

STATE OF CONNECTICUT

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

**AUDITORS OF PUBLIC ACCOUNTS
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We have examined the financial records of Eastern Connecticut State University (University) for the fiscal years ended June 30, 2000 and 2001.

Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the University's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the University'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:

Eastern Connecticut State University is one of four institutions that collectively form the Connecticut State University, and is responsible to the Board of Trustees for the Connecticut State University, a constituent unit of the State system of higher education. The University is located in Willimantic, Connecticut.

The University operates primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes. Dr. David G. Carter, Sr. served as President of Eastern Connecticut State University during the audited period.

Recent Legislation:

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

Public Act 99-285, Section 8, codified as Section 10a-99a, subsection (a), of the General Statutes, revamps the distribution of the State endowment fund matching grants for the Connecticut State University (CSU) system and its individual institutions. Section 9, codified as Section 4-37f, subsection (9)(D) of the General Statutes, requires CSU endowments to adhere to investment and spending policies that conform to the prudent investor standards of the Connecticut Uniform Management of Funds Act. Section 11, codified as Section 10a-151b, subsection (b), of the General Statutes, gives public higher education constituent unit and institution heads more flexibility when they purchase equipment, supplies, and contractual services, allowing them to use competitive negotiations and raising the minimum cost thresholds over which competitive bidding or competitive negotiations are required. This act was effective on July 1, 1999.

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

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

Enrollment Statistics:

Enrollment statistics compiled by the University's Office of Planning and Institutional Research showed the following enrollments for full-time and part-time students during the two audited years:

	<u>Fall 1999</u>	<u>Spring 2000</u>	<u>Fall 2000</u>	<u>Spring 2001</u>
Full-time undergraduate	3,428	3,219	3,479	3,276
Full-time graduate	<u>27</u>	<u>34</u>	<u>43</u>	<u>34</u>
Total full-time	<u>3,455</u>	<u>3,253</u>	<u>3,522</u>	<u>3,310</u>
Part-time undergraduate	1,245	1,268	1,342	1,206
Part-time graduate	<u>287</u>	<u>286</u>	<u>281</u>	<u>246</u>
Total part-time	<u>1,532</u>	<u>1,554</u>	<u>1,623</u>	<u>1,452</u>
Total Enrollment	<u>4,987</u>	<u>4,807</u>	<u>5,145</u>	<u>4,762</u>

As reflected above, enrollment remained relatively stable during the audited period, though

there was a typical drop in enrollment, particularly among full-time undergraduates, when comparing fall to spring semesters.

RÉSUMÉ OF OPERATIONS:

During the audited period, a General Fund appropriation was not made to the University directly. Rather, a General Fund appropriation for the entire Connecticut State University, primarily for personal services and related fringe benefits, was 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.

This report also covers the operations of the University's four fiduciary funds: the Student Government Activity Fund, the Student Organization Activity Fund, the Institutional General Welfare Fund and the Institutional Activity Fund.

Operating Fund:

Receipts of the Operating Fund, as reflected on the records of the State Comptroller, during the audited period and the preceding fiscal year are shown below.

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Tuition and educational fees	\$21,369,233	\$24,572,723	\$27,399,270
Federal aid-miscellaneous	2,320,154	2,053,067	2,285,445
Miscellaneous private donations	428,148	492,827	498,656
Sale of property	500	4,000	1,350
Refunds of expenditures	149,095	195,026	2,087,807
Other grants and transfers-restricted	<u>23,361,068</u>	<u>28,425,617</u>	<u>30,575,091</u>
Total receipts	<u>\$47,628,198</u>	<u>\$55,743,260</u>	<u>\$62,847,619</u>

As shown above, receipts for Operating Fund accounts totaled \$55,743,260 and \$62,847,619 for the fiscal years ended June 30, 2000 and 2001, respectively, compared with \$47,628,198 for the fiscal year ended June 30, 1999, a \$15,219,421 increase over the audited years. A significant portion of this increase can be isolated to the receipts category of Tuition and educational fees, which was primarily the result of an increase in the University's fee structure. As shown below, over the audited years, the University's General and University fees increased by seven percent. In addition, during the fiscal year 2000-2001 the University's tuition increased by four percent. Furthermore, the University's overall enrollment significantly increased during the fiscal year 1999-2000, which correlated to augmented tuition and educational fees.

There was also a considerable increase of \$5,064,549 in the 1999-2000 fiscal year within the receipts category of Other grants and transfers—restricted, a category largely made up of General Fund appropriation transfers from the CSU Central Office to the University's Operating Fund. The CSU Central Office received a larger appropriation in the audited period, compared to the preceding fiscal year, to cover an additional pay-period. Furthermore, the State Legislature

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granted a supplemental appropriation to CSU to offset a tuition freeze as shown below. The University's portion of the allotment was \$840,890.

The following summary shows annual tuition charges for full-time students set by the Board of Trustees for the Connecticut State University during the audited period and the preceding fiscal year.

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Undergraduate:			
In-State	\$ 2,062	\$ 2,062	\$ 2,142
Out-of-State	6,674	6,674	6,934
Graduate:			
In-State	2,568	2,568	2,668
Out-of-State	7,156	7,156	7,436

Besides full-time tuition, Operating Fund receipts included student payments for continuing education course programs and summer session courses. In addition, the Operating Fund was used to account for income derived from auxiliary activities and business operations, such as dormitories and dining facilities. Receipts generated by the General Fee, which is set annually by the Board of Trustees for the Connecticut State University to help support operational costs of student-related activities, were also credited to the Operating Fund. Also, the State University fee, fixed by the Board of Trustees under authority granted in Section 10a-99 of the General Statutes, was assessed on all full-time students during the audited period and accounted for within the Operating Fund. Revenues generated from this fee were used to repay debt from bonds issued to fund construction or acquisition costs associated with University buildings and facilities. Furthermore, the Information Technology fee, which is used to support the cost of student computer and related expenses, was assessed on all full-time students and included in Operating Fund receipts.

The following summary shows the annual General, University, and Information Technology fees during the audited period and the preceding fiscal year.

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
General Fee:	\$ 760	\$ 810	\$ 865
University Fee:			
In-State	616	637	659
Out-of-State	1,512	1,565	1,620
Information Technology Fee:	120	125	125

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

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Personal services	\$27,454,677	\$31,516,623	\$32,710,727
Contractual services	7,070,452	(16,617)	8,507,209
Commodities	1,527,030	(14,565)	3,303,956
Revenue refunds	722,664	(15)	(60)
Sundry charges	8,027,725	20,789,545	10,725,714
Equipment, buildings & other	<u>1,120,211</u>	<u>(89,561)</u>	<u>4,039,473</u>
Total Expenditures	<u>\$45,922,759</u>	<u>\$52,185,410</u>	<u>\$59,287,019</u>

Expenditures for Operating Fund accounts totaled \$52,185,410 and \$59,287,019 for the two audited years, respectively, and were primarily for personal services and employee fringe benefits, various University operating costs and equipment. The increase of \$4,061,946 for personal services in the fiscal year 1999-2000 was largely the result of salary increases attributed to collective bargaining increases. In addition, during the 1999-2000 fiscal year there was an additional payroll period, which occurs every 11 years. There were 27 pay periods in the 1999-2000 fiscal year, compared to 26 in the preceding fiscal year.

Expenditures classified as sundry charges fluctuated significantly, totaling \$20,789,545 and \$10,725,714 for the fiscal years 1999-2000 and 2000-2001, respectively, compared to \$8,027,725 for the fiscal year 1998-1999. The increase of \$12,761,820 in the fiscal year 1999-2000 was primarily the result of a failure by the University to adjust amounts drawn from the Comptroller for local account disbursement to actual expenditures. Thus, the expenditure category sundry charges, which reflected the amounts drawn as generic expenditures, was overstated by the same amount that other categories were understated, mainly within categories titled Contractual services and Commodities. (For further details on this weakness, see the subheading titled "Financial Data Reported to the State Comptroller" in the "Condition of Records" section of this report.)

Grants – Tax-Exempt Proceeds Fund:

The University accounted for certain grants, other than Federal, in the Inter-agency/Intra-agency Grants - Tax-Exempt Proceeds Fund. This Fund was used to record receipts and disbursements related to grant transfers financed by State of Connecticut tax-exempt bonds in accordance with Sections 3-24a through 3-24h of the General Statutes.

Receipts of the fund totaled \$2,280,500 and \$1,851,645 during the fiscal years ended June 30, 2000 and 2001, respectively, and consisted primarily of transfers of funds from the Department of Public Works. Grant expenditures totaled \$2,029,941 and \$3,332,229 during the respective audited years. The major portion of expenditures during the audited period was coded to general repairs and capital equipment.

State Capital Projects:

Capital Projects Fund expenditures during the fiscal years ended June 30, 2000 and 2001, totaled \$5,470,847 and \$4,622,715 respectively, and included transfers from the Department of Public Works that were charged to the University's capital project funds and credited to the Inter-agency/Intra-agency Grants - Tax Exempt Proceeds Fund. Expenditures were primarily for the construction of new buildings and facilities on campus and for the renovation and improvement of existing structures.

Fiduciary Funds:

During the audited period, the University was responsible for the operation of three Activity Funds and one Welfare Fund. The descriptions of each fund and its corresponding balances, as prepared by the University, are as follows:

Student Government Activity Fund:

Established and operated under the provisions of Sections 4-52 through 4-55 of the General Statutes, the Student Government Activity Fund is used for the benefit of the student body and contains accounts whose funds are largely under the control of the University's Student Government Association (SGA).

Revenues totaled \$464,825 and \$470,191, respectively. Revenues consisted primarily of student activity fees.

Expenditures totaled \$433,045 and \$478,439, respectively. Expenditures charged to this Fund supported the student organizations and their related activities. These were coded primarily to contractual services.

Student Organization Activity Fund:

The Student Organization Activity Fund operated under the provisions of Sections 4-52 through 4-55 of the General Statutes. This Fund was established to account for various activity groups not directly involved with the SGA such as graduating class accounts and housing councils. Management of this Fund is conducted by student groups.

Revenues totaled \$91,751 and \$86,734 respectively. Revenues consisted primarily of monies collected from vending machine commissions, as well as monies collected from dormitory and class dues.

Expenditures totaled \$121,905 and \$90,851, respectively. Expenditures consisted primarily of disbursements made to cover the costs of student organizations and related activities.

Institutional Activity Fund:

The Institutional Activity Fund operated under the provisions of Sections 4-52 through 4-55

of the General Statutes. This Fund was established to account for activities that benefit students or employees of the institution. The Director of Fiscal Affairs provides management for this Fund.

Revenues totaled \$148,325 and \$166,538, respectively. The primary source of revenue of this Fund is monies collected from its participants. Other revenue sources included monies generated from fund-raising events.

Expenditures totaled \$141,193 and \$171,354, respectively. The expenditures were primarily coded to contractual services and commodities.

Institutional General Welfare Fund:

The Institutional General Welfare Fund operated under the provisions of Sections 4-56 and 4-58 of the General Statutes. This Fund was established to record the financial activities of any gifts, donations, or bequests, including scholarships made to benefit students of the University.

Revenues totaled \$18,568 and \$27,907, respectively. The major source of revenues included vending machine commissions.

Expenditures totaled \$32,942 and \$28,144, respectively. Expenditures were mostly made up of scholarships granted.

Eastern Connecticut State University Foundation, Inc.:

The Eastern Connecticut State University Foundation, Inc (Foundation) is a private nonstock corporation established to secure contributions, bequests and donations from private sources for the purposes of support, promotion and improvement of the educational activities of Eastern Connecticut State University.

Sections 4-37e through 4-37j of the General Statutes set requirements for organizations such as the Foundation. The requirements include and deal with the annual filing of an updated list of board members with the State agency for which the foundation was set up, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning 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, 2000 and 2001, in accordance with Section 4-37f, subsection (8) of the General Statutes. We were provided with two audit reports on Foundation operations, one for each of the audited years. Both reports showed 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 Eastern Connecticut State University revealed certain areas requiring attention, as discussed in this section of the report.

Purchasing Compliance and Control Issues:

Criteria: Good business practices and internal control dictate that documentation supporting the approval and payment of expenditures is on file prior to payment.

Conditions: Our sample for procurement testing consisted of 25 expenditures for the audited period. From this sample we noted the following:

Four instances were noted where documentation supporting an expenditure could not be located. In addition, we noted four purchase requisitions that were not approved by the person responsible for the account charged.

Effect: The University is 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 University should take steps to improve internal controls over the procurement process. (See Recommendation 1.)

Agency Response: “The University agrees with the finding and has taken steps to refine the proper retention of purchasing documentation.

- The BANNER System only provides for one budget authority per account and lacks the capability to offer designee or supervisory approval. The System does not provide for a means for alternative approval when the budget authority is absent. The University is beginning a process to identify additional designees for accounts and also to allow supervisory authority for purchases. The system should be operational by June 30, 2003.
- Additionally, staff have been instructed to closely monitor all purchase requests for the appropriate signature and to return to the requestor all that are not in compliance (on-going).”

Personal Service Agreements:

Background: Our examination of expenditures included the testing of contractual payments made pursuant to personal service agreements.

Criteria: Sound internal control procedures require personal service agreements to

be signed by all necessary parties prior to the contract term. In addition, good business practice requires that only the established budget authority should authorize payment for services performed under such agreements.

Conditions: Our testing of 25 personal service agreement contracts during the audited period revealed the following:

We noted ten instances where the personal service agreement was not signed by one of the necessary parties prior to the contract term. In addition, we noted six instances where the authorized budget authority did not approve the expenditure for payment.

Effect: Internal controls over personal service agreements were weakened.

Cause: Internal control policies were not being followed.

Recommendation: The University should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document the approval and payments associated with these contracts in a timely manner. (See Recommendation 2.)

Agency Response: “The University agrees with the finding.

- The University has established training programs for staff and student groups to emphasize the importance of complying with Personal Service Agreement procedures (ongoing).
- The University plans to increase communications to the community on this matter with reminders issued on a quarterly basis (beginning April 1, 2003).
- The BANNER System only provides for one budget authority per account and lacks the capability to offer designee or supervisory approval. The System does not provide for alternative approval means when the budget authority is absent. The University is beginning a process to identify additional designees. The new system will permit approvals by designees and supervisors of Personal Services Agreements (PSA). The system will be in place by June 30, 2003.
- Staff have been instructed to closely monitor all agreements and requests for the appropriate signature and to return to the requestor all that are not in compliance (on-going).”

Equipment Inventory:

Criteria: Accurate inventory records are an integral part of internal control. Reconciliation of the amount expended for equipment to the change in the inventory record balance is an important facet of the control structure. The State of Connecticut’s Property Control Manual provides guidance in this area.

Conditions: Our current audit examination of the University's property control system revealed the following:

An annual physical inventory of equipment had not been taken for the fiscal year ended June 30, 2000.

From a sample of eight equipment items purchased during the audited period, we found one item that was not included in the University's property control system.

Certain figures on the annual Fixed Assets/Property Inventory Report (CO-59) either contained errors or could not be readily traced to supporting documentation.

The University did not regularly reconcile the amount expended for equipment to the change in the inventory record balance during the audit period.

Effect: The conditions described above weaken internal control over equipment.

Cause: Internal control policies were not being followed.

Recommendation: Control over the University's equipment inventory should be improved by following procedures designed to ensure compliance with the State of Connecticut's Property Control Manual. (See Recommendation 3.)

Agency Response: "The University agrees with the finding.

- The University conducted a complete audit during the fiscal year ending June 30, 2001.
- The University is currently in the development stage of a BANNER fixed asset system that will permit regular reconciliation from purchasing documents to receiving documentation to the inventory system. The system is expected to be fully operational by June 30, 2003.
- The BANNER fixed system will also enhance the documentation and information link between the CO-59 process and internal campus records."

Software Inventory:

Background: In our last audit report on the University, covering the fiscal years 1997-1998 and 1998-1999, we recommended that the University's software should be improved by establishing procedures designed to ensure compliance with the State of Connecticut's Property Control Manual. The University did not maintain a software inventory that tracks and controls all of its software media, licenses or end user license agreements,

certificates of authenticity, and other related items.

- Criteria:* The State of Connecticut 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, at minimum, an annual basis.... A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This report will be retained by the agency for audit purposes.”
- Condition:* During the current audited period, we encountered a similar condition. Subsequently, the University’s management informed us that they have implemented some procedural changes that have taken effect in November 2002, which will enhance the University’s control over its software. Since these procedural changes take effect outside of our current audit period, we will review the revised processes and the software inventory during the next audit cycle.
- Effect:* The University is not in compliance with software inventory requirements contained in the State of Connecticut’s Property Control Manual.
- Cause:* The University did not have a policy during the current audit period that required individual departments purchasing software to notify a designated responsible person in the Information Technology Services Department of such purchase.
- Recommendation:* The University should comply with the software inventory requirements contained in the State of Connecticut’s Property Control Manual. (See Recommendation 4.)
- Agency Response:* “The University agrees with the finding. The University, while having made a significant attempt to comply with the State Property Control Manual, has failed to fully document all software on campus and maintain a centralized depository of all licensure materials. The independent nature of academic work and research provides serious challenges to centralized control of software records. The University has undertaken the following steps since the Audit Period:
- informed faculty and staff of state policy and surveyed the community for information and documentation on software;
 - implemented hardware imaging procedures for faculty and staff personal computers, computer labs and classrooms, thus permitting ITS control of software products;
 - installed an automated media control system to track and monitor software.”

Financial Data Reported to the State Comptroller:

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

Condition: Cash transfers from the University's Operating Fund bank account to its direct disbursement account are classified, generically, as direct disbursement expenditures (coded 5-39) when the cash is transferred. Subsequently, when payments are made out of the direct disbursement account, the University advises the State Comptroller of the specific expenditure classifications applicable to the payments made. The State Comptroller's records are adjusted accordingly, decreasing amounts coded 5-39 and increasing amounts coded to expenditure categories reflecting actual payments made. If this process is working correctly, the total of 5-39 expenditures recorded on the State Comptroller's records at year-end should equal zero.

During the 1999-2000 fiscal year, the University did not advise the State Comptroller to adjust the specific expenditure classification for expenditures incurred before year-end. Accordingly, the specific expenditure figures reported on the State Comptroller's accounting system were not accurate.

The State Comptroller's records showed that the University's generic (5-39) Operating Fund expenditures totaled \$11,921,214 for the 1999-2000 fiscal year instead of showing a total of zero.

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

Cause: The request to transfer funds from the University's Operating Fund bank account to its direct disbursement account was not made in a timely manner.

Recommendation: The University should follow the State Comptroller's prescribed procedures to correctly account for such direct disbursement expenditures. (See Recommendation 5.)

Agency Response: "The University agrees with the finding. The University has made the necessary corrections and will institute the proper review of reporting with the June 30, 2003 close of records."

Activity Funds – Expenditures:

Criteria: The State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds sets forth requirements relating to the

expenditures/disbursements process.

The Student Activities Accounting Intake Office's (SAAIO) Business Procedures Manual provides further guidance in this area. This Manual states "Purchase order requests for a commodity costing over \$600 must be accompanied by a completed form entitled *Request for Quotation for a Commodity Purchase* costing over \$600... and require you to submit three quotes for the service or items." In regards to the receipt of merchandise, the Manual states "The vendor's invoice must be signed acknowledging the acceptance of goods."

Conditions: Our testing of 25 Activity Funds expenditures during the audited period revealed the following:

- In 17 instances, there was missing written documentation certifying that services/commodities were received.
- In 17 instances, there was no evidence that competitive negotiations were followed.
- In one instance, there was no vendor invoice on file documenting the expenditure.
- In another instance, an unauthorized signor approved a purchase order.

Effect: The University is not in compliance with established procedures.

Cause: With respect to the cases cited, established control procedures in the area of expenditures were not adequately carried out.

Recommendation: Control over the University's Activity Funds expenditures should be improved by following established control procedures designed to ensure compliance with the requirements in this area. (See Recommendation 6.)

Agency Response: "The University agrees with the finding.

- The University is currently reviewing and updating internal policy to bring it more in-line with general state policy. New policy guidelines will be issued by June 1, 2003.
- Staff has been instructed on current policy and the need for strict compliance with the provisions (on-going)."

Student Government Fund Class Accounts:

Background: During our last examination, we disclosed that four former class accounts remained inactive, with balances that should have been transferred to the Welfare Fund.

Criteria: The State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds sets forth requirements relating to class accounts. The

Manual states that “ if there is a balance in the class account at the time of graduation, a statement as to the disposition of such balance, signed by the class officers and approved by the faculty advisor or dean of students must be on file in the facility business office.... If any account remains inactive for a period of one year after the purposes for which the account was set up have been satisfied the account should be closed and the balance transferred to the Welfare Fund.”

Condition: During our current audit period, we found that there was no statement on file, for any of the former class accounts, as to the disposition of the remaining fund balances at the time of graduation. We also found that the University transferred the individual fund balances of three class accounts for the years 1993-1995 to a fund other than the University’s Welfare Fund. Two of these class accounts had its balances transferred to other accounts within the University’s Activity Fund. The third class account balance was transferred to the University’s Alumni Association, an entity outside of the University’s control. The class accounts for the years 1996-1999 have remained inactive.

Effect: The University is not in compliance with established procedures.

Cause: With respect to the cases cited, established control procedures in the area of class accounts were not adequately carried out.

Recommendation: The University should comply with the requirements governing Class Accounts as set forth in the State of Connecticut’s Accounting Procedures Manual for Activity and Welfare Funds. (See Recommendation 7.)

Agency Response: “The University agrees with the finding and is pursuing corrective steps. Student Government Staff has been consulted to ensure the purpose of the funds have been fully honored. All account transfers will be completed by May 1, 2003.”

Fiduciary Fund Equipment Inventory:

Criteria: The State of Connecticut’s Accounting Procedures Manual for Activity and Welfare Funds sets forth requirements relating to equipment inventory, including the need for accurate records, reconciliation and the reporting requirements pursuant to Section 4-33a of the General Statutes.

Conditions: Our current audit examination of the University's Fiduciary Fund Inventory system revealed the following:

An annual physical inventory of equipment had not been taken during the fiscal year ended June 30, 2000.

From a sample of 25 equipment items selected from the inventory records, we found the following:

- In nine cases, equipment items could not be located. We were informed that four of the nine items were salvaged and/or removed. The appropriate paperwork supporting the removal of these items was not on file at the time of our physical inspection. Subsequent to our inspection, the University completed an equipment removal form. We were also informed that the five remaining items were lost and/or stolen. The University failed to report the loss in accordance with Section 4-33a of the General Statutes.
- In seven cases, the inventory record was missing all the pertinent control information, including the asset's serial number.
- In another case, an equipment item was listed on the inventory control record with the incorrect tag number.

The University did not report the amount of Fiduciary Fund assets on hand, on the annual Fixed Assets/Property Inventory Report (CO-59) during the audited period.

The University does not regularly reconcile the amount expended for equipment to the change in the inventory record balance.

In addition, the equipment balance on the Fiduciary Fund financial statements does not agree with that reported in the master inventory record.

Effect: The conditions described above weaken internal control over equipment.

Cause: Internal control policies were not being followed.

Recommendation: Control over the University's Fiduciary Fund equipment inventory should be improved by following procedures designed to ensure compliance with the Accounting Procedures Manual for Activity and Welfare Funds. (See Recommendation 8.)

Agency Response: "The University agrees with the finding. Staff is currently reviewing all findings in this matter and will submit the proper reports on the equipment that cannot be located.

- The University will be undertaking a new inventory, to be concluded by June 30, 2003.
- The CO-59 information will be included as a result of the implementation of the Banner Fixed Asset System.
- Quarterly reconciliation will be done to permit assurance of consistency between expenditure information, inventory records and financial statements."

Other Audit Examination:

In recent years the Board of Trustees of the Connecticut State University 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 Eastern Connecticut State University as set forth in the *Report to Management* relating to the 2000-2001 fiscal year are presented below.

- Payroll and Disbursements: The manual attendance system process should be replaced with a computerized system.
- Property Management: The University should reconcile its fixed asset system to the general ledger on a monthly basis to ensure that the general ledger has an accurate fixed asset amount.
- Students' Billing: A person in the business office should be assigned to reconcile student receivables on a quarterly basis. In addition, management should develop formalized policies and procedures for student receivable reserves.
- General: The University should consider revising its procurement and payables policies to include on-line purchase requisitions. A complete reassessment of the purchasing authorization process should be conducted to determine that appropriate procedures, flow of information, and levels of review is documented and relative to the materiality of the expenditures.
- Information Systems: Management should complete the strategic planning process and formally adopt the final draft of the Information Technology Services Strategic Plan. Management should continue to develop the procedure for conducting periodic reviews of user access rights. Management should continue to seek ways to automate monitoring of violation reports and identify an individual to be responsible for the proactive monitoring of the University's security. In addition, management should continue to implement the purchased third party desk application and utilize the new features of the software to allow for stronger analysis of incoming calls.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The University should consider acquiring or developing an automated employee leave and attendance system. The University has converted its manual card system to Excel. This does not directly address the prior audit recommendation. However, it has reduced the number of mathematical calculation errors; therefore the recommendation is not being repeated.
- The University should take the necessary steps to ensure that compensatory time records are accurate and in accordance with applicable collective bargaining agreements, personnel policies and statutes. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The University should take steps to improve internal control over student employment in the area of conflicts with class schedules. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The University should take steps to improve internal controls over the procurement process. The recommendation is being repeated. (See Recommendation 1.)
- The University should comply with its 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 University should improve internal control over personal service agreements. The recommendation is being repeated with modification. (See Recommendation 2.)
- Control over the University's Activity Funds expenditures should be improved by following established control procedures designed to ensure compliance with the requirements in this area. The recommendation is being repeated. (See Recommendation 6.)
- Control over the University's equipment inventory should be improved by following procedures designed to ensure compliance with the State of Connecticut's Property Control Manual. The recommendation is being repeated. (See Recommendation 3.)
- Control over the University's Fiduciary Fund equipment inventory should be improved by following procedures designed to ensure compliance with the Accounting Procedures Manual for Activity Funds and Welfare Funds. The recommendation is being repeated. (See Recommendation 7.)
- The University should comply with Section 4-32 of the General Statutes by ensuring that all receipts received are accounted for in a timely manner. Improvement was noted in this area; therefore the recommendation is not being repeated.

- Receipts should be recorded at all locations where received in order to improve internal control and to ensure compliance with the prompt deposit requirements of Section 4-32 of the General Statutes. The University developed and implemented a new receipt log system; therefore the recommendation is not being repeated.
- The University should ensure that computer access is disabled immediately upon an employee's separation from the agency. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The University should periodically review reports of expenditures provided by the State Comptroller to ensure that all direct disbursement expenditures have been properly classified in the State's accounting system. The recommendation is being repeated with modification. (See Recommendation 5.)

Current Audit Recommendations:

1. The University should take steps to improve internal controls over the procurement process.

Comment:

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

2. The University should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document the approval and payments associated with these contracts in a timely manner.

Comment:

We noted a number of instances where the personal service agreement was not signed by one of the necessary parties prior to the contract term. In addition, there were a number of instances where the authorized budget authority did not approve the expenditure for payment.

3. Control over the University's equipment inventory should be improved by following procedures designed to ensure compliance with the State of Connecticut's Property Control Manual.

Comment:

Our examination of the University's property control system revealed a significant number of inaccuracies and other control weaknesses.

4. The University should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual.

Comment:

The University does 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 University does not conduct a physical inventory of software on an annual basis.

5. The University should follow the State Comptroller's prescribed procedures to correctly account for such direct disbursement expenditures.

Comment:

University expenditures were not accurately classified in the State Comptroller's records.

6. Control over the University's Activity Funds expenditures should be improved by following established control procedures designed to ensure compliance with the requirements in this area.

Comment:

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

7. The University should comply with the requirements governing class accounts as set forth in the State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds.

Comment:

The University is not in compliance with established requirements governing class accounts.

8. Control over the University's Fiduciary Fund equipment inventory should be improved by following procedures designed to ensure compliance with the Accounting Procedures Manual for Activity and Welfare Funds.

Comment:

Our examination of the University's Fiduciary Fund property control system revealed a significant number of inaccuracies and other control weaknesses.

INDEPENDENT AUDITORS' CERTIFICATION

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

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

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to Eastern Connecticut State University is the responsibility of the Eastern Connecticut State University's management.

As part of obtaining reasonable assurance about whether the University complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the University's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of Eastern Connecticut State University is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and

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

However, we noted certain matters involving the internal control over the University's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the University's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the University's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: weaknesses in internal controls over the procurement process; incurring obligations for personal service agreements prior to formal approval of contractual terms; inadequate controls over University equipment, and weaknesses in internal controls over Activity Funds expenditures and equipment inventory.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the University's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the University's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

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

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

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Eastern Connecticut State University during the course of our examination.

Walter J. Felgate
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts