

STATE OF CONNECTICUT



***AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE CONNECTICUT STATE UNIVERSITY
EASTERN CONNECTICUT STATE UNIVERSITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005***

AUDITORS OF PUBLIC ACCOUNTS
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March 14, 2007

AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

We have examined the financial records of Eastern Connecticut State University (University) for the fiscal years ended June 30, 2004 and 2005.

Financial statement presentation and auditing are performed on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the 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. Dr. Michael Pernal served as Interim President from January 20, 2006 until August 4, 2006, at which time Dr. Elsa Nunez was appointed University President.

Recent Legislation:

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

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 present the following enrollments for full-time and part-time students during the two audited years:

| | <u>Fall 2003</u> | <u>Spring 2004</u> | <u>Fall 2004</u> | <u>Spring 2005</u> |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| Full-time undergraduate | 3,619 | 3,389 | 3,700 | 3,436 |
| Full-time graduate | <u>72</u> | <u>82</u> | <u>84</u> | <u>76</u> |
| Total full-time | <u>3,691</u> | <u>3,471</u> | <u>3,784</u> | <u>3,512</u> |
| Part-time undergraduate | 1,097 | 900 | 1,020 | 949 |
| Part-time graduate | <u>307</u> | <u>335</u> | <u>352</u> | <u>321</u> |
| Total part-time | <u>1,404</u> | <u>1,235</u> | <u>1,372</u> | <u>1,270</u> |
| Total Enrollment | <u>5,095</u> | <u>4,706</u> | <u>5,156</u> | <u>4,782</u> |

RÉSUMÉ OF OPERATIONS:

During the audited period, the State Comptroller accounted for University operations in:

- The University Operating Fund
- Grants Fund
- State Capital Project Funds

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 the allocations of the appropriations were calculated, and transfers of these funds were made periodically to the campuses' Operating Funds.

The financial information reported in the section below is derived from the Connecticut State University System’s combined financial statements, which are audited by an independent public accounting firm.

Beginning with the fiscal year ended June 30, 2002, the University adopted Governmental Accounting Standards Board Statements No. 34 and No. 35. These statements made significant changes to the reporting model and changed the presentation of the University’s financial statements from a multi-column format to a single-column format.

The University financial statements are adjusted as necessary, combined with those of the State’s other institutions of higher education and incorporated in the State’s Comprehensive Annual Financial Report as an enterprise fund. Significant aspects of the operations of the University, as presented in the Agency prepared financial statements, are discussed in the following sections of this report.

Operating Revenues:

Operating revenue results from the sale or exchange of goods or services that relate to the University’s primary function of instruction, academic support and student services.

Operating revenue as presented in the University’s financial statements for the audited period follows:

| | <u>2003-2004</u> | <u>2004-2005</u> |
|--|----------------------------|----------------------------|
| Tuition and fees (net of scholarship allowances) | \$17,789,368 | \$18,809,293 |
| Federal grants and contracts | 2,509,478 | 2,388,196 |
| State and local grants and contracts | 1,340,882 | 2,134,449 |
| Non-Governmental grants and contracts | 358,585 | 231,560 |
| Indirect cost recoveries | 121,556 | 111,542 |
| Auxiliary revenues | 13,136,050 | 15,115,875 |
| Other sources | <u>24,420,303</u> | <u>35,739,215</u> |
| Total operating revenues | <u>\$59,676,222</u> | <u>\$74,530,130</u> |

Under the provisions of Section 10a-99, subsection (a), of the General Statutes, tuition and fees were fixed by the University’s Board of Trustees. The following summary presents annual tuition charges during the 2003-2004 and 2004-2005 fiscal years.

| Student Status | 2003-2004 | | | 2004-2005 | | |
|----------------|------------------|--------------|----------|------------------|--------------|----------|
| | In-State | Out-of-State | Regional | In-State | Out-of-State | Regional |
| Undergraduates | \$2,648 | \$8,570 | \$3,972 | \$2,862 | \$9,264 | \$4,294 |
| Graduates | 3,298 | 9,190 | 4,947 | 3,566 | 9,934 | 5,348 |

The following summary presents the annual General, State University, and Information Technology Fees, which are also included within the operating revenues category of tuition and

fees.

| Fees | 2003-2004 | | | 2004-2005 | | |
|------------------------|-----------|--------------|----------|-----------|--------------|----------|
| | In-State | Out-of-State | Regional | In-State | Out-of-State | Regional |
| General | \$1,307 | | | \$1,571 | | |
| State University | 732 | 1,798 | 732 | 765 | 1,879 | 765 |
| Information Technology | 218 | | | 218 | | |

The Housing Fee and Food Service Fee, required of resident students, represent a significant portion of the operating revenues category titled “Auxiliary revenues.” The following summary presents the average annual Housing Fee (double occupancy) and Food Service Fee during the audited period.

| Fees | 2003-2004 | 2004-2005 |
|--------------|-----------|-----------|
| Housing | \$3,634 | \$3,950 |
| Food Service | 3,118 | 3,306 |

The other sources category of operating revenue primarily consists of internal revenue transfers and reclassifications between funds. In addition, the University also records the value of capital projects funded by the Connecticut Health and Education Facilities Authority (CHEFA) within this category.

The increase in the tuition and fees category of \$1,019,925 during the 2004-2005 fiscal year was primarily the result of an increase in the University’s fee structure. As presented above, the University’s full-time tuition charge increased by eight percent between the 2003-2004 and 2004-2005 fiscal years. In addition, the University’s General fees and University fees increased by twenty and five percent, respectively, during the same time-period.

The increase in the other sources category of \$11,318,912 was primarily the result of a reclassification of bond transfers for payments made.

Operating Expenses:

Operating expenses generally result from payments made for goods and services to assist in achieving the University’s primary function of instruction, academic support and student services.

Operating expenses include employee compensation and benefits, supplies, services, utilities and depreciation. Operating expenses as presented in the University’s financial statements for the audit period follow:

| | <u>2003-2004</u> | <u>2004-2005</u> |
|---------------------------------------|---------------------|---------------------|
| Personal service and fringe benefits | \$49,117,457 | \$52,560,175 |
| Professional services and fees | 2,502,543 | 3,026,792 |
| Educational services and support | 7,169,654 | 8,036,002 |
| Travel expenses | 828,481 | 977,834 |
| Operation of facilities | 7,935,463 | 9,176,910 |
| Other operating supplies and expenses | 4,472,665 | 4,752,234 |
| Depreciation expense | 6,160,185 | 6,269,384 |
| Amortization expense | <u>0</u> | <u>235,500</u> |
| Total operating expenses | <u>\$78,186,448</u> | <u>\$85,034,831</u> |

Nonoperating Revenues:

Nonoperating revenues are those revenues that are not from the sale or exchange of goods or services that relate to the University's primary function of instruction, academic support and student services. Nonoperating revenues include items such as the State's General Fund appropriation, gifts, investment income and State financial plant facilities revenues. The State financial plant facilities category represents the recognition of revenue from capital projects completed at the University by the Department of Public Works.

Nonoperating revenues as presented in the University's financial statements for the audited period follow:

| | <u>2003-2004</u> | <u>2004-2005</u> |
|----------------------------------|---------------------|---------------------|
| State appropriations | \$31,754,823 | \$32,751,606 |
| Gifts | 89,461 | 144,315 |
| Investment income | 96,830 | 177,485 |
| Other nonoperating revenues | 405,534 | 671,015 |
| State financial plant facilities | <u>382,296</u> | <u>0</u> |
| Total nonoperating revenues | <u>\$32,728,944</u> | <u>\$33,744,421</u> |

In addition to the operating and nonoperating revenues presented above, the University's financial statements also presented revenues classified as State appropriations restricted for capital purposes totaling \$4,951,811 and \$3,716,914, for the fiscal years ended June 30, 2004 and 2005, respectively.

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 4-37k of the General Statutes set requirements for organizations such as the Foundation. The requirements include and address the annual filing of an updated list of

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board members with the State agency for which the foundation was established, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning 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, 2004 and 2005, 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. However, our review disclosed a concern relating to Section 4-37g, subsection (b), of the General Statutes. This matter is detailed in the "Condition of Records" and "Recommendations" sections of this report.

CONDITION OF RECORDS

Our review of the financial records of Eastern Connecticut State University disclosed certain areas requiring attention, as discussed in this section of the report.

Compensatory Time:

Criteria: Management is responsible for establishing effective internal controls to ensure that compensatory time record keeping is in compliance with laws, regulations, and collective bargaining agreements.

The State University Organization of Administrative Faculty (SUOAF) AFSCME bargaining agreement, Article 16.2, states “Compensatory time for extended hours of work on a workday or work on a legal holiday, Saturday or a Sunday may be accrued only upon the approval of the first appropriate manager outside of the bargaining unit.” The article further states, “No member shall accrue more than ten (10) days of compensatory time. The Chief Personnel Officer on each campus may authorize additional short-term accruals of fifteen (15) days, for a total of twenty-five (25) days, in special emergencies. Annually, on August 15, any outstanding compensatory time balances shall be reduced to zero (0) for each member except that compensatory time earned between June 1 and August 15 may be used until the following January 15.”

Conditions: Our review of the University’s compensatory time records disclosed the following:

- The University did not fully comply with the provisions of Article 16.2 of the SUOAF-AFSCME bargaining agreement. We noted four employees whose compensatory time accrual balances were not reduced to zero on the established dates stipulated within the bargaining agreement. As a result of the compensatory time not being reduced to zero, we noted two of the four employees had charged compensatory time that had expired.
- We noted two instances where employees were allowed to accrue more than the contractual limit without the approval of the Chief Personnel Officer. In both of these instances, employees were allowed to accrue more than ten days of compensatory time without the approval of the Chief Personnel Officer.

Effect: The University did not fully comply with provisions of the bargaining agreement contract that address compensatory time. Internal controls over compensatory time are weakened.

Cause: Procedures to ensure compliance with requirements in this area were not being followed.

Recommendation: The University should take the necessary steps to ensure that compensatory time records are accurate and in accordance with applicable collective bargaining agreements and personnel policies. (See Recommendation 1.)

Agency Response: “The University agrees with this finding. The University conducted a full review of current practices and has put procedures in place to ensure that compensatory time is accurately recorded and reviewed. Documentation on the new controls have been shared with all pertinent staff. A redesign of tasks and responsibilities within the Payroll function has been implemented. The changes have improved accountability and the integrity of the compensatory time records.

The Payroll unit has completed a detailed audit of all compensatory time since the Core-CT conversion in October, 2003. Based on this audit there are thirteen employees who have used compensatory time which should have expired. The University will track these negative balances and reduce them as the employees earn compensatory time in the future. All of these employees are currently employed by the University.”

Procurement:

Criteria: Section 10a-151b of the General Statutes governs the purchase of equipment, supplies, and contractual services, and execution of personal service agreements by constituent units of higher education.

Sound internal control procedures require personal service agreements to be signed by all the appropriate officials prior to the contract term.

The Connecticut State University System’s Personal Service Agreement Procedures Manual sets forth requirements relating to personal service agreement contracts. This Manual states, “The Personal Service Agreement (PSA) is used for the commitment of funds concerning all non-employment contracts for personal services that are over \$3,000 and are not issued on a Purchase Order... Personal services include assistance performed by individuals, partnerships or corporations of a professional or technical nature.” The Manual further states, “The Attorney General’s Office reviews and approves all PSA’s in excess of \$3,000 cumulative over any rolling twelve-month period.”

Conditions: Our testing of personal service related expenditures during the audited period disclosed the following:

We noted five instances where the honorarium or PSA was not signed by one of the required officials prior to the contract term. In four of these instances, the Attorney General signed the PSA late, and in two instances the University signed late.

In addition, we noted two instances where the University contracted for services exceeding \$3,000 without completing the required PSA Form. Consequently, in both instances the service contracts were not reviewed and approved by the Attorney General's Office. In one of these instances, the University utilized two honorariums to process a total payment of \$5,000 for the same service. Furthermore, we noted that one of these honorariums was approved for payment before the service was rendered. In the other instance, the transaction was processed on a purchase order instead of a PSA.

Effect: The University did not comply with its established policies and procedures, which weakens internal control, and increases the likelihood that inappropriate personal service expenditures may be made and not be detected by management.

Cause: Internal control policies were not being followed.

Recommendation: The University should improve internal controls over the procurement process and comply with the procedures promulgated in the Connecticut State University System's Personal Service Agreement Procedures Manual. (See Recommendation 2.)

Agency Response: "The University agrees with the finding. It should be noted that in all cases, payments were made after the performance or service was completed. The University annually communicates contracting guidelines to the University community. The University conducted extensive training sessions with University personnel during the 2004-2005 Academic Year. The University works closely with the Attorney General's Office in reviewing contracts. The University has limited control over the external processing of documents and is often faced with the dilemma as to whether to hold or cancel an event. Late canceling of events could expose the University to financial and image damages that outweigh any risks associated with the Attorney General's primary responsibility to review for form rather than substance."

Travel:

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

- Conditions:* Our current audit examination of travel-related expenditures disclosed the following:
- Five instances, totaling \$10,024, where the expenditure was either not supported by a vendor's receipt or was supported by an inadequate receipt.
 - Six instances where the employee received a travel advance but did not sign the required Travel Advance Agreement Form.
 - Five instances where rosters, related to team travel, either were not approved by the Director of Athletics or could not be located by the University.
 - Four instances where the University did not obtain the required proof of automobile insurance prior to the employees travel involving mileage reimbursement and/or car rental.
 - One instance where the University did not obtain a revised Travel Authorization Form for a trip that exceeded the original encumbered amount by ten percent.
 - Two instances where the required Travel Reimbursement Form was not used to reconcile expenses incurred on a trip.
 - One instance where the contract on file for a vendor who was providing travel related services was missing the signature of the authorized University representative.

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

Cause: Internal control policies were not being followed.

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

Agency Response: "The University agrees in general with the findings. In one area, the adequacy of receipts, the University does not fully agree. University personnel travel throughout the globe and in many areas formal receipts with company identification are not available. University personnel should not have reimbursement withheld due to local customs.

During a significant portion of the audit period, the University was operating without an Accounts Payable Supervisor. In April 2005, near the end of the audit period, the University hired an Assistant Director of Fiscal Affairs/Accounts Payable. The Assistant Director conducted a review of all CSU travel policies and procedures in connection with the

ECSU Travel Department's internal processes. The following controls were put into place as a result of the review:

- All travel authorization forms are reviewed for appropriate departmental signatures and detail accuracy by the unit supervisor. Supporting documents including, but not limited to: airfare receipts, hotel invoices, and car rental invoices are also verified for completeness and authenticity.
- All reimbursements are fully reconciled on the Travel Authorization form.
- Proof of auto insurance is secured **prior** to the issuance of a travel authorization that involves mileage reimbursement and/or a car rental.
- Completed rosters for team travel are submitted with all athletic travel authorizations and verified by the unit supervisor.
- Upon the issuance of a travel advance for athletics, the Travel Advance Agreement Form must be signed by the coach before check is distributed.
- Any Travel authorization form submitted for a trip exceeding the original encumbered amount is returned for revision and appropriated signatures. No reimbursements will be disbursed until the corrected paperwork is received and verified by the travel office.

The implementation and enforcement of these controls has established a routine ensuring compliance with all CSU travel regulations.”

*Auditors Concluding
Comments:*

The Connecticut State University System's Travel Policy and Procedures Manual addresses the issue of missing or lost receipts. In the case where a formal receipt lacks pertinent information, such as company identification, the University should consider documenting such by utilizing the established Policy Exception Request Form. This would strengthen internal control and ensure that University personnel are reimbursed for expenditures incurred.

Accounts Receivable:

Criteria:

Sound business practices require that the University attempt to collect all outstanding debts in a timely manner.

The University has established procedures for the collection of outstanding receivables. These procedures include utilizing an outside collection agency, once internal collection attempts have been exhausted. Once an account is transferred to an outside collection agency there are specific timeframes that non-paying accounts should be returned to the University.

Sound internal control procedures dictate that proper authorization be obtained prior to waiving or reducing University fees. In addition, the University's accounts receivable balance should be accurately reported.

Conditions: Our review of a sample of 25 students with individual accounts receivable balances disclosed a significant number of instances where the University was not following its own collection procedures. We noted the following:

- Six students' collection files were unable to be located. Therefore, we were unable to ascertain if the University complied with its established collection policies and procedures.
- Five students' accounts were not sent to an outside collection agency.
- Four students' accounts were not transferred back to the University from the outside collection agency in a timely manner, after the company was unsuccessful in collecting from non-paying accounts.
- Eight students' accounts were not sent to a second outside collection agency within a timely manner. In two additional instances, the students' accounts were never sent to the second outside collection agency.
- Four instances were noted where the proper authorization was not obtained or documented prior to waiving or reducing the University's late payment fee. Further review revealed that all the late payment fees for the fall 2001, fall 2004 and spring 2005 semesters had the same condition. In addition, we noted that all the late payment fees for the spring 2002 semester were reduced to half the original amount.
- The University's June 30, 2005 accounts receivable balance inappropriately included the estimated collection costs for accounts being held at an outside collection agency. By including the amount of collection cost within the accounts receivable balance the University's revenue was overstated.
- One instance was noted where a third party billing account was not collected in a timely manner.

Effect: The University did not comply with its established policies and procedures, which weakens internal control. Furthermore, the University may never collect outstanding receivables, which may result in the loss of revenue. Errors to accounts receivable records result in inaccuracies with the financial statements.

Cause: Internal control policies were not being followed.

Recommendation: The University should follow its established policies for the collection of student accounts receivable. In addition, the University should perform a review of all its delinquent accounts to ensure that the individual balances

are accurate and in the appropriate stage of collection. (See Recommendation 4.)

Agency Response: “The Agency agrees with the finding. During the audit period, administrative departments faced staffing reductions due to the statewide early retirement and layoff programs. Every office in Fiscal Affairs was operating below normal operating staff levels. During most of the period of the review, the Collections Coordinator position was vacant in the Bursar’s office. The University had to focus most of its limited personnel resources on the daily processing of bills and payments. Due diligence efforts and document recording became a secondary priority. A full time position was filled in July 2004 and a supervisory position was filled in July of 2005 to oversee collection efforts.

New procedures for collections have been introduced since that time. They include:

- Maintaining an Access Database of all accounts that are in collections;
- Proper Coding of Collection Activity on Banner so that reports, collection agency assignment and timely follow-up can be managed;
- Reorganizing the filing system to keep better control over records;
- Procedures for monitoring currently enrolled students to identify withdrawals on a timely basis.

During the review period, there were significant delays in financial aid processing due to professional staff vacancies. As a result, the University chose to reduce or eliminate late fees for that period of time in the interest of customer service. Late fees were also removed on a fairly frequent basis in consideration of these delays in aid processing. Staff shortages in the Bursar’s office made it difficult to properly document the waiver of these fees in Banner. The University is currently assessing late fees on a regular and consistent basis. Waivers of the fee have been minimal.

The estimated collection agency costs have been reclassified on the General Ledger and the University is implementing a method of managing collection agency payments that will eliminate the need to track collection costs in Banner.

The third party in question has been contacted. Currently there is a dispute over their liability for the charge. If it is not resolved, the student will be held responsible for the obligation.”

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 environment. The Connecticut State University System's Capital Valuation and Asset Management Manual provides additional guidance in this area.

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

- Certain amounts 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, 2005, was submitted approximately one month late.
- The works of art obtained through the Arts in Public Spaces Program were not inventoried by the University, and their respective values were not reported on the CO-59.
- The University did not complete a Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles) - CO-853 for capitalized equipment items that could not be located during their 2004 and 2005 annual physical inventory.
- The University currently maintains numerous locations containing stores and supplies where the estimated inventory value is not reported. The University reported the value of these stores and supplies as zero on the CO-59 for the fiscal years ended June 30, 2004 and 2005. A University representative informed us that they did not report these values because they do not currently maintain one central store facility managed by a storekeeper.
- During the audited period, the University did not regularly reconcile the amount expended for capital assets to the change in the inventory record balances.

Effect: The University's property control records are not in compliance with established policies and procedures. The conditions described above weaken internal control over equipment and supplies, and increases the likelihood that the loss of equipment and supplies may occur and not be detected by management.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over equipment and supplies inventory. (See Recommendation 5.)

Agency Response: “The University agrees in general with the finding. The University does not agree with the comments concerning the maintenance of stores and supplies. The contention that the University does not conduct inventory due to a lack of a central store is inaccurate. The University utilizes a combination of local suppliers and quick delivery sources instead of maintaining large stores. This decision is in keeping with best business practices and reduces overall University costs.

During this audit period the University made a concerted effort to improve the tracking and valuing of equipment. Due to the impact of layoffs and the statewide retirement program, the University had to reallocate resources to meet the inventory responsibilities. The University is now performing regular reconciliations, has submitted the CO-59 report in a timely manner and has submitted CO-853 forms for missing equipment items. The University made the decision to submit the CO-853 forms at the end of the second inventory because it was our experience that we were finding a significant number of missing items from earlier inventories during our follow-up efforts.

The valuation of art received through the State’s One Percent for Art Program was not included in our building valuation. While State procedures for documenting and accepting the value of the art are not explicit, the University accepts the determination by the Auditors of Public Accounts and will include the value of the items in University reporting.”

*Auditors Concluding
Comments:*

The University currently maintains several locations containing stores and supplies where the estimated inventory value is undetermined. These stores and supplies include materials maintained by the Facilities Management and Planning (Facilities) Department. The Facilities Department oversees various shops ranging from Automotive, Carpentry, Electrical, Key and Plumbing. In the past, the University reported that the value of these stores and supplies exceeded \$1,000. A University representative sent a memorandum to the Comptroller dated January 30, 2004, stating, “The value of “Stores & Supplies” has been reduced to zero. Eastern does not maintain a store or supply facility and does not employ a storekeeper. Supplies are delivered to the end user as they arrive.”

The University’s decision to delay the submission of the CO-853 forms was not in compliance with established procedures.

Construction Projects Administered by the University:

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 University. The Manual states, “The recorded asset cost should include the purchase or construction cost... and any other expenditures necessary to put a building or structure into its intended state of operation.”

The Department of Public Works’ (DPW) Guidelines and Procedures Manual for Agency Administered Projects provides additional guidance in this area.

Conditions: Our current audit examination of five construction projects administered by the University disclosed the following:

- In five instances we were unable to trace the cost of the project to the amount reported on the CO-59. Further review disclosed, various instances where the construction cost, necessary to put the building or structure into its intended state of operation, was not reported correctly.
- In one instance the required Certificate of Compliance Form was not on file.
- In two instances the University did not provide documentation that DPW was notified regarding the approval of change orders.

In addition, we noted two instances during our review of expenditures where the University incorrectly coded construction related expenses resulting in the expenditures not being capitalized. In one of these instances, the incorrectly coded expenditure was related to a DPW administered project.

Effect: The University did not comply with established policies and procedures, which weakens internal control. The value of the above noted construction projects administered by the University were reported incorrectly to the State Comptroller.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with established policies and procedures and improve internal control over University administered projects. (See Recommendation 6.)

Agency Response: “The University agrees with the finding. The University has hired an Accounting Associate whose responsibilities include fixed asset monitoring and administering of the Department of Public Works bond

funds. The Accounting Department has initiated improved communications with the Facilities and Purchasing Departments and now works very closely with them to ensure that information is shared among all appropriate areas.”

Software Inventory:

Background: In our last audit report on the University, covering the fiscal years 2001-2002 and 2002-2003, we recommended that the University comply with the software inventory requirements contained in the State of Connecticut’s Property Control Manual. At that time, 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 audited period, a significant improvement was noted regarding the University’s software inventory. However, it was noted that a complete inventory of all software that had been purchased/installed by faculty and staff outside of the Information Technology Services Department’s control is not being maintained. Furthermore, the University did not conduct a physical inventory of software on an annual basis.

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

Cause: The Information Technology Services Department is not being informed of all the individual software that has been purchased/installed by the faculty and staff outside of their control.

Recommendation: The University should comply with the software inventory requirements contained in the State of Connecticut’s Property Control Manual. (See Recommendation 7.)

Agency Response: “The Agency maintains extensive documentation on software owned or utilized by the University. The University attempts to monitor software through both the Purchasing process and our Information Technology

Monitoring Systems. Software developed by our faculty, staff and students or software received free by members of the University community is difficult to track. It is not practical to do a physical inventory of each computer on campus to determine the installed software. System tracking will not show software maintained on the local hard drive.”

Report Required by Statute:

Criteria: Section 4-37g, subsection (b), of the General Statutes states that “In the case of an audit required pursuant to section 4-37f, that was not conducted by the Auditors of Public Accounts, the executive authority and chief financial official of the state agency shall review the audit report received pursuant to said section and, upon such review, the executive authority shall sign a letter indicating that he has reviewed the audit report and transmit a copy of the letter and report to the Auditors of Public Accounts.”

Condition: The Eastern Connecticut State University Foundation’s audit reports for the fiscal years ended June 30, 2004 and 2005, were not filed in a timely manner with the Auditors of Public Accounts. The respective audit reports with the signed letter indicating that the executive authority of the University reviewed these reports were transmitted in November 2006.

Effect: The University did not transmit the required reports in a timely manner.

Cause: It appears that this was a clerical oversight.

Recommendation: The University should institute procedures to ensure that all reports required by Statute are transmitted in a timely manner. (See Recommendation 8.)

Agency Response: “The University agrees with the finding. The University has submitted the report for Fiscal Year 2006. While the definition of timely is not articulated in state statute or policy, the University will endeavor to submit the reports within 30 days of receipt.”

Local Fund Expenditures:

Criteria: Section 4-52 through 4-55 of the General Statutes set guidelines for the establishment and operation of trustee accounts and authorizes the State Comptroller to approve the establishment of such funds in accordance with procedures prescribed.

In addition to the State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds, the University has adopted its own procedures relating to the expenditure/disbursement process. These procedures are outlined in the University's Student Activities Accounting Intake Office's (SAAIO) Business Procedures Manual.

The Connecticut State University System's Personal Service Agreement Procedures Manual provides guidance for transactions involving the acquisition of personal services.

Further, the University has a fiduciary responsibility to ensure that sound internal controls are in place.

Conditions: Our testing of 25 Local Fund expenditures during the audited period disclosed the following:

- In thirteen instances, the payment authorization was not signed by one of the required parties.
- In five instances, there was no written documentation on file certifying that services/commodities were performed/received.
- In two instances, the PSA/honorarium was not signed by one of the required parties.
- In two instances, the PSA/honorarium was not signed by the required parties prior to the start of the contract term.
- In four instances, the University signed the honorarium authorizing payment prior to the corresponding services having been performed.

In addition, we found internal control weaknesses related to the SAAIO. Specifically, we noted a lack of segregation of duties between the purchasing and accounts payable functions and a lack of adequate supervisory review and approval in the expenditure process. Further review revealed a procedure that circumvents a programmed Banner control feature.

Effect: The University is not in compliance with established procedures, which weakens internal control.

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

Recommendation: Control over the University's Local Fund expenditures should be improved by following established control procedures designed to ensure compliance with the requirements in this area. (See Recommendation 9.)

Agency Response: "The University agrees with the finding. During the period under review, the supervisor position in the office was vacant due to the State's early

retirement program and limited resources. Since filling the supervisor position during July 2005, new standards have been implemented, duties have been segregated, and an Assistant Director was hired in Student Activities to review all club vouchers for signatures.”

Local Fund 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 Accounting Intake Office Business Procedures Manual requires all club events to be registered with that office for approval prior to the date of the event. For all club events involving the collection of money, a financial report must also be completed. The SAAIO also requests 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:

- In three instances, receipts totaling \$2,567 were deposited from one to five business days late. The delays occurred prior to the Cashier’s Office receiving the funds. In addition, we noted ten deposits where the University had no record of the original receipt date. In these cases, we could not determine whether the prompt deposit requirements were met.
- In 16 instances, individual club events were not registered with the SAAIO for approval prior to the date of the event. In 13 of these instances, the required financial report was not submitted to the SAAIO for club events involving the collection of funds. Three additional instances were noted where the financial reports submitted were incomplete.
- In 19 instances there were no documents on file to support that receipts were issued for money’s received.
- In six instances, the SAAIO did not review the clubs deposit slip prior to the funds being deposited at the Cashier’s Office.

Effect: The University did not comply with its established policies and procedures, which weakens internal control. Further, we could not

determine how long monies were held pending deposits. This condition also increased the risk of loss or theft of funds.

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 10.)

Agency Response: “The University agrees with the finding and has made several changes in procedures since the audit period. When picking up cash boxes, students now receive a notice that advises them on the proper ways of handling money (i.e. timely deposits). The Event registration function was turned over to the Student Activities Office in July 2005. When reasonable, students are encouraged to use receipt books for money's received. Officers of Student Clubs are required to attend training sessions where all rules and regulations related to activities are discussed and adherence to policies is stressed. Clubs are given handouts of appropriate materials explaining the policies.”

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 review of a sample of equipment items selected from the University’s Fiduciary Fund inventory records disclosed the following:

- In two cases, equipment items were missing the appropriate identification tags.
- In one case, a disposed equipment item was not removed from the Fiduciary Fund inventory report. Further review revealed that an additional 12 equipment items were disposed of but still currently reported on the inventory records.
- In four cases, the equipment items were recorded on both the Fiduciary Fund and the University’s inventory systems.

The University incorrectly reported on the CO-59 the amount of Fiduciary Fund assets on hand.

Effect: The conditions described above weaken internal control over equipment and increases the likelihood that the loss of equipment may occur and not be detected by management.

- 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 State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds. (See Recommendation 11.)
- Agency Response:* "The University agrees with the finding. Not all items can be tagged due to the nature or use of the equipment. The University has instituted a regular review of equipment control."

Student Government Fund Class Accounts:

- 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."
- Conditions:* During the audited period, we found that the class accounts for the years 2003, 2004 and 2005 designated in their meeting minutes, a beneficiary for the remaining fund balance at the time of graduation. The minutes on file however, did not contain the required signatures of the class officers and faculty advisor.
- Further review revealed that the entire 2003 class account balance, totaling \$2,976, was transferred to the 2004 class account. However, the meeting minutes noted that only \$2,000 should have been transferred.
- Effect:* The University is not in compliance with established procedures.
- Cause:* The University transferred the remaining balance of these class accounts to their beneficiary utilizing meeting minutes as the authorizing document, which lacked the required signatures.
- 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 12.)
- Agency Response:* "The University agrees with the finding. Beginning with the Class of 2006, the University has introduced the Beneficiary Designation form which allows for the appropriate signatures."

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 2004-2005 fiscal year are presented below:

- **General:** Outstanding checks should be evaluated and continually reviewed for compliance with the State's unclaimed property regulations. The methodology for calculating the allowance for doubtful accounts should be refined to take into consideration the age of the outstanding accounts receivable balances and the write-off history. The University should consider revising their procurement and payables policies, during the implementation of the on-line purchase requisition to ensure that efficiency is obtained in operations and to reduce the related manual processing risk.

- **Information Systems:** Appropriate authorizations should be obtained, documented and retained for key decisions, by IT and user management, during the program change process. An independent power source should be implemented, to meet the electricity requirements of the University's data center in case of an electrical outage. The campus-wide area network infrastructure should be completed to ensure that the design is able to provide the continuous services required by all users. To minimize the risk to the University systems and data, the University should consider the implementation of a comprehensive anti-spyware software system.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. The recommendation is being repeated with modification. (See Recommendation 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. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- The University should follow its policies and procedures and improve internal control over accounts receivable. The recommendation is being repeated with modification. (See Recommendation 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. The recommendation is being repeated with modification. (See Recommendation 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. The recommendation is being repeated with modification. (See Recommendation 6.)
- 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 7.)
- The University should follow the State Comptroller's prescribed procedures to correctly account for such direct disbursement expenditures. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- 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 9.)
- The University should comply with its established local fund policies and procedures and improve internal control over the receipt process. The recommendation is being repeated. (See Recommendation 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. The recommendation is being repeated. (See Recommendation 11.)

Current Audit Recommendations:

- 1. The University should take the necessary steps to ensure that compensatory time records are accurate and in accordance with applicable collective bargaining agreements and personnel policies.**

Comment:

The University did not fully comply with the compensatory time provisions of the applicable collective bargaining agreements.

- 2. The University should improve internal controls over the procurement process and comply with the procedures promulgated in the Connecticut State University System's Personal Service Agreement Procedures Manual.**

Comment:

A number of personal service related expenditure transactions were not processed in compliance with the University's established policies and procedures.

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

Comment:

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

- 4. The University should follow its established policies for the collection of student accounts receivable. In addition, the University should perform a review of all its delinquent accounts to ensure that the individual balances are accurate and in the appropriate stage of collection.**

Comment:

Our review of a sample of students with individual account receivable balances disclosed a number of internal control weaknesses.

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

Comment:

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

- 6. The University should comply with established policies and procedures and improve internal control over University administered projects.**

Comment:

Our review of a sample of construction projects administered by the University, disclosed a number of inaccuracies and other control weaknesses.

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

Comment:

A significant improvement was noted regarding the University's software inventory. However, a complete inventory of all software purchased/installed by faculty and staff outside of the Information Technology Services Department's control is not being maintained. Further, the University did not conduct a physical inventory of software on an annual basis.

- 8. The University should institute procedures to ensure that all reports required by Statute are transmitted in a timely manner.**

Comment:

The Eastern Connecticut State University Foundation's audit reports with the signed letter indicating that the executive authority of the University reviewed these reports were not filed in a timely manner with the Auditors of Public Accounts.

- 9. Control over the University's Local Fund expenditures should be improved by following established control procedures designed to ensure compliance with the requirements in this area.**

Comment:

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

- 10. 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.

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

Comment:

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

- 12. 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:

Our review of the 2003, 2004 and 2005 class accounts disclosed that the document authorizing the transfer of the remaining fund balances at the time of graduation lacked the required signatures.

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, 2004 and 2005. 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, 2004 and 2005, 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 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, 2004 and 2005, 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 the 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 controls over personal service related expenditures, weaknesses in controls over the monitoring of accounts receivables, inadequate control over University equipment and inadequate controls over the construction projects administered by the University.

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.

David S. Paradie
Associate Auditor

Approved:

Kevin P. Johnston
Auditor Public Accounts

Robert G. Jaekle
Auditor of Public Accounts