that the discrepancies noted by you were accurate, we disagree that the System Office was not in compliance with collective bargaining and management personnel policies. CSU considers these discrepancies as a control weakness, which has been now corrected. In the two instances where CSU overpaid seven vacation hours, those employees have since left the agency but we will pursue collection. For all six instances, we will correct both the processes that resulted in the discrepancy and the records of the noted employees.”

### *Auditors’ Concluding Comments:*

By the System Office’s own admission the conditions noted were accurate and considered a control weakness. It is unclear why the System Office disagrees that collective bargaining contract provisions and management personnel policies were not being followed. These same provisions dictate the amount and timing of leave accruals. Nevertheless during the next audit, we will review the revised processes and the records of the noted employees.

### **Internal Control over Compensatory Time:**

*Criteria:* Management is responsible for establishing effective internal controls to ensure that compensatory time record keeping is in compliance with laws,

regulations, and collective bargaining agreements.

*Condition:* The System Office has developed a compensatory time approval form for *Management and Confidential Professional Personnel*, which must be completed prior to the earning of compensatory time. The majority of the forms on file are not dated documenting the approval date, which precludes the verification of pre-approval. However, we noted one form that was dated by the supervisor approximately 30 days after the compensatory time was earned.

*Effect:* Internal control over compensatory time is weakened.

*Cause:* Internal control policies were not being followed.

*Recommendation:* The System Office should take the necessary steps to document that compensatory time earned is pre-approved according to its policies and procedures. (See Recommendation 2.)

*Agency Response:* “The CSU System Office policy on Management and Confidential accrual of compensatory time requires pre-approval by a Chief or the Chancellor. While it is the practice that no compensatory time is earned unless it is approved prior to its accrual, we note that our current form does not have a designated area for notation of the date of the pre-approval. It is the case that in addition to the pre-approval form, the timesheet for an employee earning compensatory time in a pay period must so note it and the signature of the supervisor and Chief is further documentation of approval for such earning.

However, we concur that without the date of pre-approval being noted, verification is not possible. Therefore, we will revise the pre-approval form so that it is clearly indicates the date of pre-approval which will be further documented and appended to the employee’s timesheet for the period in which the time was earned.”

### **Personal Service Agreements:**

*Criteria:* Section 10a-151b of the General Statutes governs the purchase of equipment, supplies, contractual services, and execution of personal service agreements by constituent units of higher education. Section 10a-151b, subsection (b), mandates a formal competitive bidding process whenever the expenditure is estimated to exceed \$50,000. The formal process requires that competitive bids be solicited by public notice inserted at least once in two or more publications, at least one of which shall be a major daily newspaper published in the State and shall be posted on the Internet, and at least five calendar days before the final date of submitting bids or proposals.

*Conditions:* Our testing of 10 personal service agreement contracts during the audited period revealed the following:

We noted two instances, where the System Office could not document that bid proposals for personal service agreements exceeding \$50,000 were publicly advertised on the Internet in accordance with provisions set forth in the General Statutes.

*Effect:* Internal controls over personal service agreements were weakened.

*Cause:* Internal control policies were not being followed.

*Recommendation:* The System Office should improve internal controls over personal service agreements by taking steps to ensure that documentation is maintained to support that competitive bids were solicited on the Internet. (See Recommendation 3.)

*Agency Response:* “We concur that in the two instances noted, we could not find supporting documentation that we had advertised these competitive bids on the Internet. Procedures in our PSA and Purchasing Manuals have already established these policies and the Purchasing Department will ensure that such oversight does not recur.”

### **Equipment Inventory and Reporting:**

*Criteria:* Accurate inventory records are an integral part of internal control. The State of Connecticut’s Property Control Manual provides additional guidance in this area.

*Conditions:* Our current audit examination of the System Office’s property control system revealed the following:

From a sample of 25 equipment items purchased during the audited period, we found ten items recorded on the property control records with the wrong cost.

*Effect:* The condition described above weakens internal control over equipment.

*Cause:* Internal control policies were not being followed.

*Recommendation:* Control over the System Office’s equipment inventory should be improved. (See Recommendation 4.)

*Agency Response:* “We concur with the finding that the cost valuation of ten equipment items purchased during the audited period was incorrectly stated. Prior to the

development and release of the Capital Valuation and Asset Management Policies and Procedures Manual, capital assets were stated at the Purchase Order (PO) amount. In most instances, freight, installation, and many other peripheral cost items that were not listed on the PO were omitted from the cost of the asset. The manual has addressed this problem and has established policies and procedures to correct it. Finance will perform the necessary review to ensure all assets are stated at their correct cost.”

**Compliance with Section 10a-89e of the General Statutes:**

*Criteria:* Section 10a-89e of the General Statutes states, “The Board of Trustees for the CSU System shall consolidate the purchasing process for the system at the central office.”

*Condition:* Some purchasing procedures for the State University System have been centralized at the System Office. These include training in the purchasing function, implementation of certain uniform purchasing procedures on a system-wide basis, and some procurement of goods or services at each of the State universities through contracts that were effected at the System Office. However, each of the four state universities still maintains significant purchasing resources on campus, and most purchasing-related procedures are still performed locally, rather than at the System Office.

*Effect:* The System Office is not in compliance with Section 10a-89e of the Connecticut General Statutes.

*Cause:* It was the opinion of the Board of Trustees that complete consolidation of the purchasing process at the central office would decrease efficiency rather than increase it.

*Recommendation:* The System Office should comply with the requirements of, Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the System Office. (See Recommendation 5.)

*Agency Response:* “The CSU System Office has done as much consolidation of the purchasing process as the CSU Board of Trustees deemed appropriate, most notably in the area of Information Technology contracts. It was the opinion of the CSU Board of Trustees that complete consolidation of the purchasing process at the central office would decrease efficiency rather than increase it. In response to this finding in the FY 1998 and 1999 audit, which was issued in March 14, 2001, we indicated that we would seek legislative relief in the next legislative session in order to eliminate the requirement that the System shall consolidate the purchasing process at the System Office. We did seek this relief; however, our effort was unsuccessful.”

**Reassigned Time:**

*Criteria:* Article 10 of the Collective Bargaining Agreement Between Connecticut State University American Association of University Professors and the Board of Trustees for Connecticut State University System (Bargaining Agreement) establishes faculty workload requirements. Under Article 10, members of the faculty are required to maintain a certain level of instructional activity, i.e., teach a certain number of courses, unless they are given permission to do alternative work instead.

Time spent doing such alternative work is called “reassigned time,” signifying that a portion of the faculty member’s time has been reassigned from his or her primary responsibility of teaching classes. According to the agreement, a faculty member’s time may be reassigned to allow the faculty member to perform research. The agreement also allows for other types of alternative work, which it describes only in very general terms by using the catchall phrase “administrative and quasi-administrative duties.”

*Condition:* During our previous audit examination, in connection with a complaint filed under Section 4-61dd of the General Statutes, we were required to review the guidelines governing the use of reassigned time by CSU faculty. We found that the only guidance provided was that incorporated in the Bargaining Agreement. Although the Bargaining Agreement provided for an approval process, it was not specific as to the acceptable uses of reassigned time for administrative or quasi-administrative tasks.

Our review of the events that prompted the complaint indicated that this lack of specific guidance contributed to a situation in which an employee was paid in an inappropriate manner. Documentation provided to us indicated that the employee was awarded reassigned time and allowed to fill multiple concurrent positions in an effort to provide compensation at a level administrators felt was equitable for the administrative/consulting work the employee actually performed.

In our previous report we recommended that the Board of Trustees should develop guidelines addressing the use of reassigned time. The recommendation was not made in response to the event discussed above. It was made based upon our evaluation of internal control. The event brought the matter to our attention. The control weakness needs to be addressed to reduce the risk that reassigned time will be used inappropriately again in the future. We were informed that no action has been taken in this area. As a result, the recommendation has been repeated.

## ***Auditors of Public Accounts***

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*Effect:* The lack of specific guidance in this area permits reassigned time to be used inappropriately.

*Cause:* Apparently, it was not envisioned that reassigned time would be used in such a manner when existing guidelines were developed and incorporated in the Bargaining Agreement.

*Recommendation:* The Board of Trustees of the Connecticut State University System should develop detailed guidelines addressing the use of reassigned time for administrative or quasi-administrative tasks. (See Recommendation 6.)

*Agency Response:* “As we indicated in our FY 1998 and 1999 audit response, we disagree with this recommendation. We maintain that the condition cited in that audit was an isolated incident that took place at one University and is not prevalent throughout the System. CSU has advised that University to ensure that there is no recurrence of that problem. No other issues regarding the Universities’ application of the language defining “reassigned time” contained in the Bargaining Agreement have surfaced prior or subsequent to that finding. As a result, we believe that the language in the Collective Bargaining Agreement regarding “reassigned time” is proper and sufficient.”

### *Auditors’ Concluding Comments:*

Our recommendation was based on our evaluation of internal control; it was not made in response to the single event discussed above. Consequently, we continue to believe that more detailed guidelines addressing the use of reassigned time for administrative or quasi-administrative tasks should be developed.

### **Financial Data Reported to the State Comptroller:**

*Criteria:* State agencies should provide accurate financial data to the State Comptroller to ensure that the Comptroller's records are accurate.

*Condition:* Cash transfers from the System Office’s Operating Fund bank account to its direct disbursement account are classified, generically, as direct disbursement expenditures (coded 5-39) when the cash is transferred. Subsequently, when payments are made out of the direct disbursement account, the System Office advises the State Comptroller of the specific expenditure classifications applicable to the payments made. The State Comptroller’s records are adjusted accordingly, decreasing amounts coded 5–39 and increasing amounts coded to expenditure categories reflecting actual payments made. Additionally, CSU must report to the State Comptroller the correct year-end Operating Fund cash balance it holds locally. Then, once again, the State Comptroller’s records are adjusted, further reducing the amount recorded as 5-39 expenditures. If this process is working correctly, the total of 5-39

expenditures recorded on the State Comptroller's records at year-end should equal zero.

During the 2000-2001 fiscal year, the System Office advised the State Comptroller that its Operating Fund cash balance was \$4,501,428 instead of the actual balance of \$848,174. Accordingly, the expenditure figures reported on the State Comptroller's accounting system were understated.

The State Comptroller's records showed that the System Office's generic (5-39) Operating Fund expenditures totaled a negative \$3,876,605 for the 2000-2001 fiscal year instead of showing a total of zero.

*Effect:* System Office expenditures were not accurately classified in the State Comptroller's records. This could potentially affect decisions made in reliance on the information shown in those records.

*Cause:* The System Office reported the incorrect Operating Fund cash balance at the end of the fiscal year.

*Resolution:* The System Office made arrangements with the State Comptroller to reverse the amount previously reported in error. The adjustment will be reflected in the State Comptroller's accounting records for fiscal year 2001-2002.

**Purchasing Compliance:**

*Criteria:* Section 10a-151b of the General Statutes requires constituent units of the State system of public higher education to utilize a formal competitive process when contracting for services. Proposals must be solicited in a public manner; mandatory procedures include contacting prospective suppliers directly, posting notice on a public bulletin board and advertising in publications. Further, the State's Code of Ethics mandates that, in instances where a State agency contracts with a State employee, the selection process be open and competitive.

*Condition:* Under the provisions of the Whistleblower Act, we received complaints about the acquisition of contractual services by CSU. Our review of these complaints disclosed that CSU entered into several contracts in a manner that did not provide for adequate competition.

CSU entered into two contracts with one company, one for \$62,000 and another for \$3,017,000, the latter amended to increase it by \$4,116,486 to over \$7,000,000, without complying with the provisions of Section 10a-151b. CSU had informally contacted other vendors, but the formal process required by the Statutes was not followed. Another agreement was extended and amended, adding additional costs of up to \$3,000,000, without the required

public bidding process. A \$62,800 payment was made under the original contract for a project that was not part of the original contract. The amendment was processed later and included the project that had been improperly ordered and paid for under the original contract.

Two other contracts, one for \$100,000 and the other for \$1,694,550, were awarded to firms that were primarily made up of current and former employees. Neither of these awards complied completely with the provisions of Section 10a- 151b, or the State’s Code of Ethics, regarding an open and competitive process. Under a 1998 stipulated agreement with the Ethics Commission, one of the employees, a Southern Connecticut State University professor, had agreed to pay a civil penalty of \$1,000 for entering into the first contract. We referred the issue of the second contract to the Ethics Commission after we conducted our review.

As provided for under Section 2-90 of the General Statutes, we reported these conditions to the Governor and other State officials in a letter dated July 18, 2001.

*Effect:* An open and competitive procurement process is intended to facilitate the acquisition of services at the lowest cost to the State and to help deter improprieties. The failure of CSU to follow such a process may have caused the agency to incur higher than necessary costs and appears to have resulted in improprieties.

*Cause:* Full compliance with Section 10a-151b and the State’s Code of Ethics unavoidably creates a certain amount of administrative overhead. It appears that CSU administrators attempted to expedite the contracting process without obtaining a complete understanding of the pertinent legal requirements.

*Recommendation:* The System Office should improve internal control as necessary to insure compliance with State mandated procurement policies. (See Recommendation 7.)

*Agency Response:* “In the case of the contract for \$3,017,000, later amended to over \$7,000,000, this contract related to the completion of the Banner installation at CSU. (Banner is CSU’s new client-server based administrative software.) It was important for CSU to complete the implementation of Banner as expeditiously as possible, and in as cost effective a manner as possible. Therefore, we conducted what we felt was a reasonable and representative search for contractors to complete the project without incurring harmful delay or unwarranted expense, while at the same time reasonably assuring that the course taken complied with the General Statutes. Thus, seven major vendors were contacted regarding their ability to complete the Banner installation. Three of the vendors expressed no interest in the project; indeed,

one of the vendors expressed the belief that only the existing contractor could complete the implementation properly. Four of the vendors contacted expressed some interest. However, while most could provide some form of project management assistance, none save the existing contractor could provide direct Banner conversion and related functional and technical support, which is what was needed. No vendor other than the existing contractor had successful implementation experience with a complete Banner suite of modules in the environment of a multi-campus system. Based on these discussions, we believed that if we had gone through a formal RFP process, it would have resulted in costly delays, with the outcome that the existing contractor would have been selected anyway. We believe that it was in the best interest of the State, and was not contrary to competitive bidding practices, to extend the existing contract given our discussions with other vendors.

The finding refers to another agreement, which was extended and amended, adding additional costs of up to \$3,000,000, without the required public bidding process. The original agreement in this case was a three-year maintenance contract, with costs not to exceed \$1 million per year for each of the three years. This agreement was amended and extended for an additional three years at the same terms. The original contract had gone through a full competitive bidding process. While the amendment added some services to the existing contract, because the amendment was submitted to the Attorney General's office and approved by them, it was assumed that it was proper to amend and extend the timeframe of the existing contract based on the original bids.

The CSU System Office is keenly aware of the purposes of and the necessity to comply with statutory bidding requirements and always strives to comply with Section 10a-151b of the General Statutes. The System Office believes that the reasons for not going to bid in the above cases were proper and legitimate.

Regarding the contract for \$1,694,550, which was awarded to a firm that was primarily made up of former employees, we believe the awarding of this contract did conform to the provisions of Section 10a-151b. An open and public bidding process was followed with regard to this contract. In addition, the Ethics Commission was consulted prior to the signing of the contract. The Ethics Commission did not identify any concerns regarding the issuance of this contract.

The System Office will continue to adhere to the provisions of Section 10a-151b of the General Statutes in the future. ”

*Auditors' Concluding Comments:*

With respect to the contract for \$3,017,000, later amended to over \$7,000,000, we acknowledge that, as we stated above under the “*Condition*” subheading for this finding, CSU informally contacted other vendors. We also appreciate CSU’s desire to complete the implementation of Banner as expeditiously as possible. However, we believe that the omission of public notice was contrary to the State’s competitive bidding practices.

It should be noted that the mandatory minimum requirements established by Section 10a-151b are not especially onerous or time consuming. Though the statute requires that proposals be solicited by public notice, such public notice may be made only five calendar days before the final date of submitting proposals.

As the agency has stated, the amendment adding additional costs of up to \$3,000,000 to an existing agreement was approved by the Attorney General’s Office. However, this is not relevant to the issue we raised.

All State personal service contracts exceeding \$3,000 in amount must be approved by the Attorney General’s Office before they become effective, but, as clearly stated on such contracts, only as to form. While the approval of the Attorney General’s Office provides assurance with regard to the construction of the contract, it is not intended to address the sufficiency of the contract award process.

In the case of the contract for \$1,694,550, which was awarded to a firm that was primarily made up of former employees, we do not agree that the awarding of this contract conformed to the provisions of Section 10a-151b or the State’s Code of Ethics. Though CSU went through a “pro forma” proposal solicitation process before awarding the contract, it did not make a meaningful effort to solicit competition, i.e. there was no real open and public bidding process.

CSU advertised for proposals for “consulting and facilitator assistance in the implementation of Banner 2000 for the CSU system.” This implied that the agency was seeking a firm with electronic data processing expertise and experience in implementing automated financial/administrative systems.

The firm awarded the contract focused on analyzing and improving CSU’s internal systems using TQM (Total Quality Management) principles and tools. As the wording of the advertisements did not provide an adequate description of the services sought by the agency it did not actually constitute public notice sufficient to meet the requirements of Section 10a-151b or the State’s Code of Ethics.

**CSU System Bookstore Contract Revenues:**

In accordance with provisions of Section 2-90 of the General Statutes, we conducted a performance audit of the revenue-related provisions of CSU campus bookstore contracts. Our report on this performance was dated July 11, 2001.

Each of the four CSU campuses contracts, separately, with a vendor to operate a campus bookstore. The campuses are paid a percentage of gross sales and receive certain ancillary payments as well. Though all four campuses contracted with the same vendor, the time periods covered and the commission payments varied significantly from contract to contract.

To establish a common ground for comparison of the relative benefit afforded CSU by the different contracts, we calculated the commissions that would have been generated under each during a hypothetical five-year period, given a reasonable estimate of the contracting campuses' sales volumes. We projected sales volumes for our hypothetical period by using actual 1998-1999 fiscal year sales at each campus for the first year and applying an inflation factor to that amount to derive sales for the remainder of the period. We then calculated the present value of the commission revenue stream from each contract per thousand dollars of sales.

We expected our calculations to yield roughly similar ratios for each contract. Though the four campuses are separate geographically, they are quite similar from a functional standpoint. We found a variation among campuses. Our model showed commission revenues per thousand dollars of sales of \$68.42 and 79.67, respectively, for Central and Southern, the two larger campuses. Commission revenues per thousand dollars of sales were \$109.47 and \$111.66, respectively, for Eastern and Western, the two smaller campuses. It was evident from our discussions that each campus had solicited proposals and had awarded a contract independently of the others.

It seems likely that campuses with lower revenue to sales ratios could have obtained better terms had they known the terms afforded others in similar circumstances.

Though our audit was limited to a comparison of bookstore contracts, parallel disparities may well exist with respect to other financial arrangements, such as cafeteria operations, vending machines, and others.

As a result of our review, we recommended that the CSU System Office should compile comparative data regarding financial arrangements entered into by the CSU campuses and make the compilation available for use as a negotiating tool.

As a part of the current audit, we reviewed whether the System Office has taken action to comply with the recommendation. In discussion with financial personnel of the System Office, we have found that no action has been taken in this area. Specifically, we were told that the System Office will act only on the request of the university campuses and that no such requests have been made. As a result of such inaction we are repeating our recommendation.

*Criteria:* CSU campuses would benefit economically if the negotiation of campus bookstore contracts and other financial arrangements were made by each campus with information available with respect to terms of such

arrangements on other campuses.

*Condition:* A performance audit of bookstore contract revenues at the four Connecticut State University campuses utilizing projected sales volumes based upon 1998-1999 fiscal year sales and contractual provisions in place disclosed significant disparities between commissions provided under the four contracts, disparities that could not be readily attributed to economic forces. Such disparities may well exist for a number of other financial arrangements.

*Effect:* Revenues generated under the four CSU bookstore contracts varied significantly. Our model showed commission revenues per thousand dollars of sales of \$68.42 and 79.67, respectively, for Central and Southern, the two larger campuses. Commission revenues per thousand dollars of sales were \$109.47 and \$111.66, respectively, for Eastern and Western, the two smaller campuses.

*Cause:* Each of the four CSU campuses contracts, separately, with the same vendor to operate a campus bookstore without a compilation or sharing of information among campuses.

*Recommendation:* The System Office should compile comparative data regarding financial arrangements entered into by the Connecticut State University campuses and make the compilation available for use as a negotiating tool. (See Recommendation 8.)

*Agency Response:* “We agree with this recommendation. The universities and the System Office are primarily responsible for individually negotiating contracts with respect to their own activities. However, when similar financial arrangements are undertaken separately by two or more of the universities, it would be appropriate for the System Office to compile comparative data regarding these arrangements and provide them to the universities, at their request, for use as a negotiating tool.”

### **Other Audit Examination:**

In recent years the Board of Trustees has entered into agreements with a public accounting firm to conduct certain auditing and consulting services on an annual basis, including an audit of the combined financial statements of the Connecticut State University System. As part of its audit work, the firm has made an annual study and evaluation of the system’s internal controls to the extent deemed necessary to express an audit opinion on the financial statements. Certain matters involving internal controls have been included in an annual *Report to Management* accompanying the audited financial statements.

The areas pertaining to the System Office as set forth in the *Report to Management* relating to the 2000-2001 fiscal year, the most recent report published, are presented below.

- General: The System Office, through its oversight of *Online CSU*, has engaged numerous service organizations to assist in the processing of certain transactions. SAS 70 reports or similar management reports are currently not being reviewed by the System Office for certain service organizations.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

- The System Office should either charge the sick leave balance for an employee whose time was inappropriately charged to sabbatical leave or seek restitution from the individual. The employee subsequently transferred to the Department of Children and Families (DCF). The Chancellor sent a memorandum to the Commissioner of DCF requesting that agency's assistance with resolving the matter. The System Office has taken the necessary actions to resolve the situation; therefore the recommendation is not being repeated.
- The System Office should improve internal controls over the purchasing process. The recommendation is being repeated with modification. (See Recommendation 7.)
- The Telecommunications Office should seek remittance of student telecommunications charges in a more timely manner and should not be preparing deposit slips (Form CO-39). Improvement was noted in this area; therefore the recommendation is not being repeated.
- The System Office should comply with Public Act 98-252, Section 61, which requires consolidation of the purchasing process for the system at the central office. The recommendation is being repeated with modification. (See Recommendation 5.)
- The System Office should improve internal control procedures related to telecommunications equipment. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The System Office should ensure that leave and attendance records are maintained in accordance with established criteria. The recommendation is being repeated. (See Recommendation 1.)
- Internal control over the System Office's information systems should be improved. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The Board of Trustees should develop detailed guidelines addressing the use of reassigned time for administrative or quasi-administrative tasks. The recommendation is being repeated. (See Recommendation 6.)

### *Current Audit Recommendations:*

- 1. The System Office should ensure that leave and attendance records are maintained in accordance with established criteria.**

Comment:

We noted six individuals in the sample whose leave and attendance records for sick leave and/or vacation leave were inaccurate.

- 2. The System Office should take the necessary steps to document that compensatory time earned is pre-approved according to its policies and procedures.**

Comment:

The System Office has developed a compensatory time approval form for *Management and Confidential Professional Personnel*, which must be completed prior to the earning of compensatory time. The majority of the forms on file are not dated documenting the approval date, which precludes the verification of pre-approval.

- 3. The System Office should improve internal controls over personal service agreements by taking steps to ensure that documentation is maintained to support that competitive bids were solicited on the Internet.**

Comment:

We noted two instances, where the System Office could not document that bid proposals for personal service agreements exceeding \$50,000 were publicly advertised on the Internet in accordance with provisions set forth in the General Statutes.

- 4. Control over the System Office's equipment inventory should be improved.**

Comment:

We noted ten equipment items recorded on the property control records at the incorrect value.

- 5. The System Office should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the System Office.**

Comment:

Each of the four State universities still maintains significant purchasing resources on campus, and most purchasing-related procedures are still performed locally, rather than at the System Office.

- 6. The Board of Trustees of the Connecticut State University System should develop detailed guidelines addressing the use of reassigned time for administrative or quasi-administrative tasks.**

Comment:

We found that the guidance in this area provided by the Collective Bargaining Agreement Between Connecticut State University American Association of University Professors and the Board of Trustees was not specific in relation to the acceptable uses of reassigned time for administrative or quasi-administrative tasks.

**7. The System Office should improve internal control as necessary to insure compliance with State mandated procurement policies.**

Comment:

We found that the System Office did not fully comply with Section 10a-151b of the General Statutes, which requires a formal competitive process when contracting for services. Proposals must be solicited in a public manner; mandatory procedures include contacting prospective suppliers directly, posting notice on a public bulletin board and advertising in publications.

**8. The System Office should compile comparative data regarding financial arrangements entered into by the Connecticut State University campuses and make the compilation available for use as a negotiating tool.**

Comment:

We found significant disparities between the commissions provided under the four campus bookstore contracts, disparities that could not be readily attributed to economic forces.

## **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Connecticut State University System Office for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the System Office's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the System Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the System Office are complied with, (2) the financial transactions of the System Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the System Office are safeguarded against loss or unauthorized use. The financial statement audits of the System Office for the fiscal years ended June 30, 2000 and 2001, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the System Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the System Office is the responsibility of the System Office's management.

As part of obtaining reasonable assurance about whether the System Office complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the System Office's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

### **Internal Control over Financial Operations, Safeguarding of Assets and Compliance:**

The management of the System Office is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the System Office. In planning

and performing our audit, we considered the System Office's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the System Office's financial operations in order to determine our auditing procedures for the purpose of evaluating the System Office's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the System Office's financial operations, safeguarding of assets, and/or compliance 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 internal control over the System Office's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the System Office's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: inadequate controls over the procurement process and inadequate controls over the equipment inventory.

A material or significant 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 certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the System Office's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency 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 the System Office's financial operations and over compliance 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 or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the System Office's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

**CONCLUSION**

We wish to express our appreciation to the personnel of the Connecticut State University's System Office for the cooperation and courtesies extended to our representatives during the course of this examination.

Walter J. Felgate  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts