

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, 2004 AND 2005***

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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March 27, 2007

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CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

We have examined the financial records of the Connecticut State University System Office (System Office) for the fiscal years ended June 30, 2004 and 2005.

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, contracts and grants 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

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, 2005, were:

Lawrence D. McHugh, Chairman
Karl J. Krapek, Vice Chairman
Theresa J. Eberhard-Asch, Secretary
Richard J. Balducci
William Detrick
John A. Doyle
Elizabeth S. Gange
Angelo J. Messina
John H. Motley
L. David Panciera
Ronald J. Pugliese
John R. Sholtis, Jr.
Father John P. Sullivan
Gail H. Williams
Cerissa Arpaio (elected by students at Central CSU)
M. Fernando Franco (elected by students at Western CSU)
Michael Galbicsek (elected by students at Southern CSU)
Carl Segura (elected by students at Eastern CSU)

Other members who served during the audited period were:

Lynn Mc. Hathaway
Joseph A. Mengacci
Mertie L. Terry
Timothy Doran (elected by students at Western CSU)
Ricardo A. Green (elected by students at Central CSU)
Paul J. Laedke (elected by students at Western CSU)
Shawn McQuillan (elected by students at Eastern CSU)
Andres Roman (elected by students at Southern CSU)

Dr. William J. Cibes, Jr., served as Chancellor of the Connecticut State University during the audited period. Dr. David G. Carter, Sr. was appointed Chancellor on February 3, 2006.

Recent Legislation:

The following notable legislative change took effect during the audited period:

Public Act 05-4, Section 1, amended Section 10a-149 of the General Statutes, to authorize the Connecticut State University System to award education doctoral degree programs. This Act became effective on July 1, 2005.

Enrollment Statistics:

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

	<u>2003-2004</u>	<u>2004-2005</u>
Full-time undergraduate	19,938	20,651
Full-time graduate	<u>1,613</u>	<u>1,650</u>
Total Full-time	<u>21,551</u>	<u>22,301</u>
Part-time undergraduate	6,708	6,229
Part-time graduate	<u>6,278</u>	<u>5,978</u>
Total Part-time	<u>12,986</u>	<u>12,207</u>
Total Enrollment	<u>34,537</u>	<u>34,508</u>

RÉSUMÉ OF OPERATIONS:

During the audited period, the State Comptroller accounted for the System Office operations in:

- The General Fund
- State University Operating Fund
- Grants Fund
- State University Dormitory Fund
- State Capital Project Funds

Operations of the System Office were primarily supported by appropriations from the State's General Fund and by tuition and fees credited to the University Operating Fund. General Fund appropriations for the entire Connecticut State University System, primarily for personal services and related fringe benefits, were made available to the System's Central Office, where allocations of this amount were calculated, and transfers of these funds were made periodically to the campuses' Operating Funds.

The financial information reported in the section below is derived from the Connecticut State University System's combined financial statements, which are audited by an independent public accounting firm.

Beginning with the fiscal year ended June 30, 2002, the State University System adopted Governmental Accounting Standards Board Statements No. 34 and No. 35. These statements made significant changes to the reporting model and changed the presentation of the System's financial statements from a multi-column format to a single-column format.

The State University System financial statements are adjusted as necessary, combined with those of the State's other institutions of higher education and incorporated in the State's Comprehensive

Annual Financial Report as an enterprise fund. Significant aspects of the operations of the System Office, as presented in the Agency prepared financial statements, are discussed in the following sections of this report.

Operating Revenues:

Operating revenue results from the sale or exchange of goods or services that relate to the System Office's primary function of instruction, academic support and student services.

Operating revenue as presented in the System Office's financial statements for the audited period follow:

	<u>2003-2004</u>	<u>2004-2005</u>
Tuition and fees (net of scholarship allowances)	\$21,401,347	\$23,102,912
Federal grants and contracts	460,762	714,240
State and local grants and contracts	-	133,550
Auxiliary revenues	4,694,743	4,428,685
Other sources	<u>4,602,577</u>	<u>8,616,626</u>
Total operating revenues	<u>\$31,159,429</u>	<u>\$36,996,013</u>

Operating Expenses:

Operating expenses generally result from payments made for goods and services to assist in achieving the System Office's primary function of instruction, academic support and student services.

Operating expenses include employee compensation and benefits, supplies, services, utilities and depreciation. Operating expenses as presented in the System Office's financial statements for the audited period follow:

	<u>2003-2004</u>	<u>2004-2005</u>
Personal service and fringe benefits	\$7,604,127	\$8,131,922
Professional services and fees	887,028	1,114,880
Educational services and support	52,977	107,298
Travel expenses	200,857	143,928
Operation of facilities	79,515,268	93,352,228
Other operating supplies and expenses	3,785,729	4,113,752
Depreciation and amortization expense	<u>9,647,490</u>	<u>8,889,530</u>
Total operating expenses	<u>\$101,693,476</u>	<u>\$115,853,538</u>

Nonoperating Revenues:

Nonoperating revenues are those revenues that are not from the sale or exchange of goods or services that relate to the System Office's primary function of instruction, academic support and student services. Nonoperating revenues include items such as the State's General Fund appropriation, investment income and other nonoperating revenues.

Nonoperating revenues as presented in the System Office’s financial statements for the audited period follow:

	<u>2003-2004</u>	<u>2004-2005</u>
State appropriations	\$6,540,175	\$6,665,724
Investment income and other nonoperating revenues	<u>4,039,940</u>	<u>3,435,204</u>
Total nonoperating revenues	<u>\$10,580,115</u>	<u>\$10,100,928</u>

In addition to the operating and nonoperating revenues presented above, the System Office’s financial statements also disclosed revenues classified as State appropriations restricted for capital purposes totaling \$1,742,194 and \$3,410,402 for the fiscal years ended June 30, 2004 and 2005, respectively.

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 and revenue bonds issued to fund certain Connecticut State University capital projects and bonds issued by the Connecticut Health and Educational Facilities Authority (CHEFA).

Operating transfers, per records of the Office of the State Comptroller, into the fund totaled \$20,361,920 and \$24,542,288 during the fiscal years ended June 30, 2004 and 2005, respectively. Payments for principal retirement and interest charges totaled \$22,924,297 and \$26,133,561 during those respective fiscal years. Resources accumulated in the fund to cover future debt service requirements totaled \$42,490,650 and \$41,820,644, as of June 30, 2004 and 2005, respectively.

Self-liquidating State general obligation bonds are general obligation and revenue 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 \$44,019,912 and \$39,316,957, as of June 30, 2004 and 2005, 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 \$286,855,000 and \$326,995,000, as of June 30, 2004 and 2005, respectively.

Connecticut State University Foundation, Inc.:

Auditors of Public Accounts

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 4-37k 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, 2003, 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 disclosed certain areas requiring attention, as discussed in this section of the report.

Procurement:

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, at least five calendar days before the final date of submitting bids or proposals.

The Connecticut State University System's Personal Service Agreement (PSA), Policies and Procedures Manual requires that PSA's exceeding \$3,000 must be approved and signed by the contractor and the appropriate agency official prior to the actual contract starting date. Such PSA's must also be forwarded to the Assistant Attorney General responsible for System Office business for review and approval prior to the start of the contract.

Conditions: Our random sample for procurement testing consisted of 40 expenditures for the audited period. From this sample we noted the following:

- In three instances personal service agreements were not approved before the contract period commenced. The System Office also reported another instance in which a contractor was allowed to begin providing services prior to the completion of the PSA. In this case, the agreement was never executed, and \$15,850 was paid for such services.
- In two instances we noted that original documents (invoices and receipts) were not on file and that copies were used as supporting documentation. In one instance such copies were not legible.
- In two instances we noted that the vendor's invoice and/or approval for payment were dated prior to the related purchase requisition and/or purchase order.
- We noted one instance in which a \$226,750 contract was approved as a software license that was "sole source" in nature, while documentation on file indicated that a competitor was considered for the services.
- We noted one instance in which an \$83,187 purchase order was approved without considering other approved vendors for the purchase. Contract award information on file indicated that two vendors offered the purchased products at a more favorable price.

- Effect:* The System Office was not in compliance with established policies and procedures regarding expenditures. It could not be determined whether the Office received the most competitive prices for purchases made.
- Cause:* With respect to the cases cited, established control procedures in the area of procurement were not adequately carried out.
- Recommendation:* The System Office should take steps to improve internal controls over the procurement process. (See Recommendation 1.)
- Agency Response:* “We agree with this finding and have implemented control mechanisms to ensure these oversights do not recur. Remedial activities include implementation of a new policy whereby the Vice Chancellor for Finance and Administration reviews and approves the final determination of sole source, and the implementation of logs and tickler files to reduce the number of “rush” requests.”

Property Control and Reporting:

- Criteria:* Accurate inventory records are an integral part of property control. The State of Connecticut’s Property Control Manual provides additional guidance in this area. The Manual stipulates that “The Office of the State Comptroller and the Auditors of Public Accounts must be notified immediately of all losses/damages to State property”
- Condition:* Our current audit examination of the System Office’s property control system disclosed that six equipment items, valued at \$34,612, were determined to be missing by the System Office as of September 22, 2004, but were not reported as such until August 31, 2005.
- Effect:* The condition described above weakens internal control over fixed assets.
- Cause:* The untimely reporting of missing items appears to have been an oversight.
- Recommendation:* The System Office should strengthen its control over equipment inventory by reporting all losses of State property in a timely manner. (See Recommendation 2.)
- Agency Response:* “We agree with this finding and will report missing equipment inventory more timely to the State Comptroller in the future. In the instance cited, the delay in reporting was a result of an extended search for the items in question prior to officially declaring them lost.”

Reconciliation of Accounting Records to the State Comptroller:

Criteria: The State of Connecticut’s Accounting Manual requires that each agency reconcile its records with those of the State Comptroller.

A component of a good internal control system requires that such reconciliations be performed in a timely manner.

Condition: During our review of the System Office’s reconciliations of available cash to the State Comptroller’s central accounting system, we noted instances where the monthly reconciliations were not completed in a timely manner. We found a number of instances where several consecutive months of activity were reconciled at the same time.

Effect: The condition described above weakens internal control over cash.

Cause: Internal control policies were not being followed. During this period of time, the System Office had several staff changes that may have caused the delays in performing the monthly reconciliations.

Recommendation: The monthly reconciliations between the System Office’s accounting records and the State Comptroller’s central accounting system should be performed in a timely manner. (See Recommendation 3.)

Agency Response: “We agree with this finding. The Accounting Unit was short staffed for a few months at which time we fell behind in completing our monthly reconciliations. We will continue to do our best in the future to stay current during periods of short staffing.”

Consolidation of the System’s Purchasing Process:

Background: In our prior audit report for the fiscal years 2001-2002 and 2002-2003, we recommended that 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.

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 systemwide basis, and some procurement of goods or services at each of the

State universities through contracts that were affected 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 is 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 or seek legislative relief from the requirements of this Section. (See Recommendation 4.)

Agency Response: “The Connecticut State University System has made concerted steps to comply with this statute whenever feasible. For example, this year we implemented “bundle purchasing” whereby selected commodities and services are purchased on a systemwide basis to benefit from economies of scale and volume discounts. However, the centralization of purchasing of small, low cost local items will create inefficiencies and bottlenecks at the Universities.”

Software Inventory:

Criteria: The State of Connecticut’s Property Control Manual states that “a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation and related items.” The Manual further states that “each agency will produce a software inventory report on an annual basis...A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This report will be retained by the agency for audit purposes.”

Condition: During the audited period, the System Office did not maintain a software inventory report that tracked and controlled all of its software. However, the agency did maintain a capital software inventory report. The System Office did not conduct a physical inventory of its software on an annual basis.

Effect: The System Office is not in compliance with established software inventory requirements.

Cause: During this period of time, the System Office had several staff changes that

may have caused this control procedure from not being performed.

Recommendation: The System Office should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual. (See Recommendation 5.)

Agency Response: "We agree with this finding and will keep a physical inventory of all computer software in the future. We presently keep an inventory of computer software valued at \$1,000 and above."

Information System Controls:

Background: Our review of information system controls included the examination of access privileges to Banner and Core-CT. Banner is the Connecticut State University's client-server based administrative software. Core-CT is the Connecticut State government's central financial and administrative computer system.

Criteria: In order to ensure system integrity, all access to the system should be disabled promptly upon termination of employment.

Conditions: From a sample of seven employees who separated employment from the System Office during the audited period, we noted three instances where the employees' Core-CT access was not disabled upon termination. In another instance, the employee's Banner access was not disabled.

Effect: Internal control over the information system is weakened when an employee's access is not disabled promptly upon termination.

Cause: The System Office did not comply with its established procedures for terminating employees' access privileges to its information systems.

Recommendation: The System Office should disable all computer access to their information systems promptly upon an individual's termination of employment. (See Recommendation 6.)

Agency Response: "The System Office Information Technology Department has worked with Human Resources to develop an extensive process for reviewing and terminating user account privileges when a user leaves the CSU System Office. Management has formalized the exit processing procedures to ensure that appropriate notice is given to account managers when an employee leaves the system. A signed check list is maintained for all exit processing activities. Documentation of account termination is maintained in the employee's personnel file."

EDP Disaster Recovery Plan:

Criteria: Sound business practices include provisions that organizations have current disaster recovery plans in place to enable critical operations to resume activity within a reasonable period after a disaster.

Condition: During the audited period, the System Office did not have a current comprehensive disaster recovery plan in place. A System Office representative informed us that subsequent to the audited period a security firm was hired to develop such plan.

Effect: In the event of a system catastrophe, the lack of a current disaster recovery plan may reduce the likelihood of the System Office resuming critical operations in a timely fashion.

Cause: During this period of time, the System Office's Information Technology Office had several staff changes that may have delayed the development of a current disaster recovery plan.

Recommendation: The System Office should continue its efforts to develop a formal comprehensive disaster recovery plan for its EDP systems. (See Recommendation 7.)

Agency Response: "The System Office has initiated a disaster recovery planning process, the first phase of which was completed by January 2007 – internal to the System Office IT staff. This phase includes communications planning and documentation of recovery procedures. Phase two has been initiated – discussion with System Office business units to determine restoration priorities and other technology needs in the event of a disaster. This phase should be completed early in 2007. Phase three of this process – discussion with the Universities about recovery of shared systemwide resources such as Banner and Vista servers – will be initiated in Spring 2007. Lessons learned and processes developed in phases one and two should be applicable to the development of systemwide disaster recovery and business continuity strategies. The System Office has shared information with the University CIOs about its disaster recovery planning. As a beginning of a systemwide plan, the Council on Information Technology has drafted a statement of mutual support outlining strategies for sharing resources among the Universities in the event of a disaster. In accordance with its oversight function, the System Office intends to coordinate with the Universities to compile a complete set of current IT disaster recovery/business continuity plans for each institution and the System Office by Spring 2007. Risk assessment for Banner information resources and mitigation strategies is also being addressed as part of the first phase of implementing the System Security Standards, developed by a systemwide team. Initiation and implementation of a virtual network will enhance disaster recovery efforts by

creating redundancy at each site, including the System Office. Meetings regarding the virtual network have already been held with the Presidents, who have committed to this approach, and this effort will be moving forward during FY2007.”

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 Connecticut State University System as a whole as set forth in the *Report to Management* relating to the 2004-2005 fiscal year, are presented below:

- General: The CSU System should implement a dual signature requirement for high dollar disbursements. The Universities should consider performing two quarterly closings. Net asset detail should be analyzed on a regular basis to ensure that negative balances in individual restricted and designated funds are appropriately remedied in a timely manner.
- Information Systems: Management should continue to implement the Information Technology Strategic Plan. Management should continue to pursue and implement groupware technologies across the CSU System. Management should document, communicate, educate and enforce consistent program change control procedures for Information Technology staff at all CSU locations. Management should introduce and communicate documented network monitoring policies and procedures. Management should assess and implement an intrusion detection system to reduce the level of risk from external threats. Management should continue in their efforts to develop a comprehensive Disaster Recovery Plan or a Business Resumption plan. Management should continue their efforts to finalize a security plan and consider centralizing security administration across CSU. Management should establish and document policies and procedures for performing periodic reviews of user access rights to key business applications.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The System Office should proceed with collection efforts regarding actions it may take pertaining to the incorrect payment for accrued leave time. The System Office recovered the overpayment at issue and we did not note any related errors during our current review. As such, we are not repeating our recommendation.
- The System Office should take steps to improve internal controls over the procurement process. Our current review disclosed that sufficient improvements have not been made; we are repeating this recommendation in modified form. (See Recommendation 1.)
- Control over the System Office's equipment inventory should be improved. While we noted improvements, we did note certain exceptions that need to be addressed and are repeating this recommendation in modified form. (See Recommendation 2.)
- The monthly reconciliations between the System Office's accounting records and the State Comptroller's central accounting system should be performed in a timely manner. We noted similar conditions during our current review and are repeating this recommendation. (See Recommendation 3.)
- 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. Our current review disclosed that no substantive further action has been taken and that the CSU Board of Trustees believes that complete consolidation of the purchasing process at the System Office would decrease efficiency rather than increase it. The CSU Board of Trustees should seek a legislative change to support this opinion, and we are, therefore, providing a modified recommendation to that effect. (See Recommendation 4.)

Current Audit Recommendations:

- 1. The System Office should take steps to improve internal controls over the procurement process.**

Comment:

A significant number of expenditure transactions were not processed in compliance with established policies and procedures. Most significantly, for some purchases examined, it could not be determined whether the Office received the most competitive prices for purchases made.

- 2. The System Office should strengthen its control over equipment inventory by reporting all losses of State property in a timely manner.**

Comment:

Our examination of the System Office's property control records disclosed that certain missing items were not reported in a timely manner.

- 3. The monthly reconciliations between the System Office's accounting records and the State Comptroller's central accounting system should be performed in a timely manner.**

Comment:

We continued to note that monthly reconciliations between the System Office's accounting records and the State Comptroller's central accounting system were not performed in a timely manner.

- 4. 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 or seek legislative relief from the requirements of this Section.**

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. The CSU Board of Trustees believes that complete consolidation of the purchasing process at the System Office would decrease efficiency rather than increase it.

- 5. The System Office should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual.**

Comment:

The System Office did not maintain a complete software inventory that tracks and controls all of its software media, licenses or end user license agreements, certificates of authenticity, and other related items. Furthermore, the System Office did not conduct a physical inventory of its software during the audited period.

- 6. The System Office should disable all computer access to their information systems promptly upon an individual's termination of employment.**

Comment:

From a sample of employees who had terminated employment with the System Office, we noted several instances where Core-CT and/or Banner access was not disabled promptly.

- 7. The System Office should continue its efforts to develop a formal comprehensive disaster recovery plan for its EDP systems.**

Comment:

The System Office did not have a current comprehensive disaster recovery plan for its EDP systems in place during the audited period.

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, 2004 and 2005. 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, 2004 and 2005 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 auditing standards generally accepted in the United States of America and the standards applicable to financial 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, 2004 and 2005, 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; inadequate control of the System Office's information systems and the lack of a current disaster recovery plan.

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 none of the reportable conditions described above are material or significant weaknesses.

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
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts