

STATE OF CONNECTICUT



***AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE CONNECTICUT STATE UNIVERSITY
EASTERN CONNECTICUT STATE UNIVERSITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007***

AUDITORS OF PUBLIC ACCOUNTS

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FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007

We have examined the financial records of Eastern Connecticut State University (University) for the fiscal years ended June 30, 2006 and 2007.

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 that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

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

The University operates primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes. Dr. David G. Carter, Sr. served as University President through January 20, 2006. 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 05-4, Section 1, amended Section 10a-149 of the General Statutes, to authorize the Connecticut State University System to award education doctoral degrees. This Act became effective on July 1, 2005.

Public Act 07-7, June Special Session, Sections 101-108, effective July 1, 2008, authorized the Connecticut State University System Infrastructure Act (Infrastructure Act). The legislation within the Infrastructure Act establishes the CSUS 2020 Fund, which will be a general obligation bond fund held and administered by the State Treasurer to account for the bonds authorized to fund various infrastructure improvements to the CSU System. It is estimated that the total cost of the projects identified in the Infrastructure Act will be \$950,000,000.

Enrollment Statistics:

Enrollment statistics compiled by the University present the following enrollments for full-time and part-time students during the audited period:

	<u>Fall 2005</u>	<u>Spring 2006</u>	<u>Fall 2006</u>	<u>Spring 2007</u>
Full-time undergraduate	3,751	3,504	3,898	3,658
Full-time graduate	<u>95</u>	<u>75</u>	<u>61</u>	<u>61</u>
Total full-time	<u>3,846</u>	<u>3,579</u>	<u>3,959</u>	<u>3,719</u>
Part-time undergraduate	994	962	1,000	875
Part-time graduate	<u>273</u>	<u>294</u>	<u>280</u>	<u>251</u>
Total part-time	<u>1,267</u>	<u>1,256</u>	<u>1,280</u>	<u>1,126</u>
Total Enrollment	<u>5,113</u>	<u>4,835</u>	<u>5,239</u>	<u>4,845</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 this amount were calculated, and transfers of these funds were made periodically to the campuses' Operating Funds.

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

The 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>2005-2006</u>	<u>2006-2007</u>
Tuition and fees (net of scholarship allowances)	\$18,191,103	\$24,056,800
Federal grants and contracts	3,932,402	3,192,038
State and local grants and contracts	2,398,364	1,434,503
Non-Governmental grants and contracts	849,540	390,717
Indirect cost recoveries	110,716	111,989
Auxiliary revenues	17,017,652	19,117,171
Other sources	<u>22,471,319</u>	<u>18,324,592</u>
Total operating revenues	<u>\$64,971,096</u>	<u>\$66,627,810</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 2005-2006 and 2006-2007 fiscal years.

Student Status	2005-2006			2006-2007		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$3,034	\$9,820	\$4,552	\$3,187	\$10,315	\$4,781
Graduates	3,780	10,530	5,669	3,970	11,061	5,955

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.

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Fees	2005-2006			2006-2007		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
General	\$1,775			\$2,072		
State University	792	1,945	792	820	2,014	820
Information Technology	223			223		

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	2005-2006	2006-2007
Housing	\$4,230	\$4,474
Food Service	3,350	3,550

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 \$5,865,697 during the 2006-2007 fiscal year was primarily the result of retroactive funding received from the CSU System Office related to a change in the existing distribution methodology for tuition and fees. In addition, an increase in the University's fee structure and a rise in full-time enrollment also contributed to the increase. As presented above, the University's full-time tuition charge increased by five percent between the 2005-2006 and 2006-2007 fiscal years. In addition, the University's General fees and University fees increased by seventeen and four percent, respectively, during the same time-period.

The increase in the auxiliary revenues category of \$2,099,519 was primarily the result of an increase in the University's Housing and Food Service Fees. As presented above, the University's housing and food service charges increased by six percent between the 2005-2006 and 2006-2007 fiscal years. The primary reasons for the decrease of \$4,146,727 in the other sources category were the decrease in CHEFA funding, reclassification of prior year revenues, and reclassification of transfers between the Connecticut State University System Office and the University.

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>2005-2006</u>	<u>2006-2007</u>
Personal service and fringe benefits	\$58,585,939	\$62,244,947
Professional services and fees	3,757,983	3,467,114
Educational services and support	8,625,246	8,456,902
Travel expenses	1,011,635	999,869
Operation of facilities	12,789,258	10,705,934
Other operating supplies and expenses	3,991,873	3,588,673
Depreciation expense	7,716,761	8,176,205
Amortization expense	176,634	127,760
Total operating expenses	<u>\$96,655,329</u>	<u>\$97,767,404</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 (DPW).

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

	<u>2005-2006</u>	<u>2006-2007</u>
State appropriations	\$36,464,699	\$37,645,429
Gifts	17,117	52,396
Investment income	409,496	454,691
Other nonoperating revenues	508,803	428,330
State financial plant facilities	9,977,000	2,096,383
Total nonoperating revenues	<u>\$47,377,115</u>	<u>\$40,677,229</u>

In addition to the operating and nonoperating revenues presented above, the University's financial statements also disclosed revenues classified as State appropriations restricted for capital purposes totaling \$2,397,666 and \$1,669,750, for the fiscal years ended June 30, 2006 and 2007, respectively.

The decrease in the State financial plant facilities category was due to the fact that there were fewer capital projects completed at the University by the Department of Public Works during the fiscal year ended June 30, 2007.

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 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, 2006 and 2007, 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 disclosed certain areas requiring attention, as discussed in this section of the report.

Payments for Accrued Leave Time Balances:

Criteria: The General Statutes, personnel policies established by the Board of Trustees for the Connecticut State University, and provisions of collective bargaining unit contracts all set forth requirements for payments to employees for unused vacation and sick leave.

The State University Organization of Administrative Faculty (SUOAF) AFSCME bargaining agreement, Article 16.2, states “Upon separation of the employee from the University, all accumulated compensatory time shall be paid to the member/estate as promptly as possible.”

Conditions: Our review of employees who received accrued leave payments at termination, disclosed four instances where such employees were paid incorrect amounts. One employee was overpaid an amount of \$709, while the other three were underpaid \$847, \$294 and \$283, respectively.

Effect: The University has incorrectly paid employees for their accrued leave time balances upon termination.

Cause: Inaccurate leave balances were used when calculating termination payments for accrued leave.

Recommendation: The University should ensure that payments made to employees upon termination for accrued leave time are accurate and in accordance with established criteria. (See Recommendation 1.)

Agency Response: “The University agrees with the finding. All matters have been corrected and resolved. The University has added an additional layer of review of leave balance calculations.”

Employment - University Residence:

Background: During the audited period, the University employed 18 individuals that served as Residence Hall Directors and/or Area Coordinators who received on-campus housing as part of their condition of employment.

Criteria: The Connecticut State University System (CSU System) has a University Residence Policy Related to Employment (Residence Policy). The

Residence Policy has minimum requirements that must be met and/or documents that must be on file before an employee may reside on campus.

The CSU System also adopted a Pre-Employment Background Verification Policy (Pre-Employment Policy) on March 4, 2005. The Pre-Employment Policy requires background investigations to be performed on all individuals for whom employment is to be tendered.

Good internal control practices dictate that all keys should be returned upon termination of employment. In addition, documentation verifying the return of such keys should be maintained.

Conditions: Our review of employees that were provided on-campus housing during the audited period, disclosed the following.

- Three instances where the marriage certificate for the spouse of an employee, was not on file in the Human Resources Department.
- Two instances where an employee did not have the required pre-employment background investigation performed. These employees' appointments started in August 2005.
- Two instances where there was no written documentation on file supporting that an employee's minor child was living on campus.
- Two instances where there was no evidence that keys assigned to two individual employees were returned upon termination of employment.

Effect: Internal controls are weakened. The University was not in compliance with the CSU System's Residence policy.

Cause: Internal control procedures were not followed.

A University representative informed us that the University started conducting background checks in accordance with the Pre-Employment Policy on July 1, 2005. It was also stated that the University issued these employees' appointment letters in June 2005.

We were also informed that one of the former employees left their keys in a key drop box upon leaving the campus. The University was unable to locate the keys in the drop box.

Recommendation: The University should improve internal controls and comply with the Connecticut State University System's Residence Policy. (See Recommendation 2.)

Agency Response: "The University is in substantial agreement with the recommendation. The University has secured the required documentation. The University believes that the tender and acceptance of an employment offer before the

background check program was in place made it unnecessary to pursue pre-employment checks for the two employees cited in the findings. The University will obtain necessary documentation at the time of hire and also annually inform Housing staff of the requirement to provide documentation upon the marriage or birth of a child.”

Procurement:

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

The Connecticut State University System’s Procurement Manual sets forth requirements relating to personal service related expenditures processed on a Personal Service Agreement (PSA) or Honorarium Payment Request (Honorarium) Form.

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

- Seven instances where the PSA or Honorarium Form was not signed by one or more of the necessary parties prior to the contract term. In four of these instances, the University did not forward the PSA to the Attorney General’s Office for approval until after the start of the contract term.
- One instance where a PSA was not signed by one of the necessary parties. In this instance, the PSA was not reviewed and approved by the Attorney General’s Office.
- One instance where the PSA amendment was not signed by one or more of the necessary parties prior to the contract term. In this instance, services were provided and payment was issued prior to obtaining the approval of the Attorney General’s Office on the amendment.

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: The departments requesting services are not submitting the requests to the Purchasing Department with enough lead time to allow for the review and approval of these contracts. With respect to the other conditions cited, established control procedures were not 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 Procurement Manual. (See Recommendation 3.)

Agency Response: "The University agrees with the finding. It should be noted that in all cases, payments were made after service delivery. The University annually communicates contracting guidelines to administrative staff and faculty. The annual training sessions are conducted for University personnel. The University works closely with the Connecticut State University System Office and the Office of the Attorney General in reviewing contracts. The University has limited control over the external processing of documents and occasionally is forced to decide between securing the service and canceling the service, performance or goods. Often times, a late cancellation would expose the University to financial, reputation, and creditability damage that outweighs the 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:

- Six instances where rosters, related to team travel, did not identify all University employees and team members who constituted the team travel party. Furthermore, in each of these instances the roster was not approved by the Director of Athletics.
- Two instances where the completed Travel Reimbursement Form was not submitted to the Travel Office within the required time after completion of the trip. In one of these instances, the Travel Reimbursement Form was submitted 21 calendar days after the maximum allowed 30 calendar day period. In the other instance, which involved a cash advance, the Travel Reimbursement Form was submitted 14 business days after the maximum allowed 15 business day period.

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 be detected by management in a timely manner.

Cause: Internal control policies were not being followed.

The employees that traveled did not submit the Travel Reimbursement Form with the required documentation to the Travel Office in a timely manner.

Recommendation: The University should comply with established policies and procedures and improve internal control over travel-related expenditures. (See Recommendation 4.)

Agency Response: “The University agrees with the finding. The University has implemented new procedures in this area. Specifically, the individual coach will be responsible for updating rosters to reflect additions or deletions for each athletic event. The reconcilements will be forwarded to the Director of Athletics for authorization before being submitted to the Travel Department. Travel staff will review all documents for completion and forward them to the supervisor of the Accounts Payable unit for final review to ensure compliance with established policies.

An expediting procedure is in place for all travel related documents. Travelers who are nearing the end of the due date are notified by the Travel Department. A completed Policy Exception form is required by every individual who does not comply. Any non-compliant traveler may risk forfeiting a future cash advance request.”

Accounting Control over Receipts:

Criteria: Section 4-32 of the General Statutes provides that each State institution receiving revenue for the State, shall, within 24 hours of its receipt, account for and, if the total of the sums received amounts to five hundred dollars or more, deposit the amounts in bank accounts approved by the State Treasurer.

Sound internal control procedures call for the maintenance of records of monies received, including documentation of the receipt date.

Conditions: During our examination of the University’s cash receipts system, we reviewed 25 cash receipts that were deposited during the audit period. Our review disclosed the following:

- We identified one instance where the University did not deposit a receipt totaling \$700 within 24 hours of receipt. The depositing delay was 35 business days. In this instance, the delay occurred prior to the Cashier’s Office receiving the funds.
- We also identified nine departments that received receipts directly on behalf of the University, but did not have formal written policies and procedures governing the handling of such receipts. In addition, we

noted that seven of these departments had no records to support the original receipt dates.

Effect: The University was not in compliance with provisions of Section 4-32 of the General Statutes.

At these locations there were weaknesses of internal control over receipts. In addition, we could not determine with certainty how long monies were held pending deposit. This condition also increased the risk of loss or theft of funds.

Cause: Internal control policies were not being followed.

Recommendation: The University should formalize its policies and procedures and improve internal control over receipts to ensure compliance with the prompt deposit requirements of Section 4-32 of the General Statutes. The University should consider implementing a control procedure that requires each department collecting funds to use a standard receipts journal to document the receipt date. (See Recommendation 5.)

Agency Response: “The University agrees with the finding. The Bursar’s Office annually reminds departments of the need for the timely deposit of all receipts. All deposit forms have been updated to include a statement of requirements.

The University is reviewing the need for additional written procedures for funds collected by other departments.”

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 require that several internal collection attempts be made before an account is referred to an outside collection agency. Once an account is transferred to an outside collection agency there are specific timeframes that non-paying accounts should be returned to the University before the account is forwarded to a second outside collection agency. During the entire collection process the individual student’s account is placed on hold to prevent registration or transcript issuance.

Conditions: Our review of a sample of 15 students with individual accounts receivable balances as of June 30, 2007, disclosed a number of instances where the University was not following its own collection procedures. We noted the following:

- One student's account was not placed on hold to prevent registration.
- Two students' accounts were not sent internal collection letters in a timely manner.
- Three students' accounts were not referred to an outside collection agency in a timely manner.
- One student's account was not transferred back to the University from the outside collection agency in a timely manner, after the company was unsuccessful in collecting from the non-paying account.
- One student's account was not sent to a second outside collection agency in a timely manner.
- One student's account was not accepted at a second outside collection agency because the account lacked a social security number, which the University did not have on file. Further review disclosed that the University only requires a student to provide a social security number if the student applies for financial aid.

During our prior audit, we noted one instance where a third party billing account had an outstanding balance of \$9,746 as of June 30, 2005, and was not collected in a timely manner. As of April 15, 2008, the entire balance of this account remains outstanding.

Effect: The University did not comply with its established policies and procedures, which weakens internal control. Furthermore, the University may never collect some of the outstanding receivables, which may result in the loss of revenue.

Cause: Internal control policies were not being followed.

A University representative informed us that the third party has been contacted and there is a dispute over their liability.

Recommendation: The University should follow its established policies for the collection of student accounts receivable. A review of all delinquent accounts should be performed to ensure that the individual balances are accurate and in the appropriate stage of collection. The University should consider developing a policy to address those situations where collection efforts may be limited, when pertinent identification, such as a social security number, is not on file. (See Recommendation 6.)

Agency Response: "The University agrees with the finding. A review of accounts receivable was conducted in 2007. Accounts were identified that appeared to have gaps in collection activity. A special delinquency mailing was conducted and accounts without payment activity were sent to a collection agency. The collection process is continually improving with automated reports and regular monitoring of activity. The collection agencies have been

reminded of the contractual requirement to return accounts to the University if there has been no activity for 12 months. The University is reviewing its options concerning the unpaid balance with the third party.”

Equipment and Supplies Inventory:

Criteria: The Connecticut State University System’s Capital Valuation and Asset Management Manual provides policies and procedures for physical and reporting controls over capital assets.

Conditions: Our 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.
- From a sample of 10 equipment items purchased during the audited period, one item was missing a barcode tag, one item was found in a location other than the location reported on the inventory records, and one item’s serial number that was recorded during physical inspection did not agree with the serial number reported on the inventory record.
- From a sample of 25 equipment items selected from the inventory records, three items could not be located. Two items were found in locations other than the location reported on the inventory records. Three items’ serial numbers and/or descriptions that were recorded during physical inspection did not match the information reported on the inventory record. One item was missing a barcode tag.
- From a sample of 19 equipment items identified by a random inspection of the premises, two items’ serial numbers that were recorded during physical inspection did not match the serial numbers reported on the inventory record.
- One instance was noted where the University was unable to provide documentation supporting the disposal of a motor vehicle.
- 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 annual physical inventories in a timely manner. The missing items not found during its physical inventories for the fiscal year ended June 30, 2006 and 2007, were submitted on June 29, 2007 and December 31, 2007, respectively.
- The University currently maintains several locations containing stores and supplies where the estimated inventory value is undetermined. Because the inventory value is undetermined the University may be incorrectly reporting the value of their stores and supplies inventory on the CO-59.

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 in a timely manner. In addition, the untimely filing of the loss reports overstated the reporting of capitalized equipment on the respective CO-59 forms.

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 7.)

Agency Response: "The University agrees in general with the finding. The University is in the process of purchasing tamper resistant equipment tags.

The University does not agree with the comments concerning the maintenance of stores and supplies. In order to operate in the most efficient manner possible and to reduce tying up scarce resources in maintaining shop inventories, the University utilizes a combination of local suppliers and quick delivery sources to support operations. This decision is in keeping with best business practices and reduces overall University costs.

After a review of stores operations, the University determined that only electric door strikes and ballasts are of a total value that warrants monitoring. The University has established a reporting system that will match purchased supply level with usage identified and maintained in the work order system. Reconciliations will occur every six months. If issues arise more frequent reconciliations will be ordered. The University is currently undertaking its first review and should have a report completed by the end of August 2008. Subsequent reviews will be completed by February 1 and August 1.

Due to the size and complexity of the organization and limited staffing, the University has adopted a continuous inventory process. The University has made significant improvements in the tracking and valuing of equipment. The University made the decision to submit the loss report forms at the end of the inventory cycle because it was our experience that a significant number of missing items are found during follow-up efforts."

Construction Projects Administered by the Agency:

Criteria: The Department of Public Works' Guidelines and Procedures Manual for Agency Administered Projects sets forth the requirements for agency administered construction projects.

Condition: Our current audit examination of construction projects administered by the University disclosed two instances where the required Certificate of Substantial Completion Form was not on file. In addition, we noted two instances where the required Certificate of Compliance Form was not on file.

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

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with established policies and procedures and improve internal control over agency administered projects. (See Recommendation 8.)

Agency Response: "The University agrees with the finding. The accountant responsible for recording fixed assets will follow-up with the Facilities Department when construction projects are nearing completion."

Information System Controls:

Background: Our review of the University's information system included the examination of access privileges to Core-CT. Core-CT is the State's central financial and administrative computer system.

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

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

Conditions: Our review of a list of employees identified as having active access privileges to Core-CT, disclosed the following:

- Five instances where an employee's access was not disabled upon

termination.

- Three instances where employees at another State university campus had system access to Eastern CSU. In these three instances, there does not appear to be any reason for such access to have been granted.

Our review disclosed eight instances where staff has access to both payroll and human resource functions in Core-CT. This access allows staff the ability to both create and issue payments to employees.

Subsequent to our inquiry, the University reviewed the same list of employees to determine if the Core-CT access and/or specific roles assigned were necessary. The University's review, disclosed the following:

- Four employees no longer required access.
- Seven employees had specific roles that were no longer and/or never necessary to perform their job functions.

In each of the instances, the University initiated the request to remove the access and/or specific roles identified as not required.

Effect:

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

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

Cause:

The University did not have a control procedure in place to monitor those individuals that had been granted access privileges to Core-CT to determine if such access, or the level of access, is still required.

The University believes the access that is currently assigned to its employees is necessary because of the way Core-CT roles have been established in the system.

Recommendation:

The University should improve internal control over system access to Core-CT. The University should disable all computer access to Core-CT promptly upon an individual's termination of employment and/or when such access is no longer required. (See Recommendation 9.)

Agency Response:

"The University agrees with the finding that internal controls over Core-CT need improvement. Access issues identified in the finding have been corrected. The University has instituted a new procedure where all

Personnel Action Forms are sent to the Core-CT security liaison. The Security liaison will use information on terminations and transfers to disable access in a timely manner. The CSU System Office is reviewing roles at all universities to determine appropriate Core-CT security parameters.”

Software Inventory:

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, continued improvement was noted regarding the University’s software inventory. However, 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. Consequently, a physical inventory of the software library was not performed.

Effect: The University is not in compliance with established software inventory requirements.

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 10.)

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. The University does not have the staffing 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.”

Local Fund Receipts:

Criteria: Sections 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 she prescribed.

The University's Student Activities Accounting Intake Office's (SAAIO) 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 ten instances there were no documents on file to support that receipts were issued for funds received.
- In seven instances there were no Event Registration Forms on file to support that an event was registered and approved by the Student Activities Office prior to the date of the event.
- In five instances there were no Post Event Financial Reports on file.
- In four instances, receipts totaling \$2,885 were deposited at the Cashier's Office from three to 21 business days late.
- In two instances, the Deposit Detail and Summary Forms were not approved by the SAAIO.

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

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 11.)

Agency Response: "The University agrees with the finding. All student clubs and organizations are required to attend training sessions which explain all procedures. Each club or organization receives a receipt book at the start of each academic year with a cover note explaining the deposit policy. Event Registration Forms and Post Event Financial reports are being closely monitored and pursued by the Assistant Director of Student

Activities in the Student Activities Office. New procedures for the Cashiers Office now prohibit the acceptance of deposits from student clubs and organizations unless accompanied by an approved Deposit Detail and Summary Form.”

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 and meeting minutes.

The University’s SAAIO’s Business Procedures Manual contains a Class Organization Declaration of Beneficiary Form (Beneficiary Form). The Beneficiary Form designates the beneficiary of any funds remaining in the class account when such is declared officially inactive. The Beneficiary Form requires that the meeting minutes be attached to support the organization’s approval of the named beneficiary. The Beneficiary Form is approved by the Class President, Class Advisor and University Official.

Conditions: The beneficiary for the 2007 class account was not clearly identified in the organization’s meeting minutes. The minutes for the March 1, 2007 meeting states, “It was discussed about donating left over money from senior gift fund to the bagpipers or for a scholarship”. These meeting minutes were received by the SAAIO on March 12, 2007.

The Beneficiary Form on file for the Class of 2007 listed the Class of 2008 as the beneficiary of any remaining inactive funds. The Beneficiary Form was signed by the Class President and Class Advisor on February 22, 2007. On the Beneficiary Form it lists that this action was approved in the class minutes dated March 1, 2007. The University transferred \$13,794 from the 2007 class account to the 2008 class account on November 19, 2007.

Effect: The organization’s meeting minutes did not clearly delineate the intended beneficiary for any funds that remained in the account when it was declared officially inactive. We are unable to certify if the University transferred the inactive funds to the organization’s intended beneficiary.

Cause: The Beneficiary Form was not completed properly and in a timely manner.

Recommendation: The University should comply with its established Local Fund policies and procedures and improve internal control over class accounts. (See Recommendation 12.)

Agency Response: “The University agrees with the recommendation. The Student Activity Business Office (SABO) will remind the advisor of the senior class to

submit the Beneficiary Form, according to procedures, along with clearly stated minutes.”

Other Audit Examination:

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 2006-2007 fiscal year are presented below:

- **Information Systems:** Management should continue their efforts for tracking various types of changes in Banner and ensure that end user testing and approvals are included in the revised change management process and are consistent university-wide. Management should enhance their direct database change policy by including Oracle’s auditing feature and developing a frequency of review for the database changes. Management should consider augmenting staff to allow for the separation of duties between the developer and database administrator’s responsibilities. In addition, Banner IDs used to compile code in production should be logged and reviewed on a periodic basis. Management should improve timely communication regarding personnel changes to individuals responsible for administering access to Banner and Network. Management should develop a formal periodic review process to review data center access. Management should move forward with their plan to improve and upgrade the data center’s environmental controls. 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.

RECOMMENDATIONS

Our prior report contained 12 recommendations. There has been satisfactory resolution of four of these recommendations. The remaining eight recommendations have been repeated or restated to reflect current conditions. Four additional recommendations are being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- The 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. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- 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. The recommendation is being repeated with modification. (See Recommendation 3.)
- The University should comply with established policies and procedures and improve internal control over travel-related expenditures. The recommendation is being repeated. (See Recommendation 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. The recommendation is being repeated with modification. (See Recommendation 6.)
- 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. The recommendation is being repeated. (See Recommendation 7.)
- The University should comply with established policies and procedures and improve internal control over University administered projects. The recommendation is being repeated. (See Recommendation 8.)
- 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 10.)

- The University should institute procedures to ensure that all reports required by statute are transmitted in a timely manner. Improvement was noted in this area; therefore, the recommendation is not being repeated
- 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. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- 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 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. Improvement was noted in this area; therefore, the recommendation is not being repeated.
- 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. The recommendation is being repeated with modification. (See Recommendation 12.)

Current Audit Recommendations:

1. The University should ensure that payments made to employees upon termination for accrued leave time are accurate and in accordance with established criteria.

Comment:

Our review disclosed four instances where employees were paid incorrect amounts for accrued leave time at termination.

2. The University should improve internal controls and comply with the Connecticut State University System's Residence Policy.

Comment:

Our review of employees that were provided on-campus housing during the audited period, disclosed that the University did not fully comply with the Connecticut State University System's Residence Policy.

- 3. The University should improve internal controls over the procurement process and comply with the procedures promulgated in the Connecticut State University System's Procurement Manual.**

Comment:

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

- 4. 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.

- 5. The University should formalize its policies and procedures and improve internal control over receipts to ensure compliance with the prompt deposit requirements of Section 4-32 of the General Statutes. The University should consider implementing a control procedure that requires each department collecting funds to use a standard receipts journal to document the receipt date.**

Comment:

Our review of receipts received at locations other than the Cashier's Office disclosed one instance of a late deposit. In addition, we also identified nine departments that received receipts directly on behalf of the University which did not have formal written policies and procedures governing the handling of such receipts.

- 6. The University should follow its established policies for the collection of student accounts receivable. A review of all delinquent accounts should be performed to ensure that the individual balances are accurate and in the appropriate stage of collection. The University should consider developing a policy to address those situations where collection efforts may be limited, when pertinent identification, such as a social security number, is not on file.**

Comment:

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

- 7. 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 number of inaccuracies and other control weaknesses.

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

Comment:

Our review of a sample of construction projects administered by the University, disclosed several instances where the required forms were not on file.

- 9. The University should improve internal control over its information system. The University should disable all computer access to Core-CT promptly upon an individual’s termination of employment and/or when such access is no longer required.**

Comment:

From a sample of employees who had Core-CT access, we noted several instances where the access was not disabled promptly upon termination or when the access was no longer required. In addition, our review disclosed that staff has access to both payroll and human resource functions in Core-CT. This access allows staff the ability to both create and issue payments to employees.

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

Comment:

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.

- 11. 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.

12. The University should comply with its established Local Fund policies and procedures and improve internal control over class accounts.

Comment:

Our review of the 2007 class account disclosed that the beneficiary for the class account was not clearly identified in the organization's meeting minutes. Furthermore, two required signatures on the Beneficiary Form were dated prior to the meeting minutes and listed a beneficiary that was not identified in the minutes.

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, 2006 and 2007. This audit was primarily limited to performing tests of the University's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 agreements applicable to the University are complied with, (2) the financial transactions of the University are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006 and 2007, 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 grant agreements and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the University's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the University's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the University's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control

deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 3 - weakness in controls over personal service related expenditures; Recommendation 6 - weaknesses in controls over the monitoring of accounts receivables; Recommendation 7 - deficiencies in equipment inventory control procedures; Recommendation 9 - lack of separation of duties between payroll and human resource functions and inadequate control of the System Office's information systems.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the University's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the University's internal control.

Our consideration of the internal control over the University's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters:

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The University's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the University's responses and, accordingly, we express no opinion on them.

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

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of 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