

# 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, 2010 AND 2011*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

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December 18, 2012

### **AUDITORS' REPORT BOARD OF TRUSTEES FOR THE CONNECTICUT STATE UNIVERSITY CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011**

We have examined the financial records of the Connecticut State University System Office (System Office) for the fiscal years ended June 30, 2010 and 2011.

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 System 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.

Section 10a-88 of the General Statutes provides for a Board of Trustees of the Connecticut State University System. 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 System as of June 30, 2011, were:

Richard J. Balducci, Vice Chairman  
Theresa Eberhard Asch, Secretary  
Michael A. Caron  
John A. Doyle  
Elizabeth S. Gange  
Angelo J. Messina  
John H. Motley  
Ronald J. Pugliese  
Peter M. Rosa  
John R. Sholtis, Jr.  
Father John P. Sullivan  
Gail H. Williams  
Andrew Chu (elected by students at Southern CSU)  
Mercedes A. DeMasi (elected by students at Western CSU)  
Scott A. Nolan (elected by students at Eastern CSU)  
Ryan C. Sheehan (elected by students at Central CSU)

Other members who served during the audited period were:

Alex Rodriguez, (elected by students at Central CSU)  
Andrew Wetmore (elected by students at Western CSU)  
Kolby Williams (elected by students at Eastern CSU)  
Karl J. Krapek  
Lawrence D. McHugh  
L. David Panciera

Dr. David G. Carter, Sr. served as Chancellor of the Connecticut State University System through March 1, 2011. Dr. Louise H. Feroe served as acting chancellor from March 1, 2011 through June 30, 2011.

**Recent Legislation:**

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

Public Act No. 09-159 – Effective July 1, 2009, Section 5 of this act allows the Connecticut State University System (CSUS) to recover federal educational assistance payments under the 2010 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 2010 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 System 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>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Full-Time Undergraduate	22,961	23,634	23,867
Full-Time Graduate	<u>1,622</u>	<u>1,757</u>	<u>1,724</u>
Total Full-Time	<u>24,583</u>	<u>25,391</u>	<u>25,591</u>
Part-Time Undergraduate	5,470	5,406	5,358
Part-Time Graduate	<u>5,040</u>	<u>5,017</u>	<u>4,640</u>
Total Part-Time	<u>10,510</u>	<u>10,423</u>	<u>9,998</u>
<b>Total Enrollment</b>	<b><u>35,093</u></b>	<b><u>35,814</u></b>	<b><u>35,589</u></b>

**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 each of 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 Connecticut 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>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Tuition and Fees (net of scholarship allowances)	\$28,007,298	\$30,158,978	\$31,818,359
Federal Grants and Contracts	86,617	80,338	(166,955)
State and Local Grants and Contracts	13,150	-	7,500
Auxiliary Revenues	4,206,452	4,252,292	4,495,258
Other Sources	<u>12,955,958</u>	<u>8,416,979</u>	<u>8,343,982</u>
Total Operating Revenues	<u>\$45,269,475</u>	<u>\$42,908,587</u>	<u>\$44,498,144</u>

Operating revenues totaled \$42,908,587 and \$44,498,144 during the fiscal years ended June 30, 2010 and 2011, respectively, compared to \$45,269,475 during the fiscal year ended June 30, 2009. During the fiscal year ended June 30, 2010, operating revenues decreased by \$2,360,888 over the previous year. This decrease, for the most part, does not represent an actual decrease in revenues but instead reflects a change in financial statement preparation. During the fiscal year ended June 30, 2010, the system began to present adjustments for plant fund additions at the university level in its financial statements rather than in a consolidated format as was previously the case. As such, for the fiscal year ended June 30, 2010, net adjusted lower figures were presented for each of the CSUS universities in the combining financial statements for both revenues (in the Other Operating Revenues category) and expenses (in the Operation of Facilities category) with no real net effect on revenues and expenses. The increases in the Tuition and Fees category over the audited period can be primarily attributed to increases in tuition and fee rates and enrollment. Tuition and fees increased by approximately 14 percent over the audited period. The Federal Grants and Contracts category had a negative balance during the fiscal year ended June 30, 2011 primarily because of a revenue accrual made in the fiscal year ended June 30, 2010, which was subsequently reversed during the fiscal year ended June 30, 2011.

**Operating Expenses:**

Operating expenses generally result from payments made for goods and services to assist in achieving the System Office's primary functions 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>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Personal Service and Fringe Benefits	\$10,337,832	\$9,876,017	\$9,480,681
Professional Services and Fees	1,650,032	1,454,813	1,789,518
Educational Services and Support	7,371	3,478	9,400
Travel Expenses	72,754	56,713	56,090
Operation of Facilities	19,271,506	16,667,182	7,222,840
Other Operating Supplies and Expenses	2,717,626	2,769,511	2,588,758
Depreciation Expense	1,847,270	1,782,640	1,633,312
Amortization Expense	<u>249,508</u>	<u>250,060</u>	<u>-</u>
 Total Operating Expenses	 <u>\$36,153,899</u>	 <u>\$32,860,414</u>	 <u>\$22,780,599</u>

Operating expenses totaled \$32,860,414 and \$22,780,599 during the fiscal years ended June 30, 2010 and 2011, respectively, compared to \$36,153,899 during the fiscal year ended June 30, 2009. These figures reflect annual decreases in operating expenses totaling \$3,293,485 and \$10,079,815 during the fiscal years ended June 30, 2009 and 2010, respectively. The decreases can be attributed, in part, to the change in financial statement presentation (reflected in the Operation of Facilities category) as described in the Operating Revenues section above. In addition, during the fiscal year ended June 30, 2011, the financial statements were revised to reflect interest expense as a non-operating expense. In prior years, interest expense was incorrectly included in the Operation of Facilities category of operating expenses. This revision in the financial statement presentation was disclosed in the notes to the audited combined financial statements.

### **Non-operating Revenues:**

Non-operating revenues are not from the sale or exchange of goods or services that relate to the System Office's primary functions of instruction, academic support and student services. Non-operating revenues include items such as the state's General Fund appropriation, investment income and other non-operating revenues.

Non-operating revenues as presented in the System Office's financial statements for the audited period and the previous fiscal year follow:

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
State Appropriations	\$9,229,187	\$9,178,835	\$8,870,083
Investment Income and Other Non-operating Revenues	1,963,625	916,528	(11,062,588)
Transfers to the State of Connecticut	<u>-</u>	<u>(1,424,948)</u>	<u>-</u>
Total Non-operating Revenues	<u>\$11,192,812</u>	<u>\$8,670,415</u>	<u>\$(2,192,505)</u>

Non-operating revenues totaled \$8,670,415 and \$(2,192,505) during the fiscal years ended June 30, 2010 and 2011, respectively, compared to \$11,192,812 during the fiscal year ended June 30, 2009. Such revenues decreased by \$2,522,397 and \$10,862,920 during the fiscal years ended June 30, 2010 and 2011, respectively, compared to the preceding fiscal years. The decrease during the fiscal year ended June 30, 2010, was primarily the result of a decline in investment income due to falling interest rates during the audited years and a transfer of funds to the State of Connecticut. During the fiscal year ended June 30, 2010, the System Office transferred \$1,424,948 of its reserves to the State of Connecticut to comply with Public Act 09-7, enacted by the September 2009 Special Session of the General Assembly, and Public Act 10-179, which together, required that a total of \$15,000,000 be transferred from the Connecticut State University System operating reserve account to the state's General Fund during the fiscal years ended June 30, 2010 and 2011. The decrease during the fiscal year ended June 30, 2011, was primarily attributed to financial statement revisions to reflect interest expense and loss on disposal of capital assets as non-operating expenses. In prior years, these expenses were included as operating expenses.

In addition to the operating and non-operating revenues presented above, the System Office's financial statements also presented revenues classified as State Appropriations Restricted for Capital Purposes totaling \$(21,613) and \$319,259 for the fiscal years ended June 30, 2010 and 2011, respectively. The reason this revenue balance is negative in the 2009-2010 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 System long-term debt. This long-term debt includes both self-liquidating state general obligation and revenue bonds issued to fund certain Connecticut State University System 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 \$33,124,998 and \$33,948,689 during the fiscal years ended June 30, 2010 and 2011, respectively. Payments for principal retirement and interest charges totaled \$31,002,325 and \$27,936,979 during those respective fiscal years. Resources accumulated in the fund to cover future debt service requirements totaled \$52,019,065 and \$58,108,262, as of June 30, 2010 and 2011, 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 System's liability for such issuances was determined to be \$13,851,473 and \$9,894,963, as of June 30, 2010 and 2011, 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 System totaled \$262,620,000 and \$274,635,000 as of June 30, 2010 and 2011, respectively.

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

The Connecticut State University Foundation, Inc. is a private non-stock Connecticut corporation established for the purpose of receiving donations for the Connecticut State University System. 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, 2010 and 2011, 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 \$104,502 and \$17,896 during the fiscal years ended June 30, 2010 and 2011, respectively. Net assets were reported at \$396,782 and \$383,045 as of June 30, 2010 and 2011, 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 4-252 subsection (c), of the General Statutes and Governor M. Jodi Rell's Executive Orders No. 1 and 7c, require that a contractor doing business with a state agency provide a completed Gift and Campaign Contribution Certification form at the time of contract execution and annually thereafter if such contract has a value of \$50,000 or more in a calendar or fiscal year.

The Connecticut State University System's Procurement Manual states that the Gift and Campaign Contribution Certification form must accompany a state contract with a value of \$50,000 or more in a calendar or fiscal year and that the completed form is submitted by the contractor with the executed contract. The manual further states that "the form is also used with a multi-year contract to update the initial certification on an annual basis."

*Condition:* Our sample for procurement testing consisted of 25 expenditures for the audited period. From this sample, we noted six instances of multi-year contracts that exceeded \$50,000 in a calendar or fiscal year in which the System Office did not obtain the required annual Gift and Campaign Contribution Certification after the contract was executed.

*Effect:* The System Office was not in compliance with annual certification requirements.

*Cause:* Established policies and procedures were not followed.

*Recommendation:* The System Office should comply with established policies and procedures to ensure that all required annual Gift and Campaign Contribution Certification forms are obtained. (See Recommendation 1)

*Agency Response:* "Connecticut State Colleges and Universities (ConnSCU) management concurs with this finding and has reviewed the procurement policies and procedures with the current applicable staff. Periodic self-audits will be conducted to ensure no recurrence in future audits."

**Consolidation of the System’s Purchasing Process:**

*Background:* In our prior audit report for the 2007-2008 and 2008-2009 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 system-wide 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 2)

*Agency Response:* “The former CSU System Office made concerted efforts in recent years to consolidate purchasing processes. This is expected to accelerate under the new ConnSCU governance structure as we seek to define and implement opportunities for greater contract consolidation, embracing both the state universities and the community colleges, and act to further eliminate redundant processes. We have established a common policies and procedures manual for all universities and the central office. We have created a procurement protocol for the acquisition of information technology, the most significant source of non-construction related spending in the organization. Currently, central office approval is required for all IT procurements above

\$10,000. We monitor daily all purchase orders cut at each university and the central office for compliance with policies and procedures, and we have centralized reporting on university spending, e.g., the CHRO and SEEC reports. We plan to evaluate other options, including expanding use of technology, in the near term to address the intent of the statute while ensuring that new business processes do not lead to greater inefficiencies across the universities.”

**Timeliness of Bank Deposits:**

*Criteria:* Section 4-32 of the General Statutes requires that each state institution receiving cash receipts amounting to \$500 or more deposit these monies into the bank within 24 hours of receipt.

*Condition:* We tested 25 of the System Office’s receipts for timeliness of bank deposits and noted one instance, totaling \$675, in which funds received were deposited into the bank three days late.

*Effect:* In this instance, the System Office failed to comply with the prompt deposit requirements established by Section 4-32 of the General Statutes. This exposed funds received to an increased risk of theft or loss.

*Cause:* Existing controls did not prevent this condition from occurring.

*Recommendation:* The System Office should improve the timeliness of its bank deposits by adhering to the prompt deposit requirements of Section 4-32 of the General Statutes. (See Recommendation 3)

*Agency Response:* “ConnSCU management concurs with this finding and has reviewed the General Statute Section 4-32 with the applicable staff. Periodic self-audits will be conducted in the future.”

**Property 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.

*Conditions:* Our examination of the System Office’s internal controls over property disclosed the following:

- From a sample of 16 equipment items purchased during the audited period, five items were found in locations other than the location reported on the inventory records.

- From a sample of 25 equipment items selected from the inventory records, six items were found in locations other than the location reported on the inventory records.
- From a sample of 15 equipment items identified by a random inspection of the premises, six items were found in locations other than the location reported on the inventory records.

*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 increase the likelihood that the loss of equipment may occur and not be detected by management in a timely manner.

*Cause:* A System Office representative informed us that the conditions noted above were the result of the Property Control Unit not being notified of the change in the location of these assets by the responsible department.

*Recommendation:* The System Office should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over equipment inventory. (See Recommendation 4)

*Agency Response:* "ConnSCU management concurs with this finding and will emphasize to central office staff the importance of timely reporting of capital asset movement to the Property Control Unit."

**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 Property Control Manual prescribes the format for loss reporting. A Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles) - CO-853 form should be used to report all losses or damages to real and personal property other than vehicles pertaining to theft, vandalism, criminal or malicious damage, lost or misplaced funds, missing property (cause unknown) or damages caused by wind, fire or lightning.

The Connecticut State University System's Capital Asset Valuation Manual states, "Loss of or damage to University or System Office property, whether real or personal, should be reported immediately to the Office of the State

Comptroller and the Auditors of Public Accounts on a Form CO-853."

*Conditions:* During our review of three CO-853 forms submitted during the audited period, we noted two instances in which the System Office did not submit the forms in a timely manner.

*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.

*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. (See Recommendation 5)

*Agency Response:* "ConnSCU management concurs with this finding and will emphasize to central 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."

**Information System Controls:**

*Background:* Our review of the System Office's information system included the examination of access privileges to Core-CT, the state's central financial and administrative computer system.

We also reviewed the System Office's internal controls developed to mitigate the lack of separation of duties between the payroll and human resource functions of Core-CT. This change was implemented September 5, 2008.

*Criteria:* In order to ensure system integrity, access to critical information systems should be disabled promptly when such access is no longer required. In addition, access should be limited to only those who require it to perform their current job functions.

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

*Conditions:* Our review of a sample of 20 employees who were granted access privileges

to Core-CT, disclosed two instances in which an employee's access was not disabled promptly upon termination.

Our review disclosed an instance in which an employee has access to both payroll and human resource functions in Core-CT. This access allows the employee the ability to both create and issue payments to employees. The System Office developed control procedures to mitigate the lack of separation of duties. However, during the audited period, the procedures were not carried out.

*Effect:* Internal control over system access to Core-CT is weakened when an employee's access is not disabled promptly upon termination or when such access is no longer required.

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

*Cause:* In one instance, the System Office did not maintain documentation to support the request to disable Core-CT access. In the other instance, we were informed that the delay in submission of the Core-CT Application Security Request Form was the result of one of the required signatory approvers not being available to process the paperwork.

The System Office's control procedures to mitigate the lack of separation of duties in Core-CT implemented in September 2008 were not updated when the agency experienced turnover in personnel responsible for performing such control procedures.

*Recommendation:* The System Office should disable all computer access to Core-CT promptly upon an individual's termination of employment or when such access is no longer required. The System Office should improve internal control over system access to Core-CT by updating its control policies to address the lack of separation of duties between the payroll and human resource functions of Core-CT. (See Recommendation 6)

*Agency Response:* "Central Office management concurs with this finding. Access to and removal upon termination from Core-CT is separate for the Finance and HR modules. This finding has been discussed with personnel handling the Core-CT Finance module. The HR staff who were performing the described function during the audit period are no longer employed by the Central Office. The new, combined ConnSCU staff currently performing this HR function will be informed of this recommendation."

**Other Audit Examination:**

In recent years, the Board of Trustees of the Connecticut State University System 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 2010-2011 fiscal year.

## **RECOMMENDATIONS**

Our prior report contained five recommendations. There has been satisfactory resolution of three of these recommendations. The remaining two 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 comply with established policies and procedures and improve internal control over the procurement process. We noted improvement in this area during our current audit. The recommendation is not being repeated.
- 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. Improvement was noted during our current audit. The recommendation is not being repeated.
- 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 2)
- 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. Our current audit disclosed similar instances of noncompliance. The recommendation is being repeated with modification. (See Recommendation 5)
- The System Office should comply with established policies and procedures and improve internal control over agency-administered projects. Improvement was noted in this area during our current audit. The recommendation is not being repeated.

*Current Audit Recommendations:*

- 1. The System Office should comply with established contracting policies and procedures to ensure that all required annual Gift and Campaign Contribution Certifications forms are obtained.**

Comment:

We noted six instances of multi-year contracts that exceeded \$50,000 in a calendar or fiscal year in which the System Office did not obtain the required annual Gift and Campaign Contribution Certification forms after the contract was executed.

- 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.**

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

- 3. The System Office should improve the timeliness of its bank deposits by adhering to the prompt deposit requirements of Section 4-32 of the General Statutes.**

Comment:

We noted an instance in which funds received were deposited into the bank three days late.

- 4. The System Office should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over equipment inventory.**

Comment:

Our examination of the System Office's internal controls over property disclosed a significant number of equipment items found in locations other than reported on the inventory records.

- 5. 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.**

Comment:

During our review of three CO-853 forms submitted during the audited period, we noted two instances in which the System Office did not submit the forms in a timely manner.

- 6. The System Office should disable all computer access to Core-CT promptly upon an individual's termination of employment or when such access is no longer required. The System Office should improve internal control over system access to Core-CT by updating its control policies, to address the lack of separation of duties between the payroll and human resource functions of Core-CT.**

Comment:

Our review of a sample of employees who were granted access privileges to Core-CT, disclosed two instances in which an employee's access was not disabled promptly upon termination. In addition, we noted an instance in which a staff member has access to both payroll and human resources functions in Core-CT. This access allows that staff member the ability to both create and issue payments to employees.

## 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, 2010 and 2011. 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 Connecticut State University System Office for the fiscal years ended June 30, 2010 and 2011 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 Connecticut State University 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:**

Management of the Connecticut State University System Office is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Connecticut State University 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 university's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the System Office's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Connecticut State University System Office's internal control over those control objectives.

*A deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. *A material weakness* is a deficiency, or combination of

deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the System Office's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the System Office's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, 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: Recommendation 6 – weaknesses in monitoring of information system access privileges and lack of segregation of duties with respect to Core-CT human resources and payroll functions. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Connecticut State University 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Condition of Records and Recommendations sections of this report as the following item: Recommendation 6 – weaknesses in monitoring of information system access privileges and lack of segregation of duties with respect to Core-CT human resources and payroll functions. We also noted certain matters which we reported to System Office management in the accompanying Condition of Records and Recommendations sections of this report

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

## *Auditors of Public Accounts*

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This report is intended for the information and use of the System Office's 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 for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut State University System Office during the course of our examination.



Walter J. Felgate  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts