

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE
CONNECTICUT STATE UNIVERSITY
EASTERN CONNECTICUT STATE UNIVERSITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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February 3, 2005

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FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have examined the financial records of Eastern Connecticut State University (University) for the fiscal years ended June 30, 2002 and 2003.

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 our 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 University President during the audited period.

Recent Legislation:

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

Public Act 01-93, codified as Section 10a-155b of the General Statutes, requires that each student who resides in on-campus housing be vaccinated against meningitis as a condition of such residence beginning with the 2002-2003 school year. This Act also requires the University to provide information about meningitis to all prospective students and develop procedures for receiving and keeping a record of student vaccination status. This Act was effective from its passage, June 6, 2001.

Public Act 01-141, Section 4, states that upon authorization of the Board of Governors of Higher Education, the Board of Trustees for the Connecticut State University System may establish a five-year program to award education doctoral degrees. This program would be available for students entering from May 1, 2002, until January 30, 2007. Section 5 amends Section 10a-88 of the General Statutes modifying the qualifications for future student members of the Connecticut State University Board of Trustees. The student's term shall terminate if the member ceases to be a matriculating student in good standing, either as a full-time undergraduate student or as a full-time or part-time graduate student, at the State University from which such student member was elected. Section 6 of this Act amends Section 10a-99a, subsection (a), of the General Statutes, revamping the distribution of the State endowment fund matching grants for the Connecticut State University (CSU) System and its individual institutions. These Sections of the Act became effective July 1, 2001.

Section 9 of Public Act 01-141, amended Section 10a-99a of the General Statutes, to allow alumni donations to the foundations of the individual CSU universities, which were made between July 1, 1997 and September 30, 2001, to be retroactively eligible for State matching grants. Section 9 of the Act became effective October 1, 2001.

Public Act 01-165, Section 2, subsection (a), codified as Section 10a-72e of the General Statutes, requires that the constituent units of the State system of higher education, including the Connecticut State University System, develop a plan to ensure that there is unification among their nursing programs to assist nurses in advancing their education and nursing credentials. Subsection (b), requires such boards of trustees to implement the plan not later than July 1, 2004. This Act was effective on July 6, 2001.

Public Act 01-173, Section 31, amended Section 10a-77, subsection (d), of the General Statutes to waive tuition for the dependent children of a volunteer firefighter or supernumerary or auxiliary police officer killed in the line of duty. This Section of the Act was effective from its passage, June 7, 2002.

Public Act 02-4, Section 16, amended Section 10a-20a of the General Statutes to permit the Board of Governors of Higher Education to deposit into the Endowed Chair Investment Fund, for the Energy Studies Chair at the University, an amount not less than \$470,000. This Section of the Act was effective from its passage, February 28, 2002.

Public Act 02-107, effective July 1, 2002, amended various sections of the General Statutes to eliminate the terms activity fund and welfare fund and to designate such funds as trustee accounts.

Public Act 02-110, Section 1, codified as Section 19a-342, subsection (b), of the General Statutes, prohibits smoking in public university dormitories. This Act was approved June 6, 2002, with an effective date of July 1, 2003.

Public Act 02-126, Section 5, amended Section 10a-99, subsection (d), of the General Statutes to waive tuition at the Connecticut State University System for resident surviving spouses and dependent children of Connecticut residents killed in the September 11, 2001 terrorist attacks or anthrax attacks occurring between September 11, 2001 and December 31, 2001. This Section of the Act was effective June 7, 2002.

Public Act 02-140, Section 2, amended Section 10a-151b, subsection (b), of the General Statutes to allow constituent units of public education purchase authority to accept electronic bids, quotations, and proposals. Section 2 further states that if sealed bids or proposals are received electronically, they shall be maintained within a safe and secure electronic environment until such time as they are publicly opened. These Sections of the Act became effective July 1, 2002.

Public Act 03-13, Section 1, amended Section 10a-155, subsection (a), of the General Statutes to eliminate the requirement that higher educational institutions obtain proof of adequate measles and rubella immunization from an enrolling student if that student had graduated from a Connecticut public or private high school in 1999 or later and was not previously exempt from this requirement under another statutory provision. This Act became effective July 1, 2003.

Public Act 03-33, Section 2, codified as Section 10a-99, subsection (h), of the General Statutes allows students called to active duty in the armed forces during any semester to reenroll in any course for which they paid tuition but did not complete because of their active duty status. Students have four years from the date of release from active duty to reenroll. This Section of the Act is effective from its passage, May 12, 2003.

Enrollment Statistics:

Enrollment statistics compiled by the University showed the following enrollments for full-time and part-time students during the two audited years:

| | <u>Fall 2001</u> | <u>Spring 2002</u> | <u>Fall 2002</u> | <u>Spring 2003</u> |
|-------------------------|------------------|--------------------|------------------|--------------------|
| Full-time undergraduate | 3,574 | 3,353 | 3,631 | 3,454 |
| Full-time graduate | <u>43</u> | <u>40</u> | <u>30</u> | <u>51</u> |
| Total full-time | <u>3,617</u> | <u>3,393</u> | <u>3,661</u> | <u>3,505</u> |

Auditors of Public Accounts

| | | | | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| Part-time undergraduate | 1,444 | 1,223 | 1,238 | 1,106 |
| Part-time graduate | <u>276</u> | <u>264</u> | <u>316</u> | <u>278</u> |
| Total part-time | <u>1,720</u> | <u>1,487</u> | <u>1,554</u> | <u>1,384</u> |
| Total Enrollment | <u>5,337</u> | <u>4,880</u> | <u>5,215</u> | <u>4,889</u> |

RÉSUMÉ OF OPERATIONS:

Operations of the University were primarily supported by appropriations from the State's General Fund and by tuition and fees credited to the University Operating Fund. During the audited period, General Fund appropriations were not made to the University directly. Rather, General Fund appropriations for the entire Connecticut State University, primarily for personal services and related fringe benefits, were made available to the System's Central Office, where allocations of this amount were calculated, and transfers of these funds were made periodically to the campuses' Operating Funds.

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>2000-2001</u> | <u>2001-2002</u> | <u>2002-2003</u> |
|---------------------------------------|----------------------------|----------------------------|----------------------------|
| Tuition and educational fees | \$27,399,270 | \$34,953,683 | \$38,412,134 |
| Other grants and transfers-restricted | 30,575,091 | 33,169,610 | 31,542,006 |
| Federal aid-miscellaneous | 2,285,445 | 2,180,626 | 2,607,078 |
| Refunds of expenditures | 2,087,807 | 102,181 | 172,374 |
| Miscellaneous private donations | 498,656 | 1,841,074 | 2,159,962 |
| Sale of property | <u>1,350</u> | <u>600</u> | <u>4,900</u> |
| Total Receipts | <u>\$62,847,619</u> | <u>\$72,247,774</u> | <u>\$74,898,454</u> |

As shown above, receipts for Operating Fund accounts totaled \$72,247,774 and \$74,898,454 for the fiscal years ended June 30, 2002 and 2003, respectively, compared with \$62,847,619 for the fiscal year ended June 30, 2001, a \$12,050,835 increase over the audited years. A significant portion of this increase can be attributed to tuition and educational fees, which was primarily the result of an increase in the University's fee structure. As shown below, during the audited period, the University's full-time tuition charge increased by eight percent. In addition, the University's General fees and University fees increased by twenty-nine and seven percent, respectively.

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>2000-2001</u> | <u>2001-2002</u> | <u>2002-2003</u> |
|----------------|------------------|------------------|------------------|
| Undergraduate: | | | |
| In-State | \$ 2,142 | \$ 2,226 | \$ 2,313 |
| Out-of-State | 6,934 | 7,204 | 7,485 |
| Graduate: | | | |
| In-State | 2,668 | 2,772 | 2,880 |
| Out-of-State | 7,436 | 7,726 | 8,027 |

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 the Operating Fund receipts.

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

| | <u>2000-2001</u> | <u>2001-2002</u> | <u>2002-2003</u> |
|-----------------------------|------------------|------------------|------------------|
| General Fee: | \$ 865 | \$ 910 | \$ 1,116 |
| University Fee: | | | |
| In-State | 659 | 682 | 706 |
| Out-of-State | 1,620 | 1,677 | 1,736 |
| Information Technology Fee: | 125 | 150 | 200 |

The Housing Fee and Food Service Fee, required of resident students, are also included in the Operating Fund receipts. The following summary shows the average annual Housing Fee (double occupancy) and Food Service Fee during the audited period and the preceding fiscal year.

| | <u>2000-2001</u> | <u>2001-2002</u> | <u>2002-2003</u> |
|-------------------|------------------|------------------|------------------|
| Housing Fee: | \$ 3,232 | \$ 3,402 | \$ 3,536 |
| Food Service Fee: | 1,824 | 1,934 | 2,030 |

Auditors of Public Accounts

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

| | <u>2000-2001</u> | <u>2001-2002</u> | <u>2002-2003</u> |
|------------------------------|---------------------|---------------------|---------------------|
| Personal services | \$32,710,727 | \$36,006,633 | \$37,401,906 |
| Contractual services | 8,507,209 | 12,463,680 | 13,123,894 |
| Commodities | 3,303,956 | 4,907,301 | 5,289,465 |
| Revenue refunds | (60) | 0 | (625) |
| Sundry charges | 10,725,714 | 13,709,450 | 14,067,247 |
| Equipment, buildings & other | <u>4,039,473</u> | <u>3,210,590</u> | <u>3,215,376</u> |
| Total Expenditures | <u>\$59,287,019</u> | <u>\$70,297,654</u> | <u>\$73,097,263</u> |

Expenditures from Operating Fund accounts totaled \$70,297,654 and \$73,097,263 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 \$4,691,179 in personal services was largely the result of salary increases attributed to collective bargaining increases.

A significant portion of the \$4,616,685 increase in contractual services during the audited period can be isolated to expenditures coded to sundry operating services and fees for outside professional services. Expenditures classified as sundry charges primarily increased by \$2,983,736 in the fiscal year 2001-2002 because the University did not adjust amounts drawn from the Comptroller for local account disbursement to actual expenditures in a timely manner. Thus, the expenditure category sundry charges, which reflected the amounts drawn as generic expenditures was overstated. (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 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 \$1,378,358 and \$586,595 during the fiscal years ended June 30, 2002 and 2003, respectively, and consisted primarily of transfers of funds from the Department of Public Works. Grant expenditures totaled \$2,560,949 and \$918,153 during the respective audited years. The major portion of expenditures during the audited period was coded to general repairs and institution buildings.

State Capital Projects:

Capital project fund expenditures during the fiscal years ended June 30, 2002 and 2003, totaled \$12,678,440 and \$4,112,322 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, there was new legislation that eliminated the terms "activity fund" and "welfare fund" and designated all such funds as "trustee accounts". (For further details on this legislation, see the subheading titled "Public Act 02-107" in the "Recent Legislation" section of this report.) Effective with the 2002-2003 fiscal year these trustee accounts are reported as dedicated accounts within the University's Operating Fund. As such, the discrete presentation of each Activity Fund and Institutional Welfare Fund will only include financial figures for the 2001-2002 fiscal year. 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 \$494,942 for the 2001-2002 fiscal year. Revenues consisted primarily of student activity fees.

Expenditures totaled \$442,765 for the 2001-2002 fiscal year. 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 \$125,320 for the 2001-2002 fiscal year. Revenues consisted primarily of monies collected from vending machine commissions, as well as monies collected from dormitory and class dues.

Expenditures totaled \$82,252 for the 2001-2002 fiscal year. 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 \$185,815 for the 2001-2002 fiscal year. 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 \$185,245 for the 2001-2002 fiscal year. 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 \$24,255 for the 2001-2002 fiscal year. The major source of revenues included vending machine commissions.

Expenditures totaled \$31,904 for the 2001-2002 fiscal year. Expenditures were mostly made up of scholarships granted.

Eastern Connecticut State University Foundation, Inc.:

The Eastern Connecticut State University Foundation, Inc. (the Foundation) is a private 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, 2002 and 2003, 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 disclosed no

material inadequacies in the 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.

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 the appropriate officials prior to the contract term.

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

We noted five instances where the personal service agreement was not signed by a representative of the Attorney General's Office prior to the contract term. In addition, we noted one instance where an amendment to the personal service agreement was not signed by the required parties prior to the amendment term.

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 associated with these contracts in a timely manner. (See Recommendation 1.)

Agency Response: "The University agrees with this finding. The University has sent notices to all departments reminding them of the proper procedures for personal service agreements. Notices to clubs and organizations will be sent prior to the start of the Fall Semester. The University will also work with the Attorney General's Office to attempt to reduce the amount of time necessary to process the approvals. It should be noted that in no instance, was any contractor paid before the performance of the services included in the agreement."

Reconciliation of Checking Account:

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

- Condition:* Our review of the University's bank reconciliation for June 30, 2003, revealed that the reconciliation was performed on September 4, 2003. This reconciliation contained several reconciling items that occurred during the fiscal year that were not resolved by the University at June 30th.
- Effect:* These conditions increase the potential for errors or undetected fraud, and weaken financial reporting.
- Cause:* The University has indicated that these conditions are due to a lack of sufficient staffing.
- Recommendation:* The University should follow its internal control procedures to ensure that the required bank reconciliations are completed in a timely manner. This would include ensuring that corrective action is promptly taken for all identified reconciling items. (See Recommendation 2.)
- Agency Response:* "The University agrees with the finding and has reprioritized the reconciliation tasks. The reconciliation is now current and will be maintained."

Accounts Receivable:

- Criteria:* Sound business practices require that the University attempt to collect all outstanding debts in a timely manner.
- Conditions:* Our review of a sample of 25 students with individual account receivable balances revealed the following:
- Eight students with individual account receivable balances were not sent collection letters in a timely manner, as required by the University's policies and procedures. Consequently, three of these accounts were never sent to an outside collection agency.
- In addition, two students with individual account receivable balances were never sent the internal collection letters or sent to an outside collection agency.
- Effect:* The University did not comply with its policies and procedures, which weakens internal control. Furthermore, the University may never collect all outstanding receivables, which results in the loss of revenue.
- Cause:* Internal control policies were not being followed.
- Recommendation:* The University should follow its policies and procedures and improve internal control over accounts receivable. (See Recommendation 3.)

Agency Response: “The University agrees with the finding. The University is in the process of restaffing after the retirements and position eliminations of Fiscal Year 2003. The University expects to be able to perform the collection responsibilities in a timely manner when it has a full compliment of staff. In terms of office priorities, loan disbursements, refunds and the processing of current payments must come first due to state and federal requirements. Additional staffing will permit the office to expand compliance. The University is also exploring the use of state revenue intercept as provided in C.G.S. 12-173 for enhanced collections. ”

Equipment and Supplies 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 additional 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 conducted for the fiscal year ended June 30, 2003.

From a sample of 10 equipment items purchased during the audited period, one equipment item was not tagged or reported on the property control records.

From a sample of 25 equipment items selected from the inventory records, one equipment item could not be located.

From a sample of 25 equipment items identified by a random inspection of the premises, we found the following. Two instances were noted where the equipment items were not tagged. One of these items was not reported on the property control records.

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 CO-59 for the fiscal year ended June 30, 2003, was submitted approximately four months late.

The University currently maintains numerous locations containing stores and supplies where the estimated inventory value is undetermined. The University reported the value of these stores and supplies on the CO-59 for the fiscal year ended June 30, 2002 as \$85,358. The University reported

the value of this line item as zero on the CO-59 for the fiscal year ended June 30, 2003. A University representative informed us that the reason for this change was because they do not currently maintain one central store facility managed by a storekeeper.

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

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

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the State of Connecticut's Property Control Manual and improve control over the University's equipment and supplies inventory. (See Recommendation 4.)

Agency Response: "The University agrees with the finding. The University has conducted an inventory since the period covered in the report and expects to have the reconciliation associated with that process concluded by July 31, 2004. Information depositories associated with the CO-59 have been reviewed and corrected and will provide accurate data for the 2004 CO-59 submission. Reconciliations between the fixed asset system and the financial reporting system will begin with data as of June 30, 2004."

Construction Projects Administered by the Agency:

Criteria: Accurate inventory records are an integral part of internal control. The State of Connecticut's Property Control Manual sets forth specific policies regarding the valuation of construction projects administered by the agency. The Manual states, "The recorded asset cost should include the purchase or construction cost, professional fees for architects, attorneys, appraisers, or financial advisors, and any other expenditures necessary to put a building or structure into its intended state of operation."

Conditions: Our current audit examination of construction projects administered by the Agency revealed the following:

From a sample of five construction projects completed during the audited period, we found that in all five instances the projects were reported at the incorrect cost as additions on the annual Fixed Assets/Property Inventory Report (CO-59). These projects did not include all the costs necessary to put a building or structure into its intended state of operation. In the majority of these instances, the University omitted the cost of the architectural and engineering fees from the total cost of the project.

The University did not reconcile the amount expended for property to the change in the inventory record balances.

Effect: The total value of the construction projects administered by the Agency was reported incorrectly to the State Comptroller. The value of these projects was understated.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the State of Connecticut's Property Control Manual by ensuring that all the costs associated with construction projects administered by the University are included in the recorded assets' cost. (See Recommendation 5.)

Agency Response: "The University agrees that the information provided for self-administered projects should include the cost of architectural and engineering fees. The University will have all information corrected by August 31, 2004, for the proper inclusion in the CO-59 report."

Software Inventory:

Background: In our last audit report on the University, covering the fiscal years 1999-2000 and 2000-2001, we recommended that the University comply with the software inventory requirements contained in 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's Property Control Manual states that "a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation and related items." The Manual further states that "each agency will produce a software inventory report on an annual basis.... A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This report will be retained by the agency for audit purposes."

Condition: During the 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 the fall of 2003, 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: During the audit period, the University did not track and control their entire software inventory because it was developing new software inventory tracking policies and procedures. We were informed that the Information Technology Services Department developed a software information database to address the software inventory requirement. This new control procedure was implemented in the fall of 2003.

Recommendation: The University should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual. (See Recommendation 6.)

Agency Response: "The University agrees with this finding. The University has a number of procedures in place to monitor software of significant value (over \$1,000) or universal usage. Software obtained for free or in the process of being developed by faculty and staff is difficult to track and control. It is common in the academic community that field specific software is shared among professors at different institutions. This software may be in the testing or development stage and not have all of the mandated license and other documentation. The University will remind faculty and staff at the start of the Fall Semester as to their responsibility to forward all documentation to the Information Technology Services (ITS) office. ITS will continue to test and review software designed to capture this information on a system-wide basis. The University will review the possibility of statutory change to permit the focus of the inventory to be on software valued over \$1,000."

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 as 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 audit period, the University did not transmit the required information for all direct disbursements made. Accordingly, a portion of the direct disbursement expenditures was not properly classified.

The State Comptroller's records showed that the University's generic (5-39) Operating Fund expenditures totaled \$3,000,871 for the 2001-2002 fiscal year instead of showing a total of zero.

For the 2002-2003 fiscal year the State Comptroller's records showed that the University's generic (5-39) Operating Fund expenditures totaled zero. However, our review of the detail for the reclassification revealed that the University could not readily identify all the direct reimbursement expenditures. The University coded an amount of \$3,087,577 to the miscellaneous account (coded 5-25).

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 program used to extract the required expenditure classification detail from the University's accounting records did not address all direct disbursement transactions.

Recommendation: The University should follow the State Comptroller's prescribed procedures to correctly account for such direct disbursement expenditures. (See Recommendation 7.)

Agency Response: "The University concurs with the finding. The financial statements, dated June 30, 2004, will be accurately classified. While the matter should be addressed, the impact on state financial reporting should have been minimal."

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.” For the fiscal year ended June 30, 2003, the \$600 limit was increased to \$3,000. 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 eight instances, there was missing written documentation certifying that services/commodities were received.
- In nine instances, there was no evidence that competitive negotiations were followed.
- In two instances, the personal service agreement/honorarium was not signed prior to the rendering of service.

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 Fund expenditures should be improved by following established control procedures designed to ensure compliance with the requirements in this area. (See Recommendation 8.)

Agency Response: “The University agrees with this finding. The University recently completed an overhaul of Student Activities Business Procedures Manual to bring procedures in line with CSU and state requirements. Details will be communicated with club leaders and advisors at the start of the Fall Semester. The University is currently reassessing the need for additional personnel in the unit.”

Activity Funds - Accounting Control over Receipts:

Criteria: The State of Connecticut’s Accounting Procedures Manual for Activity and Welfare Funds sets forth requirements relating to receipts. This Manual requires “All cash belonging to the Fund will be deposited within 24 hours after receipt except if otherwise authorized by the State Treasurer, or the total amount is less than \$500.”

The University’s Student Activities Business Procedures Manual requires all club events to be registered with the Student Activities Accounting Intake Office (SAAIO) for approval prior to the date of the event. The SAAIO also requires all clubs to issue a receipt when receiving money and for all funds collected totaling \$100 or more to be deposited at the Cashier’s Office within one day of receiving the funds. The deposit slip must be signed by the SAAIO prior to the funds being deposited.

Conditions: Our examination of 20 receipts for monies received at locations other than the Cashier's Office disclosed the following:

We noted 15 instances where receipts totaling \$58,451, were deposited from one to nine business days late.

Five individual club events were not registered with the SAAIO for approval prior to the date of the event.

Six instances were noted where the University could not document that receipts were issued for monies received.

Eight instances were noted where the SAAIO did not review the clubs deposit slip prior to the funds being deposited at the Cashier's Office.

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

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with its established local fund policies and procedures and improve internal control over the receipt process. (See Recommendation 9.)

Agency Response: "The University agrees with the finding. The University plans to communicate the 24 hour deposit requirement to club leaders and advisors during training sessions at the start of the Fall Semester. The University has already counseled one club that had a consistent pattern of non-compliance. Staff will be reminded of the critical need to review all deposits."

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 and reconciliations.

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 conducted for the fiscal year ended June 30, 2003.

From a sample of 15 equipment items selected from the inventory records, we found the following:

- In five cases, equipment items were not tagged.
- In one case, the equipment item could not be located.
- In one case, the equipment item was disposed of without the appropriate paperwork supporting the removal of the item.
- 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 10.)

Agency Response: "The University agrees with the finding and will complete a full inventory by September 30, 2004. The University will make the necessary adjustments to the reconciliation procedures and include the value on the CO-59 report."

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 2002-2003 fiscal year are presented below:

- Accounting for Fixed Assets: To compensate for the lack of controls and the current structure of the Property Control Department the University needs to revise its policies and procedures related to the accounting and managing of its fixed assets. This will help ensure that fixed assets are being reviewed and accounted for appropriately.
- Time and Attendance: The manual attendance system process should be replaced with a computerized system.
- Reconciling the Fixed Asset System to the General Ledger and the General Ledger with the Fixed Asset Inventory: 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.
- Purchase Requisitions: 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.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The University should take steps to improve internal controls over the procurement process. Improvement was noted in this area; therefore the recommendation is not being repeated.
- 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. The recommendation is being repeated. (See Recommendation 1.)
- 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 4.)
- The University should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual. The recommendation is being repeated. (See Recommendation 6.)
- The University should follow the State Comptroller's prescribed procedures to correctly account for such direct disbursement expenditures. The recommendation is being repeated. (See Recommendation 7.)
- Control over the University's Activity Fund 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 8.)
- 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. Improvement was noted in this area; therefore the recommendation is not being repeated.
- 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. The recommendation is being repeated. (See Recommendation 10.)

Current Audit Recommendations:

- 1. The University should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document the approval 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 required parties prior to the contract term.

- 2. The University should follow its internal control procedures to ensure that the required bank reconciliations are completed in a timely manner. This would include ensuring that corrective action is promptly taken for all identified reconciling items.**

Comment:

Our review of the University's monthly bank reconciliations during the audited period revealed that the reconciliations were not performed in a timely manner.

- 3. The University should follow its policies and procedures and improve internal control over accounts receivable.**

Comment:

Our review of a sample of students with individual account receivable balances revealed that the University did not comply with its policies and procedures.

- 4. The University should comply with the State of Connecticut's Property Control Manual and improve control over the University's equipment and supplies inventory.**

Comment:

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

- 5. The University should comply with the State of Connecticut's Property Control Manual by ensuring that all the costs associated with construction projects administered by the University are included in the recorded assets' cost.**

Comment:

Our review of a sample of construction projects administered by the University, found that the total costs of these projects were not accurately reported to the State Comptroller's Office.

6. 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.

7. 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.

8. Control over the University's Activity Fund 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.

9. The University should comply with its established local fund policies and procedures and improve internal control over the receipt process.

Comment:

The University did not comply with its established local fund policies and procedures over the receipt process.

10. 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, 2002 and 2003. 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 audit of Eastern Connecticut State University for the fiscal years ended June 30, 2002 and 2003, 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 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 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, 2002 and 2003, 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: incurring obligations for personal service agreements prior to formal approval of contractual terms, lack of timely reconciliation of the bank account, weaknesses in controls with the monitoring of accounts receivables, inadequate control over University equipment, inadequate controls over the construction projects administered by the University, inadequate control over receipts with respect to locations other than the Cashier's Office, 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, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: inadequate control over University equipment.

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.

David S. Parodie
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Account