

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, 2008 AND 2009*

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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April 20, 2011

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE CONNECTICUT STATE UNIVERSITY
CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009**

We have examined the financial records of the Connecticut State University System Office (System Office) for the fiscal years ended June 30, 2008 and 2009.

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 limited to the 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, 2009, 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
Kenneth Barone (elected by students at Central CSU)
Andrew Chu (elected by students at Southern CSU)
Andrew Wetmore (elected by students at Western CSU)
Kolby Williams (elected by students at Eastern CSU)

Other members who served during the audited period were:

Mark Parrott (elected by students at Southern CSU)
Andrew Russo (elected by students at Central CSU)
Brian Patrick Sullivan (elected by students at Eastern CSU)

Dr. David G. Carter, Sr. served as Chancellor of the Connecticut State University during the audited period.

Recent Legislation:

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

Public Act No. 08-71 – Effective July 1, 2008, Section 2 of this Act requires the Connecticut State University System to waive tuition for any state resident who is a dependent child or surviving spouse of a state resident killed in action while performing active duty in the United States Armed Forces on or after September 11, 2001.

Public Act No. 09-159 – Effective July 1, 2009, Section 5 of this Act allows the Connecticut State University System to recover Federal educational assistance payments under the 2008 Post-9/11 Veterans Educational Assistance Act by limiting the waiver for eligible veterans who apply for these benefits. It requires that the universities waive only the tuition charges that exceed the

amount of federal benefits granted for tuition and establishes a formula for calculating the federal benefit amount. The Act also provides that veterans whose benefits have been denied or withdrawn under the 2008 Post-9/11 Veterans Educational Assistance Act may still be eligible for tuition waivers under the existing laws codified in the General Statutes.

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 and the previous fiscal year:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Full-time undergraduate	21,755	22,303	22,961
Full-time graduate	<u>1,600</u>	<u>1,545</u>	<u>1,622</u>
Total Full-time	<u>23,355</u>	<u>23,848</u>	<u>24,583</u>
Part-time undergraduate	5,816	5,492	5,470
Part-time graduate	<u>5,443</u>	<u>5,157</u>	<u>5,040</u>
Total Part-time	<u>11,259</u>	<u>10,649</u>	<u>10,510</u>
Total Enrollment	<u>34,614</u>	<u>34,497</u>	<u>35,093</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.

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 and the previous fiscal year follow:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Tuition and fees (net of scholarship allowances)	\$16,960,683	\$26,937,931	\$28,007,298
Federal grants and contracts	24,880	-	86,617
State and local grants and contracts	12,000	12,000	13,150
Auxiliary revenues	4,659,771	4,266,429	4,206,452
Other sources	<u>13,599,640</u>	<u>14,980,708</u>	<u>12,955,958</u>
Total operating revenues	<u>\$35,256,974</u>	<u>\$46,197,068</u>	<u>\$45,269,475</u>

The increase in the tuition and fees category of \$9,977,248 in the 2007-2008 fiscal year 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 and the previous fiscal year follow:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Personal service and fringe benefits	\$9,599,334	\$10,279,569	\$10,337,832
Professional services and fees	1,257,945	1,983,706	1,650,032
Educational services and support	76,389	11,829	7,371
Travel expenses	201,894	148,602	72,754
Operation of facilities	44,610,004	32,626,907	19,271,506
Other operating supplies and expenses	3,220,140	2,822,280	2,717,626
Depreciation expense	1,711,570	1,269,725	1,847,270
Amortization expense	<u>249,358</u>	<u>243,658</u>	<u>249,508</u>
Total operating expenses	<u>\$60,926,634</u>	<u>\$49,386,276</u>	<u>\$36,153,899</u>

The increase in the personal service and fringe benefits category of \$680,235 in the 2007-2008 fiscal year was primarily the result of salary increases attributed to collective bargaining increases. The 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 2007-2008 fiscal year, the System Office recorded approximately \$15 million less of Connecticut Health and Education Facilities Authority expenditures than the 2006-2007 fiscal year. During the 2008-2009 fiscal year the System Office recorded approximately \$9 million less of Connecticut Health and Education Facilities Authority expenditures than the 2007-2008 fiscal year. The reason for the significant declines included in the operation of facilities category noted above was because there was a decrease in the number of CHEFA funded projects.

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 and the previous fiscal year follow:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
State appropriations	\$8,318,101	\$9,275,853	\$9,229,187
Investment income and other nonoperating revenues	<u>5,283,876</u>	<u>4,544,543</u>	<u>1,963,625</u>
Total nonoperating revenues	<u>\$13,601,977</u>	<u>\$13,820,396</u>	<u>\$11,192,812</u>

In addition to the operating and nonoperating revenues presented above, the System Office's financial statements also presented revenues classified as state appropriations restricted for capital purposes totaling \$2,095,767 and \$(1,537,835) for the fiscal years ended June 30, 2008 and 2009, respectively. The decrease in State appropriations restricted for capital purposes of \$3,633,602 in the 2008-2009 fiscal year was primarily because the State University System received less funding for

capital purposes. The reason the balance is negative in the 2008-2009 fiscal year is because of a timing difference between when the appropriation was received compared to when the expenses were incurred.

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 \$33,665,973 and \$34,974,678, during the fiscal years ended June 30, 2008 and 2009, respectively. Payments for principal retirement and interest charges totaled \$32,056,991 and \$31,791,682 during those respective fiscal years. Resources accumulated in the fund to provide for future debt service requirements totaled \$45,930,742 and \$49,752,535 as of June 30, 2008 and 2009, 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 \$23,645,271 and \$18,596,875 as of June 30, 2008 and 2009, 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 \$290,885,000 and \$276,800,000 as of June 30, 2008 and 2009, 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 General Statutes set requirements for organizations such as the Foundation. The requirements include and address the annual filing of an updated list of board members with the state agency for which the foundation was established, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning the use of facilities and resources, compensation of state officers or employees, and the state agency's responsibilities with respect to foundations.

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the fiscal years ended June 30, 2008 and 2009, in accordance with Section 4-37f, subsection (8), of the General Statutes. We were provided with the audit reports on

Foundation operations for each of the audited years. Both reports 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.

The Foundation's financial statements reported support and revenue totaling \$35,615 and \$6,667 during the fiscal years ended June 30, 2008 and 2009, respectively. Net assets were reported at \$376,822 and \$346,915 as of June 30, 2008 and 2009, respectively.

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.

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

Conditions: Our sample for procurement testing consisted of 25 expenditures for the audited period. Our testing disclosed the following:

- Five instances where the goods and/or services were ordered and/or received before the issuance of a purchase requisition and purchase order.
- One instance where a transaction was coded to the incorrect fund and account code. In this instance, the purchase of two non-capital items was charged to a Bond Fund with a capital expenditure account code.

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: 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 1.)

Agency Response: "The System Office Management concurs with this finding and has reviewed the procurement policies and procedures with applicable staff. Periodic self-audits will be conducted so that there is no reoccurrence in future audits."

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 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.

Condition: 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.

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 the person completing the reconciliation to document the date that the reconciliation was performed.

Recommendation: The System Office should develop 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 2.)

Agency Response: “Management concurs with this finding. Although monthly reconciliations are performed, a procedure will be developed and implemented whereby both the reconciler and reviewer of the reconciliation will sign and date the reconciliation monthly. This puts structure to the process and ensures the reconciliation is fully completed in a timely manner.”

Consolidation of the System’s Purchasing Process:

Background: In our prior audit report for the 2005-2006 and 2006-2007 fiscal years, we recommended that the System Office 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.

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 originated at the System Office. However, each of the four State universities continue to maintain 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 System 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 3.)

Agency Response: “CSUS System Office Management has made a concerted effort to comply with this Statute whenever feasible. We have continued to use “bundled purchasing”, Systemwide contracts, and master contracts whenever savings due to economies of scale can be realized; furthermore, all Systemwide IT purchasing is done from the System Office. However, the centralization of small, low cost local items will create inefficiencies and bottlenecks at the universities.”

Loss Reporting:

Criteria: Section 4-33a of the General Statutes requires all State agencies to promptly notify the Auditors of Public Accounts and the State Comptroller of any unauthorized, illegal, irregular, or unsafe handling of state funds or breakdowns in the safekeeping of other state resources.

The State of Connecticut’s Property Control Manual prescribes the format for loss reporting. A Report of Loss or Damage to State-Owned Automobile (Comprehensive) – CO-854 (CO-854 Report) should be used to report all losses or damages to state-owned or leased automobiles pertaining to fire, theft, vandalism, and glass breakage of all types.

The Connecticut State University System Office’s Cell Phone Equipment on Loan Agreement states that the assigned representative must report the theft,

loss or damage of loaned equipment to the local police. It further states that written notification and a copy of the police report be submitted to the System Office's Business Office and Information Technology Department.

Conditions: During our review of three CO-854 Reports submitted during the audited period, we noted one instance where the System Office did not submit the report in a timely manner. In this instance, the accident occurred on June 10, 2008, and the CO-854 Report appears to have been submitted on August 14, 2008.

In addition, the System Office did not have a police report on file for a missing BlackBerry Smartphone.

Effect: The System Office did not comply with Section 4-33a of the General Statutes and its own established policies and procedures.

Cause: Internal control policies were not being followed.

A System Office representative informed us that the reporting delay occurred due to some missing information involving the estimated cost of damage.

Recommendation: The System Office should comply with Section 4-33a of the General Statutes, which requires that the Auditors of Public Accounts and the Office of the State Comptroller be notified immediately of all losses/damages to state property upon discovery. In addition, the System Office should comply with its own established policies and procedures governing the loss and/or damage to property. (See Recommendation 4.)

Agency Response: "CSUS System Office Management concurs with this finding and has emphasized to the system office staff (a) the importance of safeguarding the assets assigned to them and (b) reporting timely to the university and/or State police any loss or damage to State property. Such actions give the Inventory Control unit the ability to file the CO-853 on a timely basis."

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. This Manual further requires that an agency submit to the DPW's Special Projects Unit a Certificate

of Compliance Form (Compliance Form) for all completed projects that exceed \$50,000.

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

Conditions: Our current audit examination of four construction projects administered by the System Office, disclosed the following:

- One instance where the required Completion/Status Report for a bond funded project was not submitted in a timely manner. This Report was submitted 71 days late.
- One instance where the required Certificate of Compliance Form was not completed.
- One instance, where services totaling \$14,250, were provided before the issuance of a purchase requisition and purchase order.

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 5.)

Agency Response: "CSUS System Office Management concurs with this finding and has reviewed established policy with applicable staff to ensure that the policies and procedures in place over agency administered projects are adhered to and monitored by CSUS managers in charge of those projects."

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.

There were no relevant areas pertaining to the Connecticut State University System as a whole, as set forth in the *Report to Management* relating to the 2008-2009 fiscal year.

RECOMMENDATIONS

Our prior report contained 11 recommendations. There has been satisfactory resolution of seven of these recommendations. The remaining four recommendations have been repeated or restated to reflect current conditions. One additional recommendation is being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- 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. The System Office addressed the condition; therefore, the recommendation is not being repeated.
- The System Office should comply with established policies and procedures and improve internal control over the procurement process. While we noted improvements, we did note certain exceptions that need to be addressed, and are repeating this recommendation. (See Recommendation 1.)
- The System Office should comply with established policies and procedures and improve internal control over travel-related expenditures. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- 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. The recommendation is being repeated with modification. (See Recommendation 2.)
- 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 so we are repeating this recommendation. (See Recommendation 3.)
- The System Office should follow its internal control procedures to ensure that all reconciling items are resolved in a timely manner. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- The System Office should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over capital assets. Improvement was noted in this area; therefore, the recommendation is not being repeated.

- The System Office should comply with established policies and procedures and improve internal control over agency administered projects. The recommendation is being repeated. (See Recommendation 5.)
- The System Office should disable all computer access to their information system promptly upon an individual's termination of employment. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- The System Office should continue its efforts to develop and implement a formal comprehensive disaster recovery plan. The System Office completed and implemented a disaster recovery plan during the audited period. The recommendation is not being repeated.
- The System Office should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual. Improvement was noted in this area; therefore, the recommendation is not being repeated.

Current Audit Recommendations:

1. 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.

2. The System Office should develop 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:

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 and that the reconciliation was completed in a timely manner.

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, or seek legislative relief from the requirements of this Section.

Comment:

Each of the four state universities continue to maintain 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.

- 4. The System Office should comply with Section 4-33a of the General Statutes, which requires that the Auditors of Public Accounts and the Office of the State Comptroller be notified immediately of all losses/damages to state property upon discovery. In addition, the System Office should comply with its own established policies and procedures governing the loss and/or damage to property.**

Comment:

We noted an instance where the System Office did not submit the required CO-854 Report in a timely manner. In addition, the System Office did not have a police report on file for a missing BlackBerry Smartphone.

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

Comment:

A significant number of agency administered projects were not processed in compliance with established policies and procedures.

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, 2008 and 2009. 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, 2008 and 2009 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 System Office'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 System Office'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 deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 - inadequate controls over the procurement process.

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 the significant deficiency described above is not 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 System Office'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*. However, we noted certain matters which we reported to the System Office management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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 the System Office 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 System Office for the cooperation and courtesies extended to our representatives during the course of this examination.

Walter J. Felgate
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts