

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, 2006 AND 2007***

AUDITORS OF PUBLIC ACCOUNTS

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November 14, 2008

AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE CONNECTICUT STATE UNIVERSITY
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FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

We have examined the financial records of the Connecticut State University System Office (System Office) for the fiscal years ended June 30, 2006 and 2007.

Financial statement presentation and auditing are performed 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, 2007, were:

Lawrence D. McHugh, Chairman
Karl J. Krapek, Vice Chairman
Theresa J. Eberhard-Asch, Secretary
Richard J. Balducci
John A. Doyle
Elizabeth S. Gange
Angelo J. Messina
John H. Motley
L. David Panciera
Ronald J. Pugliese
Peter M. Rosa
John R. Sholtis, Jr.
Father John P. Sullivan
Gail H. Williams
Christopher Ambrosio (elected by students at Southern CSU)
M. Fernando Franco (elected by students at Western CSU)
Andrew Russo (elected by students at Central CSU)
Brian Sullivan (elected by students at Eastern CSU)

Other members who served during the audited period were:

William Detrick
Cerissa Arpaio (elected by students at Central CSU)
Michael Galbicsek (elected by students at Southern CSU)
Carl Segura (elected by students at Eastern CSU)

Dr. William J. Cibes, Jr., served as Chancellor of the Connecticut State University through February 3, 2006, at which time Dr. David G. Carter, Sr. was appointed Chancellor.

Recent Legislation:

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

Public Act 07-7, June Special Session, Sections 101-108, effective July 1, 2008, authorized the Connecticut State University System Infrastructure Act (Infrastructure Act). The legislation within the Infrastructure Act establishes the CSUS 2020 Fund, which will be a general obligation bond fund held and administered by the State Treasurer to account for the bonds authorized to fund various infrastructure improvements to the CSU System. It is estimated that the total cost of the projects identified in the Infrastructure Act will be \$950,000,000.

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>2005-2006</u>	<u>2006-2007</u>
Full-time undergraduate	21,132	21,755
Full-time graduate	<u>1,759</u>	<u>1,600</u>
Total Full-time	<u>22,891</u>	<u>23,355</u>
Part-time undergraduate	5,912	5,816
Part-time graduate	<u>5,681</u>	<u>5,443</u>
Total Part-time	<u>11,593</u>	<u>11,259</u>
Total Enrollment	<u>34,484</u>	<u>34,614</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>2005-2006</u>	<u>2006-2007</u>
Tuition and fees (net of scholarship allowances)	\$23,686,341	\$16,960,683
Federal grants and contracts	-	24,880
State and local grants and contracts	90,000	12,000
Nongovernment grants and contracts	50,000	-
Auxiliary revenues	4,143,595	4,659,771
Other sources	<u>14,409,191</u>	<u>13,599,640</u>
Total operating revenues	<u>\$42,379,127</u>	<u>\$35,256,974</u>

The decrease in the tuition and fees category of \$6,725,658 was primarily the result of the System Office returning approximately eight million of accrued prior period corrections back to the Universities in the 2006-2007 fiscal year. These prior period corrections were the result of a change in the CSU System's distribution methodology for tuition and General Fund dollars. When the distribution methodology model changed in the 1999-2000 fiscal year, it was intended that it would be fully implemented over several years. In the 2006-2007 fiscal year, the Board of Trustees approved retroactive funding for those universities that did not receive their full funding during the period of implementation.

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>2005-2006</u>	<u>2006-2007</u>
Personal service and fringe benefits	\$8,423,693	\$9,599,334
Professional services and fees	1,609,481	1,257,945
Educational services and support	22,306	76,389
Travel expenses	142,869	201,894
Operation of facilities	68,908,382	44,610,004

Other operating supplies and expenses	2,241,311	3,220,140
Depreciation expense	1,569,057	1,711,570
Amortization expense	<u>53,482</u>	<u>249,358</u>
Total operating expenses	<u>\$82,970,581</u>	<u>\$60,926,634</u>

The increase in the personal service and fringe benefits category of \$1,175,641 in the 2006-2007 fiscal year was primarily the result of salary increases attributed to collective bargaining increases. The CSU System Office maintains the debt for the various bonds issued by Connecticut Health and Education Facilities Authority (CHEFA). The principal and interest payments for these CHEFA bonds are included in the operation of facilities category. During the 2006-2007 fiscal year, the CSU System advance refunded portions of Series D, E and G CHEFA bonds which decreased the principal and interest payments. During the 2005-2006 fiscal year, the System Office recorded approximately \$21 million more of Connecticut Health and Education Facilities Authority expenditures than the 2006-2007 fiscal year.

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>2005-2006</u>	<u>2006-2007</u>
State appropriations	\$6,534,509	\$8,318,101
Investment income and other nonoperating revenues	<u>6,549,374</u>	<u>5,283,876</u>
Total nonoperating revenues	<u>\$13,083,883</u>	<u>\$13,601,977</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 \$741,000 and \$2,133,416 for the fiscal years ended June 30, 2006 and 2007, 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 into the fund, per records of the Office of the State Comptroller, totaled \$31,346,727 and \$32,615,871, during the fiscal years ended June 30, 2006 and 2007, respectively. Payments for principal retirement and interest charges totaled \$32,714,574 and \$34,069,476, during

those respective fiscal years. Resources accumulated in the fund to provide for future debt service requirements totaled \$42,025,883 and \$42,769,674, as of June 30, 2006 and 2007, 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 provided for with 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 \$34,047,618 and \$28,428,735, as of June 30, 2006 and 2007, 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 \$315,970,000 and \$304,770,000, as of June 30, 2006 and 2007, respectively.

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 4-37k 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, 2006, 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.

Core-CT Roles – Lack of Separation of Duties:

Criteria: Good internal control requires that adequate separation of duties should be present between the payroll and human resources functions. Access to the Human Resource Management System module in Core-CT should be limited in such a manner that payroll and human resources employees do not share the same roles in the system.

Condition: Our review disclosed that human resources staff have access to both payroll and human resources functions in Core-CT. This access allows human resources staff the ability to both create and issue payments to employees.

Effect: Internal controls are weakened when roles in Core-CT are not limited. When there is no separation of duties between the payroll and human resources functions, employees have the ability to influence the entire process.

Cause: The System Office believes the access that is currently assigned to its employees is necessary because of the way Core-CT roles have been established in the system.

Recommendation: The System Office should establish a separation of duties between its payroll and human resources functions. Payroll and human resources staff should be assigned roles specific to their function. (See Recommendation 1.)

Agency Response: “Management agrees that separation of duties is the most effective means of control. However, the System Office has only one person directly assigned to both the payroll and human resources functions respectively. As a result, it is difficult to enforce full separation of duties. Management will broaden the payroll input and output review processes to maintain the integrity and security of our payroll data and to ensure internal accounting controls remain strong.”

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.

The Connecticut State University System’s Procurement Manual sets forth requirements relating to the acquisition of goods and services.

Conditions: Our random sample for procurement testing consisted of 25 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.
- In two instances the required Consulting Agreement Affidavit Form, that must accompany a contract for the purchase of goods and services with a value of \$50,000 or more in a calendar or fiscal year, was not completed.
- One instance where a software maintenance agreement was signed before the issuance of a purchase requisition and purchase order.
- One instance where a vendor's invoice for work initiated on a change order was received and approved for payment prior to the submission of an amended purchase requisition and purchase order.
- One instance where annual software licenses that were purchased were not included on the System Office's software inventory report.

Effect: The System Office was not in compliance with established policies and procedures regarding expenditures.

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 comply with established policies and procedures and improve internal control over the procurement process. (See Recommendation 2.)

Agency Response: "Management concurs with this finding and has reemphasized existing processes, and in some cases implemented revised processes to ensure they do not reoccur."

Travel Expenditures:

Criteria: The Connecticut State University System's Travel Policy and Procedures Manual sets forth requirements relating to travel-related expenditures.

Conditions: Our review of a sample of travel-related expenditures disclosed the following:

- One instance where the required travel authorization and travel reimbursement forms were never completed.
- One instance where an employee replaced another employee on a business trip, but the revised travel authorization was not re-approved by all of the required parties.
- One instance where the traveler was incorrectly reimbursed the meal reimbursement and incidental expense per diem. In addition, the traveler

was reimbursed for several meals that were included as part of the conference registration.

- One instance where the traveler was reimbursed for the cost of an airline ticket without the appropriate supporting documentation.
- Three instances where the traveler was reimbursed for telephone calls of \$10 each to their homes without submitting proper documentation.
- One instance where an employee was reimbursed inappropriately for long-term parking at Bradley International Airport.
- Three instances where employees did not purchase the required rental car insurance.

Effect: The System Office did not comply with its established policies and procedures, which weakens internal control, and increases the likelihood that inappropriate travel expenditures may be made and not be detected by management in a timely manner.

Cause: Internal control policies were not being followed.

It appears that the employee extended, what was a business the trip, for personal reasons, which caused the State employee parking permit to expire before the employee returned from the trip.

An agency representative informed us that the employees did not purchase the rental car insurance as required in the System Office's policies and procedures because those employees were covered by their own personal automobile liability insurance.

Recommendation: The System Office should comply with established policies and procedures and improve internal control over travel-related expenditures. (See Recommendation 3.)

Agency Response: "Management agrees with the finding and will ensure the established travel policies are followed."

Internal Control over Purchasing Cards:

Criteria: The System Office's Purchasing Card Program Manual sets forth requirements relating to the use of purchasing cards. This Manual highlights the various purchasing card authorization criteria. One of these criteria is that there is a single purchase limit not to exceed \$1,500. The Manual further states that a purchasing card log should be maintained and reconciled to the monthly bank account statement.

Sound internal control procedures require that the purchasing card log is

reconciled to the bank account statement in a timely manner.

Conditions: Our current audit examination of the System Office’s purchasing card system disclosed that there was no formal process to document that the monthly reconciliation between the purchasing card log and the bank account statement was performed, and that the reconciliation was completed in a timely manner.

In addition, our review of a sample of transactions processed during the audit period, disclosed the following:

- Two instances where transactions processed on the purchasing card were not recorded on the purchasing card log.
- One instance where it appeared a transaction totaling \$2,100 was split to avoid the single purchase limit of \$1,500. The charge was processed as two transactions totaling \$1,500 and \$600. The charges were listed on the purchasing card log as two transactions totaling \$1,350 and \$750.

Effect: The System Office did not comply with its established policies and procedures, which weakens internal control, and increases the likelihood that inappropriate expenditures may be made and not be detected by management in a timely manner.

Cause: The System Office did not have a policy that required that the person completing the reconciliation document the date that the reconciliation was performed. Internal control policies were not being followed.

Recommendation: The System Office should comply with the established purchasing card policies and procedures. The System Office should consider developing a process to document that the monthly reconciliation between the purchasing card log and the bank account statement is completed in a timely manner. (See Recommendation 4.)

Agency Response: “Management agrees with these findings and will ensure that the policies and procedures established for purchasing cards are followed to prevent a reoccurrence.”

Consolidation of the System’s Purchasing Process:

Background: In our prior audit report for the 2003-2004 and 2004-2005 fiscal years, 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 5.)

Agency Response: “The State University System has made concerted steps to comply with this statute whenever feasible. For example, we have 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.”

Auditors Concluding Comments:

The agency’s response does not ensure that the recommendation will be resolved.

Reconciliation:

Criteria: Accepted internal control standards dictate that bank reconciliations be performed in a timely manner. Additionally, internal control standards require the identification and prompt resolution of reconciling items.

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

Conditions: Our review of the System Office’s bank reconciliation for the month ended June 30, 2006, disclosed 17 outstanding checks totaling \$15,328 that were issued from March 1, 2000 to August 29, 2005. These same checks were listed as outstanding on the bank reconciliation for the month ended June 30,

2007. Upon our inquiry of the status of these outstanding checks in November 2007, the agency made the determination that 12 of these checks, totaling \$15,111, should be voided. The remaining five checks were going to be reissued to the respective parties.

During our review of the System Office's reconciliation of available cash to the State Comptroller's central accounting system for the month ended June 30, 2007, we noted an instance where a reconciling item, totaling \$8,608, was not resolved in a timely manner.

Effect: Reconciling items were not resolved in a timely manner, which affects the cash balance reported on the general ledger.

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 resolving outstanding items.

Recommendation: The System Office should follow its internal control procedures to ensure that all reconciling items are resolved in a timely manner. (See Recommendation 6.)

Agency Response: "Management agrees with this recommendation, and has reviewed and re-emphasized existing processes to ensure that these issues do not reoccur."

Equipment Inventory:

Criteria: The Connecticut State University System's Capital Valuation and Asset Management Manual provides policies and procedures for physical and reporting controls over capital assets.

Accurate inventory records are an integral part of internal control.

Conditions: Our current audit examination of the System Office's property control system disclosed the following:

- Certain amounts presented on the annual Fixed Assets/Property Inventory Report (CO-59) submitted for the fiscal year ended June 30, 2007, contained errors. The System Office incorrectly capitalized the cost of maintenance and support services, which overstated the CO-59 line item titled "Equipment" by \$61,919. In addition, the System Office incorrectly reported \$1,036,855 in the line item titled "Equipment" that should have been reported in the line item titled "Leased Equipment – Capitalized".
- From a sample of 21 equipment items purchased during the audited period, one item was missing a barcode. In this instance, the serial number that was recorded during physical inspection did not match the serial number recorded on the inventory record. Furthermore, the item

was found at a university campus in a location contrary to where the System Office had last inventoried the item. In addition, five items located off-site at other CSU campuses could not be easily found based on the location codes in the System Office's fixed asset tracking system. In each of these instances, the room number was omitted from the property control record.

- From a sample of 15 equipment items selected from the inventory records, one item was missing a barcode. In this instance, the serial number recorded during physical inspection did not match the serial number recorded on the inventory record. One item was removed from the agency's premises without completing the required Equipment on Loan Agreement Form. In addition, four items located off-site at other CSU campuses could not be easily found based on the location codes in the System Office's fixed asset tracking system. In each of these instances, the room number was omitted from the property control record.
- From a sample of 10 equipment items identified by a random inspection of the premises, we found one item that was not listed on the current inventory records. Upon further review, a System Office representative informed us that this item was not a System Office asset, but was an asset owned by another CSU campus that was pending disposal. There was no documentation on file to support this statement.
- From a sample of 11 disposed equipment items, we noted one transaction that contained multiple routers, which were transferred to another State agency without the required documentation. In addition, these assets were not removed from the System Office's property control records in a timely manner. These items remained on the System Office's property control records for approximately three years after the transfer date. In addition, one item that was identified as missing was never reported as such in accordance with statutory provisions.

Effect:

The System Office's property control records are not in compliance with established policies and procedures. The conditions described above weaken internal control over equipment and increases the likelihood that the loss of equipment may occur and not be detected by management in a timely manner.

Cause:

Internal control policies were not being followed.

It appears that the items were moved without notifying the Property Control Unit.

We were informed that the System Office did not record the room number for the items listed off-site at other CSU campuses because of a limitation in the size of the field in the asset tracking software.

The Property Control Unit was not informed of the donation in a timely manner.

Recommendation: The System Office should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over capital assets. (See Recommendation 7.)

Agency Response: "Management agrees with these findings and will ensure all parties associated with capital assets comply with established policy and procedures as contained in the Connecticut State University System Capital Valuation and Asset Management Manual."

Construction Projects Administered by the Agency:

Criteria: The Department of Public Works' (DPW) Guidelines and Procedures Manual for Agency Administered Projects sets forth the requirements for agency administered construction projects. This Manual requires that the Chief Administrative Officer of each agency, which manages agency administered projects in excess of \$10,000, and received funds from the proceeds of bonds issued under the State General Obligation Bond Procedure Act, must file a Completion/Status Report with the Secretary of the State Bond Commission no later than 90 days following completion of the project.

Condition: Our current audit examination of construction projects administered by the System Office disclosed an instance where the required Completion/Status Report for a bond funded project was not submitted as required.

Effect: The System Office did not comply with established policies and procedures, which weakens internal control.

Cause: Internal control policies were not being followed.

Recommendation: The System Office should comply with established policies and procedures and improve internal control over agency administered projects. (See Recommendation 8.)

Agency Response: "Management agrees with this finding and has developed a policy to ensure this does not reoccur."

Information System Controls:

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

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

Condition: From a sample of 11 employees who separated employment from the System Office during the audited period, we noted three instances where the employees' Banner access was not disabled upon termination in a timely manner. In one of these instances, the access was still active until we notified the agency. In the other two instances, the employees were rehired retirees and their access remained active for 133 and 244 days after their last day.

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 system. A System Office representative informed us that the rehired retirees' Banner access was kept active until the agency was 100 percent sure that their services would no longer be needed.

Recommendation: The System Office should disable all computer access to their information system promptly upon an individual's termination of employment. (See Recommendation 9.)

Agency Response: "Management agrees with this recommendation and will disable all computer access for terminated or retired employees on their last day of employment. In the case of rehired retirees, their access will be disabled upon termination of their rehired status or completion of the assignment necessitating the computer access."

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.

The System Office has initiated a disaster recovery planning process, which includes three phases. The first phase which was completed in January 2007, included communications planning and documentation of recovery

procedures. The second phase focuses on restoration priorities and other technology needs in the event of a disaster. A System Office representative informed us that as of June 2008, the second phase was almost complete.

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 the audited period, the System Office's Information Technology Office had several staff changes that may have delayed the development of a comprehensive disaster recovery plan. In addition, we were informed that funding needed to purchase capital infrastructure was not available.

Recommendation: The System Office should continue its efforts to develop and implement a formal comprehensive disaster recovery plan. (See Recommendation 10.)

Agency Response: "Management agrees with this recommendation and efforts toward developing a formal, comprehensive disaster recovery plan will proceed as expeditiously as possible."

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."

Conditions: Our current audit examination of the System Office's software inventory control system disclosed the following:

- The software inventory did not contain the required minimum data elements.
- Certain amounts presented on the annual software inventory report contained errors and omissions.
- The agency was unable to produce evidence that a physical inventory of the software libraries was performed and compared to the annual software inventory report.

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 completely.

Recommendation: The System Office should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual. (See Recommendation 11.)

Agency Response: "Within the past year, the System Office has made much progress in our attempt to comply with minimum data elements of this directive. We will continue to work at meeting these requirements as completely as is feasible."

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 2006-2007 fiscal year, are presented below:

- General: Management should evaluate the risks associated with the more significant spreadsheets and design and document controls that would address the risk of misstatements caused by human error as well as intentional misstatements.
- Information Systems: Management should continue to review and implement the Information Technology Strategic Plan.

RECOMMENDATIONS

Our prior report contained 7 recommendations. There was no satisfactory resolution of any of these recommendations. All seven recommendations have been repeated or restated to reflect current conditions. Four additional recommendations are being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- The System Office should take steps to improve internal controls over the procurement process. The recommendation is being repeated with modification. (See Recommendation 2.)
- The System Office should strengthen its control over equipment inventory by reporting all losses of State property in a timely manner. The recommendation is being repeated with modification. (See Recommendation 7.)
- 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. The recommendation is being repeated with modification. (See Recommendation 6.)
- 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. Our current review disclosed that no further action has been taken; we are repeating this recommendation. (See Recommendation 5.)
- The System Office should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual. While we noted improvements, we did note certain exceptions that need to be addressed. We are repeating this recommendation. (See Recommendation 11.)
- The System Office should disable all computer access to their information systems promptly upon an individual's termination of employment. The recommendation is being repeated. (See Recommendation 9.)
- The System Office should continue its efforts to develop a formal comprehensive disaster recovery plan for its EDP systems. While we noted progress in the development of the disaster recovery plan, it was still not implemented during the audited period. Therefore, the recommendation is being repeated with modification. (See Recommendation 10.)

Current Audit Recommendations:

- 1. The System Office should establish a separation of duties between its payroll and human resources functions. Payroll and human resources staff should be assigned roles specific to their function.**

Comment:

Our review disclosed that human resources staff has access to both payroll and human resources functions in Core-CT. This access allows human resources staff the ability to both create and issue payments to employees.

- 2. The System Office should comply with established policies and procedures and improve internal control over the procurement process.**

Comment:

A significant number of expenditure transactions were not processed in compliance with established policies and procedures.

- 3. The System Office should comply with established policies and procedures and improve internal control over travel-related expenditures.**

Comment:

A significant number of travel-related expenditure transactions were not processed in compliance with established policies and procedures.

- 4. The System Office should comply with the established purchasing card policies and procedures. The System Office should consider developing a process to document that the monthly reconciliation between the purchasing card log and the bank account statement is completed in a timely manner.**

Comment:

We noted several transactions that were processed utilizing a purchasing card that were not processed in compliance with established policies and procedures. In addition, we found that the System Office did not have a policy in place to document when the monthly reconciliation between the purchasing card log and the bank account statement was performed.

- 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 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.

6. The System Office should follow its internal control procedures to ensure that all reconciling items are resolved in a timely manner.

Comment:

The System Office's bank reconciliations had outstanding items that were not reviewed and resolved in a timely manner.

7. The System Office should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over capital assets.

Comment:

Our examination of the System Office's property control system disclosed a significant number of inaccuracies and other control weaknesses.

8. The System Office should comply with established policies and procedures and improve internal control over agency administered projects.

Comment:

Our current audit examination of construction projects administered by the System Office disclosed an instance where the required Completion/Status Report for a bond funded project was not submitted as required.

9. The System Office should disable all computer access to their information system 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 Banner access was not disabled promptly.

10. The System Office should continue its efforts to develop and implement a formal comprehensive disaster recovery plan.

Comment:

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

11. 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.

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, 2006 and 2007. This audit was primarily limited to performing tests of the System Office's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the System Office are complied with, (2) the financial transactions of the System Office are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006 and 2007 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 grant agreements 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.

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

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 as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that

there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 - lack of separation of duties between payroll and human resource functions; Recommendation 2 - inadequate controls over the procurement process; Recommendation 7 - deficiencies in equipment inventory control procedures; Recommendation 9 - inadequate control of the System Office's information systems and Recommendation 10 - the lack of a current disaster recovery plan.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the System Office complied with laws, regulations, contracts and grant agreements, 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 Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The System Office's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the System Office's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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