

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE
CONNECTICUT STATE UNIVERSITY
SOUTHERN CONNECTICUT STATE UNIVERSITY
FOR THE FISCAL YEARS ENDED JUNE 30, 1998 AND 1999**

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

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December 15, 2000

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FOR THE FISCAL YEARS ENDED JUNE 30, 1998 AND 1999**

We have examined the financial records of Southern Connecticut State University (University) for the fiscal years ended June 30, 1998 and 1999.

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

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Southern Connecticut State University, located in New Haven, Connecticut, is one of four institutions which collectively form the Connecticut State University (CSU), 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 operates primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes.

Mr. Michael J. Adanti served as University President during the audited period.

Recent Legislation:

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

Public Act 97-293 was effective on July 8, 1997, for the endowed chair position and July 1, 1997, for the other provisions. Section 5, codified as Section 10a-99a of the General Statutes, requires the Board of Trustees of the Connecticut State University (CSU) system to establish a permanent Endowment Fund to encourage donations from the private sector. The net earnings on the endowment principal are dedicated and made available to a State university or the Connecticut State University System as a whole, for endowed professorships, scholarships and programmatic enhancements. Section 1, codified as Section 10a-8b of the General Statutes, creates a Higher Education State Matching Grant Fund, administered by the Department of Higher Education, to match one half of the private funds raised for those endowment funds and Sections 2, 3, 5 and 7 establish annual maximum State grant commitments for each of the constituent units of higher education for the fiscal years through fiscal year 2008-2009. Section 15, codified as Section 10a-20a of the General Statutes, increases the maximum State match for endowed chairs at CSU from five hundred thousand to not more than seven hundred fifty thousand dollars, Sections 10 and 17, codified as Sections 10a-89d and 10a-99 Subsection (b), of the General Statutes, respectively, give CSU more authority over its capital planning and construction and operating expenditures, Section 13, codified as Section 4b-52, Subsection (a)(2), of the General Statutes, raises the maximum cost of construction projects for which contracts can be entered into without the Department of Public Works Commissioner's approval from fifty to one hundred thousand dollars or less, and Section 14, codified as Section 1-210, Subsection (b)(17)(b), of the General Statutes, exempts educational records which are not subject to disclosure under the Family Educational Rights and Privacy Act from Freedom of Information Act disclosure requirements.

Public Act 98-252, Section 61, codified as Section 10a-89e of the General Statutes, requires the Connecticut State University Board of Trustees to (1) consolidate purchasing for all universities in the system in its central office; (2) speed up the purchasing process through policy adjustments and enabling technology; and (3) redesign and train purchasing personnel to emphasize customer service, vendor management and system contracts, effective July 1, 1998.

Public Act 98-255, Section 5, amended Public Act 97-293, Section 5, Subsection (a), which was codified as Section 10a-99a of the General Statutes, as described above, and gave CSU more flexibility in managing its endowment fund by eliminating the requirement that it be held in trust with a bank and trust company. This section was effective July 1, 1998.

Enrollment Statistics:

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

	<u>Fall 1997</u>	<u>Spring 1998</u>	<u>Fall 1998</u>	<u>Spring 1999</u>
Full-time undergraduate	5,526	5,095	5,493	5,086
Full-time graduate	<u>768</u>	<u>728</u>	<u>721</u>	<u>715</u>
Total full-time	<u>6,294</u>	<u>5,823</u>	<u>6,214</u>	<u>5,801</u>
Part-time undergraduate	2,041	1,867	1,952	1,990
Part-time graduate	<u>3,060</u>	<u>2,915</u>	<u>3,098</u>	<u>3,077</u>
Total part-time	<u>5,101</u>	<u>4,782</u>	<u>5,050</u>	<u>5,067</u>
Total Enrollment	<u>11,395</u>	<u>10,605</u>	<u>11,264</u>	<u>10,868</u>

Total enrollment remained somewhat steady during the audited period, though there was a typical drop in enrollment, particularly among full-time undergraduates, when comparing fall to spring semesters. According to the Director of Institutional Research, the reason for this is twofold. First, the Admissions office focuses its attention on recruiting new students, particularly freshman, for the fall semester, thereby increasing fall enrollment. Also, freshmen are historically considered a transient population, as a significant percentage of this group does not return in the spring.

RÉSUMÉ OF OPERATIONS:

During the 1997-1998 fiscal year, operations of the University were primarily supported by an appropriation from the State's General Fund for personal services and by tuition and student fees credited to the University's Operating Fund.

During the 1998-1999 fiscal year, a General Fund appropriation for personal services was not made to the University directly. Rather, a General Fund appropriation for the entire Connecticut State University, primarily for personal services and fringe benefits, was made available to the System's central office, where allocations of this amount were calculated, and transfers of these funds were made periodically to the campuses' Operating Funds.

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

General Fund:

General Fund receipts totaled \$4,684 and \$12,009 for the fiscal years ended June 30, 1998 and 1999, respectively. Receipts of the first year consisted primarily of refunds of expenditures of budgeted accounts, while receipts of the second year were made up of sales and use taxes collected.

During the audited period, General Fund expenditures consisted almost entirely of personal services costs. Expenditures totaled \$38,375,162 and \$75,000 for the fiscal years ended June 30,

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1998 and 1999, respectively, compared to \$36,150,819 for the fiscal year ended June 30, 1997. These totals represented an increase of \$2,224,343 (6.2 percent) and a decrease of \$38,300,162 (99.8 percent), respectively, during the audited years. The increase appears to have been mostly the result of salary increases attributed to collective bargaining agreements. The decrease, on the other hand, was a result of a switch in the method in which the University received its General Fund appropriations for the 1998-1999 fiscal year. As noted above, during the 1998-1999 fiscal year the University did not directly receive a General Fund appropriation for personal services and instead received such funds indirectly through transfers from the CSU central office to the University's Operating Fund. As a result, during the 1998-1999 fiscal year, the University charged almost all of its personal services and related fringe benefit costs to the Operating Fund.

State Capital Projects:

Capital projects funds expenditures during the fiscal years ended June 30, 1998 and 1999, totaled \$4,901,382 and \$4,968,224, respectively, and included transfers from the Department of Public Works that were charged to the University's capital projects funds and credited to the Inter-agency/Intra-agency Grants – Tax-Exempt Proceeds Fund. (This fund is discussed in further detail in a subsequent section of this report titled "Grants – Tax-Exempt Proceeds Fund.")

Expenditures were made primarily for the improvement of buildings and grounds and also for the purchase of equipment. Most notable among these expenditures were the costs of constructing a new physical plant building.

Operating Fund:

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

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Miscellaneous educational fees	\$45,794,220	\$48,586,476	\$49,699,148
Miscellaneous private donations	523,395	483,228	454,126
Refunds of expenditures	106,608	270,682	294,152
Federal aid-miscellaneous	292,572	-	21,185
Tuition-out-of-State	-	43,060	-
Sale of property	-	484	450
Other grants and transfers-restricted	-	-	52,330,661
Total receipts	<u>\$46,716,795</u>	<u>\$49,383,930</u>	<u>\$102,799,722</u>

As shown above, receipts of Operating Fund accounts totaled \$49,383,930 and \$102,799,722 for the fiscal years ended June 30, 1998 and 1999, respectively, compared with \$46,716,795 for the fiscal year ended June 30, 1997, a \$56,082,927 increase over the audited years. The increase can mostly be isolated to the receipts category of other grants and transfers-restricted, a category largely made up of General Fund appropriation transfers from the CSU central office to the University's Operating Fund. In the 1998-1999 fiscal year, the University's funding and

accounting methods for personal services and related fringe benefits changed. It no longer directly received a General Fund appropriation for personal services. Instead, its central office periodically transferred General Fund monies for personal services and related fringe benefits costs to the University's Operating Fund, where such transactions were recognized as receipts (included in the above category "other grants and transfers-restricted.")

The decrease in the Federal aid-miscellaneous category during the audited years compared to the previous year was, according to a University official, primarily the result of a coding change that occurred in the 1996-1997 fiscal year. In the 1996-1997 fiscal year, the University began to code Federal receipts to the Operating Fund category of miscellaneous educational fees rather than the Federal aid-miscellaneous classification.

In addition, for the 1997-1998 fiscal year, the State Comptroller's records show receipts totaling \$43,060 classified as tuition-out-of-State. University officials informed us that during the audited years it classified out-of-state tuition received as miscellaneous educational fees and that the \$43,060 classified as tuition-out-of-State was likely the result of a recording error.

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

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Undergraduate:			
In-State	\$2,012	\$2,062	\$2,062
Out-of-State	6,510	6,674	6,674
Graduate:			
In-State	2,504	2,568	2,568
Out-of-State	6,980	7,156	7,156

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

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The General Fee assessed on all full-time students each semester was \$347 during the 1997–1998 fiscal year and increased to \$380.50 during the 1998-1999 fiscal year. On the other hand, the State University fee each semester was \$297 for in-State students and \$730 for out-of-State students during the 1997-1998 fiscal year and increased to \$307.50 for in-State students and \$756 for out-of-State students during the 1998-1999 fiscal year. The Information Technology fee remained unchanged during the audited years, amounting to \$60 per semester for each full-time student and \$5 per credit hour for each part-time student.

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

	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>
Personal services	\$15,362,327	\$14,397,599	\$55,448,534
Contractual services	12,022,048	13,039,949	14,434,858
Commodities	1,715,861	2,141,119	2,752,724
Revenue refunds	3,622,568	3,894,857	5,003,020
Sundry charges	6,941,641	4,249,328	11,779,562
Land	-	-	39,224
Equipment	1,194,897	1,707,517	2,521,848
Buildings, improvements and other	-	(169,122)	15,854
Total Expenditures	<u>\$40,859,342</u>	<u>\$39,261,247</u>	<u>\$91,995,624</u>

Operating Fund expenditures recorded by the State Comptroller totaled \$39,261,247 and \$91,995,624 for the two audited years, respectively. (However, it appears that Operating Fund expenditures, in general, and sundry charges, in particular, were slightly misstated for reasons explained below.) During the audited period, expenditures were made primarily for personal services and employee fringe benefits, various University operating costs, refunds of revenue and equipment. In addition, during the audited years, periodic transfers were made from the Operating Fund to the State University Dormitory Debt Service Fund to meet principal and interest payments on bonds issued for the construction of State University auxiliary facilities. Transfers from the Operating Fund to the State University Dormitory Debt Service Fund totaled \$3,815,438 and \$3,916,857 for the 1997-1998 and 1998-1999 fiscal years, respectively. The large increase in Operating fund expenditures, some \$53 million, in the 1998-1999 fiscal year compared to the previous fiscal year was mostly due to the previously mentioned changes in funding and accounting methods for personal services and fringe benefits. Such expenditures, previously charged to the General Fund, were in the 1998-1999 fiscal year charged to the Operating Fund.

Expenditures classified as sundry charges fluctuated greatly over the audited period, totaling \$3,519,293 and \$11,425,124 for the fiscal years 1997-1998 and 1998-1999, respectively, compared to \$6,192,683 for the 1996-1997 fiscal year. These changes were in part the result of the University incorrectly reporting its Operating Fund checkbook balance to the State Comptroller at year-end during the audited period and previously. This, in turn, led to year-end adjustments of the State Comptroller's books resulting in an overstatement (some \$1,200,000)

and an understatement (some \$4,000,000) of Operating Fund sundry charges during the respective audited years. (For further details on this weakness, see the subheading titled "Financial Data Reported to the State Comptroller" in the "Condition of Records" section of this report.) In addition, within the sundry charges category, during the 1998-1999 fiscal year, there was a large increase in Operating Fund fringe benefit costs, again, mostly due to changes in the funding and accounting methods for fringe benefit costs mentioned above.

Interestingly, for the 1997-1998 fiscal year, we noted negative expenditures totaling \$169,122 in the category of buildings, improvements and other. We were told that this was a result of University miscoding.

Grants – Tax-Exempt Proceeds Fund:

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

Receipts of the fund totaled \$2,494,000 and \$701,377 during the fiscal years ended June 30, 1998 and 1999, respectively, and consisted primarily of transfers of funds from the Department of Public Works. Expenditures totaled \$975,669 and \$1,642,323 during the respective audited years and were mostly made up of the costs of improvements to campus buildings and grounds. The significant increase in expenditures during the 1998-1999 fiscal year as compared to the 1997-1998 fiscal year was to a large degree made up of the costs of installing air conditioning in two campus buildings.

Fiduciary Funds:

Student Activity Fund:

The Student Activity Fund, as established under Sections 4-52 through 4-55 of the General Statutes, is used for the benefit of the students and contains accounts whose funds are largely under the control of the University's Student Affairs Committee. During the audited period, the committee consisted of seven students and six faculty members.

Receipts, as presented in financial statements prepared by the University, totaled \$1,005,907 and \$1,111,577 in the respective audited years and primarily consisted of the Student Activity fees assessed on students as well as funds generated by various student fund raising activities. In the 1998-1999 fiscal year, receipts increased by \$105,670 (10.5 percent), compared to the previous year. This was in part due to an increase in the Student Activity Fee assessed during the audited period. The fee for undergraduate and graduate students was \$49 and \$25, respectively, each semester in the 1997-1998 fiscal year and increased to \$53 and \$27 each semester in the 1998-1999 fiscal year, an increase of roughly eight percent.

Expenditures, according to financial statements prepared by the University, totaled \$1,057,412 and \$1,101,099 in the respective audited years, and were mostly made to cover the costs of student organizations and related activities.

Institutional General Welfare Fund:

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

Receipts, as shown on financial statements prepared by the University, totaled \$69,425 and \$94,023 in the 1997-1998 and 1998-1999 fiscal years, respectively. During the audited years, major sources of receipts included vending machine commissions received and credited to a scholarship account as well as other scholarship monies received.

Financial statements prepared by the University reported expenditures which totaled \$25,484 and \$6,940 during the respective audited years. Disbursements were mostly made up of scholarships granted.

Southern Connecticut State University Foundation, Inc.:

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

Sections 4-37e through 4-37j of the General Statutes set requirements for organizations such as the Foundation. The requirements include and deal with the annual filing of an updated list of board members with the State agency for which the foundation was set up, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning use of facilities and resources, compensation of State officers or employees and the State agency's responsibilities with respect to foundations.

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the years ended June 30, 1998 and 1999, in accordance with Section 4-37f, subsection (8), of the General Statutes. We were provided with two audit reports on Foundation operations, one for each of the audited years. Both reports showed no material inadequacies in Foundation records and indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes. However, both reports expressed qualified opinions on the Foundation's financial statements. This matter is detailed in the following section of this report titled "Condition of Records."

CONDITION OF RECORDS

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

Attendance and Leave Records:

Criteria: Sound internal control over payroll payments requires accurate attendance and leave records on which such payments are based to ensure that payments are made for work actually performed or leave time earned. In addition, 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 requirements for leave time and/or compensatory time earned.

Condition: We noted that the following conditions occurred during the audited period and subsequently. In a letter dated May 22, 2000, we reported these weaknesses to the Governor and other State Officials in accordance with Section 2-90 of the General Statutes.

1. We tested attendance and leave records for 13 employees and found exceptions in all 13 of these records. Exceptions noted mostly included instances of both vacation leave and sick leave used, according to biweekly time sheets, which were not recorded correctly, if at all, in permanent attendance and leave records. For 12 of the cases tested, we found that a total of 364 hours of vacation leave used and 911 hours of sick leave used according to employee time sheets were not recorded in permanent attendance and leave records for the time period when they were used, if at all. But we also noted other types of exceptions, such as monthly leave time accruals earned by an employee not being recorded in permanent attendance and leave records and various other unexplained leave balance differences. It should be noted that in some of the cases tested, there is a possibility that corrections to permanent attendance and leave records may have occurred and been reflected in such records for a later time period, but documentation for any corrections that may have occurred was not noted by us nor was it presented to us by the University's Personnel Department—if it existed at all. But even if corrections were made, corrections made months later could have still led to incorrect payroll payments. To ensure correct payroll payments—payments which reflect time actually worked or leave time earned—timely and accurate recording of leave time used, earned and resulting balances must occur.

2. Permanent attendance and leave records for two employees who appeared to have been out sick for an extended time during the audited period did not reflect use of leave time, although the employees received full pay during the period in question. In the first case, for the period June 19, 1998, through August 13, 1998, the University's Personnel Department could not provide us with any related time sheets, and the employee's attendance and leave activity was not reflected at all in permanent attendance and leave records. Furthermore, we obtained evidence from the employee's supervisor that suggested that the employee was out sick (206 work hours per our estimate) for the period in question. The employee was paid full pay for this almost two-month period. In the second case, for another employee in question, for the period October 10, 1997 through December 4, 1997, the Personnel Department provided us with incomplete time sheets that didn't show time worked or leave time used and were not signed by the employee. We reviewed a doctor's note that suggested the employee was out sick (252 work hours per our estimate) for that period. However, for the same time period, the employee's permanent attendance and leave records did not show any leave time used, and payroll records show she was paid full pay.

3. Also, we reviewed the controls over compensatory time in five departments and found there was no uniform system of internal controls followed among departments for the recording, reporting and posting of compensatory time. Furthermore, we tested compensatory time records for seven members of the State University Organization of Administrative Faculty (SUOAF) AFSCME bargaining unit and found that the University's Personnel Department improperly recorded such time. Article 16.2 of the SUOAF-AFSCME collective bargaining agreement provides that compensatory time shall be earned as follows: In fiscal year 1997-1998, after working 45 hours in a week; and in fiscal year 1998-1999, after working 44 hours in a week. These seven employees recorded potential compensatory time earned on the Compensatory/Holiday Time Report (a form used to report to the Personnel Department monthly earned and used compensatory time) totaling 110 hours over 26 days during the audited period. The Personnel Department, in turn, recorded all of these hours as earned in the University's automated attendance and leave system. Our audit revealed that only 12 of these hours should have been recorded as earned in accordance with Article 16.2, because only these hours exceeded the weekly thresholds for hours worked established by the union contract. The Personnel Department told

us controls were not in place to properly determine earned compensatory time.

Article 16.2 also states that, “Annually, on August 15, any outstanding compensatory time balances shall be reduced to zero for each member except that compensatory time earned between June 1 and August 15 may be used until the following January 15.” We tested the compensatory time records for one employee and found that the compensatory time balance was not properly reduced on August 15, resulting in the employee using compensatory time that should not have been available for use. The Personnel Department told us that during the audited period it did not follow the requirements of Article 16.2 when it comes to reducing employee compensatory time balances to zero on specified dates depending on when it was earned.

We also found that the Personnel Department did not post compensatory time to the automated attendance system in a timely manner. As of January 11, 2000, compensatory time activity had not been entered into the automated system since June 1999.

Effect:

- Risk was increased that employees used sick leave and vacation leave time that should not have been made available to them—or that they may have been unable to use such time that should have been made available to them.
- Employees used compensatory time that should not have been made available them.
- Assurance was lessened that employees were being paid for time actually worked.
- The University did not fully comply with provisions of the SUOAF-AFSCME bargaining unit contract dealing with compensatory time.

Cause:

The Personnel Department told us that there were technical problems with the University’s automated attendance and leave record system and that the system was incapable of the record keeping required to comply with Article 16.2 of the SUOAF-AFSCME bargaining agreement. This, together with a shortage of staff in the Personnel Department, contributed to the exceptions noted, according to University officials.

Recommendation: The University should consider a complete review of its permanent employee attendance and leave records, including compensatory time

records, correcting exceptions noted, documenting corrections made and taking the steps needed to keep such records accurate and in accordance with applicable collective bargaining agreements, personnel policies and statutes. (See Recommendation 1.)

Agency Response: “The University agrees with the recommendation. The Personnel Office will perform a complete review of all employee leave balances from January 1997 to present. This review will be completed by September 30, 2000. All leave balances that are corrected as a result of this review will have reconciliations with documentation for audit. The Personnel Office has developed an electronic attendance spreadsheet that maintains all employees’ leave and compensated balances. The spreadsheet will also maintain balances in accordance with Article 16.2 of the SUOAF-AFSCME bargaining agreement and any other collective bargaining agreement requirements.”

Vacation Leave Accrued for Employees on Leave Without Pay:

Background: In our last audit report on the University, covering the fiscal years 1995-1996 and 1996-1997, we noted that the University incorrectly credited monthly vacation leave accruals to a Maintenance and Service bargaining unit employee who was on leave without pay for more than three days in a calendar month. During our current audit, we attempted to test whether this practice persisted. However, as noted above, we found that the University’s permanent employee attendance and leave records for the current audited period were so poor that we could not rely on them. Therefore, we could not determine whether or not the University continued to incorrectly credit monthly vacation leave accruals to certain employees on leave without pay. Until we can rely on the University’s permanent employee attendance records to the extent that we can determine whether or not our prior audit recommendation in this area was implemented, we are repeating this audit finding as follows.

Criteria: Regulation 5-248-3 of the *State Personnel Act and Regulations of the Personnel Policy Board* requires, among other things, that during a period of leave without pay in excess of three days, an employee shall not be credited with accrued vacation leave time. Since the Maintenance and Service (NP-2) bargaining unit contract is silent on this issue, employees affiliated with this bargaining unit fall under this regulation.

Condition: For the previous audited period, covering the 1995-1996 and 1996-1997 fiscal years, it was the University’s policy to credit monthly vacation leave accruals to employees on leave without pay for up to

five days in a calendar month. This policy was consistent with certain bargaining unit contracts. However, for members of the Maintenance and Service bargaining unit, the University should not have credited monthly vacation leave accruals to employees on leave without pay in excess of three days per month, according to regulation 5-248-3 of the *State Personnel Act and Regulations of the Personnel Policy Board*. The University's policy was not in compliance with this regulation.

Our testing for the 1995-1996 and 1996-1997 fiscal years revealed instances during the then audited period in which an employee in the Maintenance and Service bargaining unit was on leave without pay for more than three days in a calendar month. Nevertheless, according to a University audit of the employee's attendance and leave records, the employee was credited with vacation leave for these periods. This, in part, resulted in the employee being overpaid a net amount of \$939, representing 90.75 hours in pay, according to the University's Personnel Department.

In June 1998, the employee overpaid signed an agreement to repay the University through payroll deductions. We learned that the employee retired effective September 1, 1999, and that her last regular paycheck was issued in July 1999. As of June 26, 2000, according to the University's payroll records, only \$520 was recovered, leaving a balance owed the University totaling \$419. When we inquired about this matter on June 26, 2000, we were told that since the date of the employee's last paycheck, issued in July 1999, no further attempts were made to recover the amount the employee still owed the University.

Effect: During the 1995-1996 and 1996-1997 fiscal years, regulation 5-248-3 of the *State Personnel Act and Regulations of the Personnel Policy Board* was not fully complied with, resulting in part in an employee being overpaid \$939 in net payroll payments and exposing the University to the risk of additional similar overpayments.

What's more, by not acting with due diligence in attempting to collect payroll overpayments made, the University's actions increased the likelihood that such amounts will become uncollectible.

Cause: In our last audit, the University's Personnel Department informed us it was not aware of the above regulation with respect to vacation leave accrual. Since then, the University has informed us that it acknowledges this regulation and will work to carry it out.

It is apparent that inadequate procedures were in place to recover payroll overpayments made to employees who subsequently terminated employment.

Recommendation: The University should review its employee attendance and leave records to ensure that correct vacation leave accruals were applied to employees on leave without pay, in accordance with applicable employee bargaining unit contracts and Regulation 5-248-3 of the *State Personnel Act and Regulations of the Personnel Policy Board*. Also, the University should diligently attempt to fully recover any resulting payroll overpayments found. (see Recommendation 2.)

Agency Response: “The University agrees with this recommendation. As part of the corrective action that will be forthcoming from a complete review of the University’s time and attendance records (See agency response under recommendation one), a procedure will be developed by the Personnel Office that will ensure that the correct sick leave and vacation leave accruals will be recorded for employees on leave without pay. Additionally, leave balances will be adjusted for any employees that were credited sick or vacation [leave] while they were on sick leave [without pay]. The Personnel Office has initiated the steps for repayment from [the above] retired employee of the \$419 due the University.”

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 requirements for payments to employees for unused vacation leave and unused sick leave. More specifically, Article 24.2.2 of the SUOAF-AFSCME contract calls for the upfront annual crediting of a member’s full work year’s sick leave days and the deduction of such unearned days for members who terminated prior to the end of the contract year.

Condition: We tested ten payments the University made to employees during the audited period for accrued leave time at termination or retirement and found that there appeared to have been exceptions in all ten cases tested. (Given the weaknesses noted above in the University’s attendance and leave record system, without a complete review of attendance and leave records in question, it is difficult to say with certainty whether or not any of these payments, or the attendance records on which they were based, were accurate.) It appears that three employees were overpaid for accrued vacation leave at termination in the amounts of \$319, \$788 and \$1,195, respectively, while two were underpaid in the amounts of \$1,124 and \$1,494, respectively.

In addition, it appeared that five employees were overpaid for accrued sick leave balances at retirement in the amounts of \$232, \$2,924, \$1,078, \$870 and \$1,084, respectively. Three of these five cases included payments of accrued sick leave made to members of the SUOAF-AFSCME bargaining unit. Article 24.2.2 of the SUOAF-AFSCME contract calls for the upfront annual crediting of a member's full work year's sick leave days and the deduction of such unearned days for members who terminated prior to the end of the contract year. In these three cases, the Personnel Department did not fully comply with Article 24.2.2 of the SUOAF-AFSCME bargaining unit contract. That is, it did not deduct unearned sick leave days from terminated employee sick leave balances, resulting in overpayments for sick leave balances at retirement to each of the three SUOAF-AFSCME members tested. The University's Director of Personnel agreed with this conclusion and said that an attempt will be made to recover the overpayments made to these employees.

Pursuant to Section 2-90 of the General Statutes, we reported these and other conditions to the Governor and other State officials in a letter dated May 22, 2000.

Effect: The University paid employees incorrect amounts for unused vacation leave and sick leave.

Also, in particular, the University did not fully comply with Article 24.2.2 of the SUOAF-AFSCME bargaining unit contract with respect to the deduction of unearned sick leave from the sick leave balances of terminated employees, resulting in overpayments for unused sick leave to the union members we tested.

Cause: The condition above was largely the result of inaccurate permanent attendance and leave records as maintained by the Personnel Department. Personnel Department officials said this was due to a shortage of staff and an inadequate automated attendance and leave system.

Recommendation: The University should take steps to ensure the correctness of payments made to employees for unused vacation leave and unused sick leave and should consider a complete review of the correctness of such payments made during the audited period and subsequently, especially focusing on payments to SUOAF-AFSCME bargaining unit members for unused sick leave at retirement or death. (See Recommendation 3.)

Agency Response: "The University agrees with the recommendation. As noted in recommendation one there will be a complete review of all time and attendance records. All retired and terminated employees' separation

payments will be reviewed and verified with corrected vacation and sick leave balances. If a former employee was over or underpaid the Personnel Office will initiate steps for repayment or payments, as appropriate.”

Records Retention:

- Criteria:* Adequate internal accounting control and requirements set by the State Library Public Records Administrator provide that State agency records should be retained at least until audited. Specifically, the State Library’s Public Records Administrator’s records retention schedule requires that a running balance record of sick leave and vacation leave be retained for the duration of an employee’s employment plus 30 years.
- Condition:* The University’s Personnel Department maintains monthly reports of employees’ permanent attendance and leave records. We requested such reports for each of the 24 months in our audited period. The University could not locate and provide us with these reports for the months of June 1998 and June 1999.
- Effect:* Payroll payments made to employees are called into question when the attendance and leave records on which they are based are not retained. Also, the University did not fully comply with the records retention requirements set by the State Library’s Public Records Administrator.
- Cause:* The University’s Personnel Department did not establish and follow adequate procedures for the retention of employee attendance and leave records.
- Recommendation:* The University should ensure that its employee permanent attendance and leave records are retained in accordance with the records retention requirements set by the State Library’s Public Records Administrator. (See Recommendation 4.)
- Agency Response:* “The University agrees with this recommendation. All employee attendance and leave records will be retained by the Personnel Office in accordance with the State Library’s Public Records Administrator.”

Employee Compensation:

Criteria: Job specifications for positions filled by employees should accurately describe their duties. Compensation should be paid for work actually performed while carrying out the responsibilities of those positions.

Condition: In connection with a complaint filed under Section 4-61dd of the General Statutes, (the Whistle Blower Act), we reviewed the compensation paid to an employee of Southern Connecticut State University. Documentation provided to us indicated that the employee was awarded reassigned time and allowed to fill multiple concurrent positions in an effort to provide compensation at a level administrators felt was equitable for the administrative/consulting work the employee actually performed.

We noted multiple instances where hours claimed as worked under one position conflicted with hours claimed as worked under another or with hours billed by the employee for consulting services provided to the Connecticut State University System Office. In a memorandum, the employee characterized the various forms of compensation as a “retainer” for his management consulting work for the agency, indicating that hours claimed were part of this “retainer” and did not necessarily represent hours actually worked at the times shown.

Effect: The time and attendance reports that payments were based on did not always reflect actual time worked.

Cause: Administrators apparently felt that it would be expedient to compensate the employee in this manner, rather than establish a position tailored for the employee’s actual duties.

Recommendation: The University should adopt a policy mandating that employees be paid on the basis of work actually performed in the positions in which they are employed. (See Recommendation 5.)

Agency Response: “Management agrees that a situation occurred regarding an SCSU employee who was compensated for ‘special services’. This condition resulted in multiple claims for compensation during a specific work period. This was an outcome of different University offices and outside agencies hiring the employee at similar times and in a variety of differing capacities. It has, however, always been SCSU’s Personnel practice that employees be paid on the basis of work actually performed in the position in which they are employed. Management has since taken steps to rectify the circumstances that caused this situation. This involved counseling appropriate campus

administrators in Personnel processes to avoid the likelihood of similar improper personnel actions.”

Student Activity Fund Internal Controls:

Criteria: The University has a fiduciary responsibility to ensure that sound internal controls are in place over Student Activity Fund expenditures. In addition, Section IV, C, 1 of the State Comptroller’s *Accounting Procedures Manual* for Activity and Welfare Funds provides that personal service agreements over \$3,000 require Attorney General approval. Also, Connecticut State University Board of Trustees’ resolutions 96-46, 97-69, and 99-27 all successively limited authorized contract signers for contracts above certain dollar amounts to specific CSU job titles.

Condition:

- 1) We reviewed 11 contracts set up for entertainment events funded by the Student Activity Fund and found exceptions with respect to contract approvals obtained in all 11 cases. Exceptions noted included the following.
 - Eight of these contracts required Office of the Attorney General approval. None were submitted to the Office of the Attorney General for approval, according to a University official.
 - Eight contracts were signed by University officials who were not authorized to do so, according to CSU Board of Trustees’ resolutions.
 - Two contracts were neither signed by the contractor nor by a University official.
 - One contract was not signed by the contractor.
 - One contract was not signed by a University official.
- 2) Student Activity Fund contracts for entertainment performances tested were not always clear on which party, the University or the contractor, bore the cost of State income taxes due. Furthermore, we were told, and saw documentation that showed, that regardless of the contract language, the University did not consistently apply the same method for withholding and paying State income taxes due. Most times, the University withheld the taxes due from the contract amount, paid the taxes and paid the entertainer the difference, with the entertainer bearing the cost of the taxes. At other times, the University based the tax on an amount that would net the entertainer the contract amount, paid the tax and paid the entertainer the contract amount, with the Student Activity Fund bearing the cost of the taxes.

- 3) In 10 of 15 cases tested, the University issued vendor checks, totaling \$132,813 charged to the Student Activity Fund, without obtaining documentation evidencing that services were performed or goods were received. In nine of these cases, primarily in connection with entertainment events under contract, the University issued checks, totaling \$130,604, in advance of corresponding performances; however, there were no controls in place to monitor and document if such performances actually occurred.

Effect: Controls over Student Activity Fund expenditures were weakened. Also, the University did not fully comply with contract approval requirements of the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds and CSU Board of Trustees' resolutions.

Cause: Controls in place were not adequate to prevent the above conditions.

Recommendation: The University should improve internal controls over Student Activity Fund expenditures, particularly in the area of contractual expenditures. (See Recommendation 6.)

Agency Response: "The University agrees with this recommendation. The Vice President for University and Student Affairs will ensure that Student Affairs staff who assist student clubs and organizations with activities are properly instructed in the State Comptroller's *Accounting Procedures Manual* for Activity and Welfare Funds and the CSU Board of Trustees' resolutions. All activity fund contracts will be prepared and processed in accordance with State and University procedures.

On April 3, 2000, the Accounts Payable Supervisor received a letter re-emphasizing the necessary internal controls for contractual expenditures. Additionally, the Vice President for Finance and Administration will periodically review internal controls procedures with the A/P Supervisor to ensure that the necessary expenditure controls are being adhered to."

Library Periodicals Accounts Payable:

Criteria: Sound internal controls require the monitoring of amounts owed vendors and the comparison of corresponding amounts billed to ensure that amounts billed are correct.

Condition: The University purchased library periodicals from a vendor who applied prompt payment discounts to the University's account. In addition, the vendor applied charges to the University's account to

cover price increases not reflected in the original invoice. As noted in our last audit, though we saw evidence that the University did make prompt payments and that related discounts were being applied to the University's account, we were told that the University did not monitor whether or not discounts were received. In general, we were told that the University did not keep records showing a running balance of the amount it owed the vendor, taking into account prompt payment credits earned and price increases applied. Rather, it relied on the vendor's records to determine the amount owed.

During our last audit, we learned that as of July 27, 1998, a credit balance totaling \$15,650 was due the University. During our current audit, on January 28, 2000, the periodical vendor told us that this credit balance was applied to the University's account. However, neither the periodical vendor nor the University could provide us with clear evidence that this occurred.

Effect: Certainty was lessened that prompt payment discounts earned were received and, in general, whether amounts billed were actually owed.

Cause: A library staff member told us that due to a shortage of staff adequate monitoring of the periodical account could not take place.

Recommendation: The University should improve controls over library periodical accounts payable by adequately monitoring amounts due to its periodical vendor. (See Recommendation 7.)

Agency Response: "The University agrees with the recommendation. The Library has set up a spreadsheet to track all encumbrances, payments and credits for library periodicals. Following the issue of any credits for prompt payment or for subscription cancellations, all invoices received will be deducted from the credit balance until it is eliminated. Credit memos will be sent to the Accounts Payable office for recording in the Banner system. The Library Director will assume responsibility for insuring that these procedures are followed and for reconciling library records with Accounts Payables records on a monthly basis."

Employee Reimbursements:

Criteria: Sound internal controls require that employees only be reimbursed for job-related expenses after adequate support documentation is submitted to and reviewed by the department charged with the disbursement function.

Condition: For the audited years, we reviewed the propriety of a sample of reimbursements the University made to 15 employees. We found that 24 reimbursements made to three employees, all from the Communications Department, lacked adequate support documentation to determine whether or not the expenses were connected to University business. Receipts, without any explanation as to their relation to University business, were submitted to the University's Accounts Payable Department, and the employees who submitted them were reimbursed. In some cases, supporting documentation consisted of only a copy of an employee's credit card statement with a dollar amount circled.

Effect: The University made some expenditures which raised doubts as to their connection to University business.

Cause: Controls in place did not work effectively to prevent the reimbursement of employees who did not submit sufficient supporting documentation to the Accounts Payable Department.

Recommendation: The University should take steps to ensure that employees are only reimbursed for expenses after submission of adequate support documentation and after it is determined that such expenses were linked to University business. (See Recommendation 8.)

Agency Response: "The University agrees with this finding. The following steps were taken in January 2000.

1. Written procedures were established and communicated to all financial managers. These procedures gave a step-by-step explanation of what forms (CO-17XP) and approvals should be followed for any reimbursement for out-of-pocket purchases of less than \$100. The procedures also provide a list of what items cannot be reimbursed using this method.
2. University business [office] staff reviewed the reimbursements brought into question by the auditor and confirmed whether or not they were for University business. The Vice President for Academic Affairs issued a letter to the Dean of Communications, Information and Library Science and an employee in the Communications Department [saying] that reimbursements for expenses that were not for University business should not [be] paid for with University funds.
3. The procedures and forms were incorporated into the University's 'Finance and Administration Business Services Resource Manual.' "

Personal Service Agreements:

- Criteria:* Sound internal control procedures require personal service agreements to be signed by appropriate University officials prior to the contract term.
- Condition:* We tested 25 personal service agreement contracts during the audited period and found that 11 were approved by University officials either after corresponding services had begun or after services had been completed. In five of the 25 cases tested, we were unable to determine the timeliness of contract approval, because the University official who signed the contract did not date it.
- Effect:* Internal controls over personal service agreements were weakened. Specifically, assurance was lessened that the terms of personal service agreements met the approval of the University administration prior to the performance of such contracts.
- Cause:* Evidently, controls in place were not effective at obtaining timely personal service agreement approvals.
- Recommendation:* The University should improve controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner. (See Recommendation 9.)
- Agency Response:* “The University agrees with the recommendation. The Office of Finance and Administration published and distributed a Business Services Resource Manual to all University departments in September 1999. Within this manual there is a section that contains a personal services agreement (PSA) user’s guide. The Office of Finance and Administration provides ongoing support in assisting departments and contract signers with the contract processing, including the timeliness of contract submittal.”

Late Bank Deposits:

- Criteria:* Section 4-32 of the General Statutes provides that each State institution receiving revenue for the State shall, where such sums exceed \$500, deposit the amounts in bank accounts approved by the State Treasurer, within 24 hours of their receipt.
- Condition:* We tested the timeliness of the bank deposit of checks originally received by the University at locations other than its central cashiering office. Our test included nine quarterly royalty payments

issued primarily during the audited years. The checks, ranging from \$570 to \$1,546, were sent to the University's Office of Student and University Affairs from a vendor under contract to license University designs, trademarks and symbols used in various marketing activities.

We found none of the nine checks issued were deposited into an authorized bank account within the 24-hour time frame required by the General Statutes. The University did not maintain records of when these monies were originally received. However, by comparing check dates to records of bank deposit dates, it appears that eight of these checks totaling \$8,089 were deposited between four and 163 days late.

Three of these checks, in the amounts of \$690, \$1,467, and \$583, respectively, were only discovered in the Office of Student and University Affairs files after our inquiry as to their disposition, and all were subsequently deposited late.

Furthermore, we obtained evidence that one quarterly royalty check in the amount of \$1,243 was paid to the University but hadn't cleared the payer's bank. The University considered this check unaccounted for and informed us that the vendor would be contacted, requesting a reissue of the missing check.

As required under Section 2-90 of the General Statutes, we reported these conditions to the Governor and other State officials in a letter dated February 14, 2000.

Effect: The University violated provisions of Section 4-32 of the General Statutes, exposing cash receipts to increased risk of loss or theft.

Cause: We were told that personnel in the Office of Student and University Affairs during the period reviewed did not carefully screen the mail for checks received and inadvertently misfiled some of these checks.

Recommendation: The University should comply with Section 4-32 of the General Statutes by ensuring that all receipts received, especially at locations other than the central cashiering office, are accounted for and deposited promptly. (See Recommendation 10.)

Agency Response: "The University agrees with this recommendation. All companies that were previously submitting payments to the Office of Student and University Affairs have been notified to send payments to the Office of Finance and Administration. With payments coming directly to Finance and Administration the University can better ensure compliance with Section 4-32 of the General Statutes."

Deferment of Tuition and Fees:

Background: During the audited period, on a case-by-case basis, the University granted certain students deferments of tuition and fees. This generally meant that the University required a student who was granted a deferment to sign a promissory note agreeing to make scheduled payments to the University until the amount of tuition and fees deferred was paid in full.

Criteria: Sound internal controls require the judicious granting of tuition and fee deferments and the setting up and retention of related promissory notes for all deferments granted.

Condition: We tested tuition and fee deferments granted to 11 students during the audited period and found the following weaknesses.

- 1) In four cases, the University was unable to locate related promissory notes for our review.
- 2) In one case, a deferment of tuition and fees was granted to a student-athlete but no promissory note was set-up. We were told that it was a standard University procedure not to set up promissory notes for student-athletes who were granted deferments.
- 3) In one case, a student, who was also a former University employee, was consecutively granted three deferments of tuition and fees for the Fall 1997, Spring 1998 and Fall 1998 semesters. In each of these cases, though a promissory note was prepared by a University official, the student granted the deferment did not sign the promissory note. Instead, we were told, the student, having been a former employee, was allowed, over the telephone, to orally agree to the terms of the note. Furthermore, the student was granted the second and third deferments even though records showed that the student made no payments on the first two deferments.
- 4) In five cases tested (including the case mentioned in 3 above), students were granted deferments even though records showed that the students had outstanding balances owed the University ranging from at least \$562 to \$3,612.

As an indication of the riskiness of the deferments that the University granted, it is noteworthy that of the 11 cases we reviewed, as of

April 12, 2000, 10 were referred to a collection agency, while the eleventh was in the process of being referred.

According to a University official, after our audited years, effective with the Fall 1999 semester, the University discontinued the practice of granting such deferments.

Effect: Controls over deferments were weakened, and the likelihood of related collection diminished. Also, a lack of promissory notes for students who received deferments calls into question whether or not those deferments were actually authorized.

Cause: A University official cited a shortage of staff in the Bursar's office, the department which granted deferments.

Even though the University represented to us that, effective in the fall of 1999, it discontinued the above practice of granting deferments of tuition and fees, until we can verify this in our next audit, and until the University can demonstrate accountability over promissory notes related to past deferments, we are presenting the following recommendation.

Recommendation: The University should improve controls over deferments of tuition and fees granted by, among other things, setting up and retaining related promissory notes for all deferments granted, and accounting for and safeguarding promissory notes related to past deferments. (See Recommendation 11.)

Agency Response: "The University agrees with the recommendation. The University no longer issues promissory notes as [an] option of payment for tuition and fees. Student billings offer the following options – cash, check, money order, credit card, payment plan or awarded financial aid."

Time and Effort Reporting:

Criteria: Federal Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this circular, the method of distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

According to Circular A-21, to confirm that charges to a program represent a reasonable estimate of the work performed by the

employee for the benefit of the program during the period, an acceptable method of documentation includes the use of statements signed by the employee, principal investigator, or responsible official(s), using suitable means of verification that the work was performed. For professorial and professional staff, the statements must be prepared each academic term, but no less frequently than every six months.

Condition: During the audited period, the University received and administered various Federal grants to which payroll expenditures were charged. However, the University did not have a time and effort reporting system, as required by Office of Management and Budget Circular A-21. The circular provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents qualify as records for this purpose, provided that they meet the requirements outlined in the circular. The University's payroll documents did not provide a signed certification that the employee's payroll expenditures were charged to the activities/programs on which the employee actually worked.

Effect: The University did not fully comply with Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs.

Cause: University Sponsored Research office personnel were unfamiliar with this requirement.

Recommendation: The University should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by Office of Management and Budget Circular A-21. (See Recommendation 12.)

Agency Response: "The University agrees with the recommendation. The following corrective actions have been taken as of August 1, 2000.

1. All grant related work by faculty will be charged either to release time or in accordance with section 10.12 of the AAUP collective bargaining agreement [a section allowing compensation to full-time union members for certain contract/grant activities]. In either case a time sheet must be submitted to the Sponsored Programs and Research Office monthly to certify actual time spent in performance of grant activity. Also, in either case, no billing will be made to any sponsor for time uncertified by time sheets.

2. All grant related work performed by non-faculty employees of the University will be performed under a personal service agreement or as part of the normal job responsibilities. In either case time sheets certified by the employee and verified by the supervisor shall be required to process billing for any sponsor.
3. Grant work performed under a personal services agreement and subcontracts shall be supported by time sheets only to the extent that hourly rates or a lump sum associated with a set LOE [level of effort] is charged. In these cases, no payment shall be made to the subcontractor unless timesheets are received by the Sponsored Program and Research Office.

These procedures will be published and distributed as part a Policies and Procedures handbook for University faculty and staff during the fall 2000 semester. Additionally, all Sponsored Program and Research Office staff will undergo training in the requirements for the OMB circulars during fiscal year 2001.”

Financial Data Reported to the State Comptroller:

Background: Unlike most State agencies, the Connecticut State University (CSU) directly disburses payments to vendors rather than processing such payments indirectly through the Office of the State Comptroller. The State Comptroller developed procedures to correctly account for such direct disbursement expenditures. Cash transfers of Operating Fund allotments from a State Treasurer’s bank account to the University’s direct disbursement account are classified, generically, on the State Comptroller’s records as direct disbursement expenditures (coded 5-39) when the cash is transferred. Subsequently, when payments are made out of the direct disbursement account, the University advises the State Comptroller of the specific expenditure classifications applicable to the payments made. The State Comptroller’s records are adjusted accordingly, decreasing amounts coded 5–39 and increasing amounts coded to expenditure categories reflecting actual payments made. Additionally, CSU must report to the State Comptroller the correct year-end Operating Fund cash balance it holds locally. Then, once again, the State Comptroller’s records are adjusted, further reducing the amount recorded as 5-39 expenditures. If this process is working correctly, the total of 5-39 expenditures recorded on the State Comptroller’s records at year-end should equal zero.

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

- Condition:* For the fiscal years ended June 30, 1998 and 1999, respectively, the University incorrectly reported its locally held year-end Operating Fund cash balances to the State Comptroller. Among other things, in neither year did the University in its calculation take into account the beginning balance of these funds. Also, at least in part due to this incorrect reporting, the State Comptroller's records showed that the University's generic (5-39) Operating Fund expenditures totaled \$1,201,226 and negative \$4,021,607 for the 1997-1998 and 1998-1999 fiscal years, respectively, but should have shown totals of zero each year.
- Effect:* The State Comptroller's records of the University's Operating Fund expenditures and year-end locally held cash balances were not accurate during the audited years.
- Cause:* A University official informed us that, after consulting with another CSU campus, the University believed that it was using the correct method to arrive at and report Operating Fund balances to the State Comptroller.
- Recommendation:* The University should consider working with the Office of the State Comptroller to ensure that it correctly reports its year-end Operating Fund cash balances to the State Comptroller. (See Recommendation 13.)
- Agency Response:* "The University agrees with this recommendation. The University believes that after adjusting the beginning balance (June 30, 1999) and following procedures provided by the State Comptroller's Office that the June 30, 2000 balance is correct. When the 2000 fiscal year close is completed the University Controller will confirm this belief with the State Comptroller's Office and procedures will be adjusted as necessary to comply."

Whistle Blower Matters:

In a letter dated December 3, 1998, the University's President reported to us that the University received two anonymous tips concerning the misuse of State funds associated with the University's library. Pursuant to Section 4-61dd of the General Statutes, we reviewed the matter, subsequent to the University's own review. Our review was followed by examinations by the Connecticut State University Internal Audit department and by the Office of the Chief State's Attorney. The following weaknesses were noted.

- Criteria:* Internal controls over the functions of purchasing, receiving and payment for goods require adequate segregation of duties. This means the following functions should be separated among different

employees: recording transactions, authorizing payment, receiving goods and custody over assets.

Condition: During our review we learned that a University librarian, authorized to approve purchases for her department, apparently commingled personal purchases with University purchases, resulting in the University paying for her personal purchases.

We reported the results of our review to the Attorney General, recommending that he refer the matter to the Office of the Chief State's Attorney for criminal review.

Also, as required under Section 2-90 of the General Statutes, we reported this matter to the Governor and other appropriate officials in a letter dated March 27, 2000.

In February 2000, following an investigation by the Office of the Chief State's Attorney, the librarian was arrested under charges that she "used her position as a librarian...to cover up her purchase of books and other merchandise for personal use."

In May 2000, the librarian was sentenced and, among other things, agreed to resign from her position and pay the University \$8,801 for goods ordered for personal use.

Effect: The use of State funds for personal purchases occurred.

Cause: The conditions above appear to have been at least in part due to a poor segregation of duties with respect to library purchasing operations. Specifically, we were told that the librarian in question at times performed the functions of approving orders to purchase, approving payments for purchases and receiving goods purchased.

Resolution: We reviewed and tested internal controls in place over library acquisition activities for a time period after the above librarian was transferred out of the acquisitions area near the end of the 1998 calendar year. Our review showed that segregation of duties had improved, and purchases tested all appeared to have been related to University business. Furthermore, nothing came to our attention that would suggest any further improper purchases by library staff occurred.

Other Audit Examinations:

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 Southern Connecticut State University as set forth in the *Report to Management* relating to the 1998-1999 fiscal year, the most recent report published, are presented below.

- **Cash:** To ensure that no mistakes have occurred, the outstanding check listing should be examined during the reconciliation process. The University should follow up on older outstanding checks. The University should maintain a policy of how to handle outstanding checks and pursue these checks to ensure they are paid.
- **Students' Billing:** The University should write off the remaining balances for loans made to students in past years for small, non-tuition-related expenses or for educational expenses pending receipt of student financial aid. A person in the business office should be assigned the responsibility of reconciling student receivables on a quarterly basis. Management should develop formalized policies and procedures for student receivable reserves, based upon a review of the student receivable aging and utilization of historical data relating to cash collection results. This process should be performed quarterly and be subject to supervisory review. The aging analysis should be prepared on a quarterly basis and the aging categories should be expanded to enhance the analysis. The University should evaluate collectibility of student receivables by evaluating the amounts in each category along with the collection history.
- **Information Systems:** To tighten security and better prevent unauthorized access, users should be limited to three log-on attempts, after which they are locked out of the system for a certain period of time. Management should prepare and formally document a computer security policy to direct the user community in controlling access to CSU's computer applications and technical resources. The policy should be communicated to all employees and should describe the importance of the confidentiality of passwords. The policy should specifically prohibit computer users from using unauthorized software on CSU's personal computers. Formal procedures should be developed to help ensure backup tapes are rotated offsite as part of the regular backup process. Management should evaluate risks associated with the current computer room facility and develop an action plan to mitigate each risk as appropriate. Calls to the help desk should be logged and reviewed by management on a periodic basis; management may want to consider implementing packaged software to automate these procedures.

Additionally, as required by Section 4-37f of the General Statutes, the operations of the Southern Connecticut State University Foundation, Inc. were audited by independent public accountants for the fiscal years ended June 30, 1998 and 1999. For both audited years, the audit reports expressed qualified opinions on the Foundation's financial statements. The auditors were not able to satisfy themselves as to the value and quantity of the Foundation's works of art at June 30, 1998 and 1999. The reports, therefore, stated that the Foundation's financial statements fairly presented the financial position of the Foundation except for any effects the value of the works of art may have had.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- Improve controls over personal service agreements. Though we did note improvement in the University's controls to verify that the amount of food service commissions received agreed with the terms of the related personal service agreement, weaknesses with respect to the timely approval of personal service agreements persisted during the audited period. The recommendation is, therefore, being repeated. (See Recommendation 9.)
- Improve controls over toll telephone calls. We noted some improvement in this area. The recommendation is, therefore, not being repeated.
- Improve controls over library periodical purchases by adequately monitoring amounts payable to the periodical vendor. The recommendation was not implemented and is being repeated. (See Recommendation 7.)
- Review employee attendance and leave records to ensure that correct vacation leave accruals were applied to employees on leave without pay. Our review of employee attendance and leave records in general showed that such records were so poor that we could not determine whether or not this recommendation was implemented. Accordingly, until the University's employee attendance and leave records prove to be reliable, and can, therefore, demonstrate implementation of this recommendation, the recommendation will be repeated, now emphasizing the University's need to strengthen collection efforts when related overpayments are found. (See Recommendation 2.)
- Take steps to ensure medical certificates are on file for employees who use more than five consecutive sick days. The recommendation was implemented and is not being repeated.
- Strengthen controls over Athletic Department revenues by preparing accountability reports for revenue-producing events. We noted improvement in this area. The recommendation is, therefore, not being repeated.
- Prepare financial statements for fiduciary funds, as required by the State Comptroller's *Accounting Procedures Manual/Activity and Welfare Funds*, and ensure that all such financial statements are adequately supported. The recommendation was implemented and is, therefore, not being repeated.
- Properly report year-end Operating Fund cash balances to the State Comptroller. For the audited years, the University again reported incorrect year-end Operating Fund cash balances to the State Comptroller. We are, therefore, repeating the recommendation with

modification, this time suggesting that the University seek guidance from the Office of the State Comptroller on this matter. (See Recommendation 13.)

Current Audit Recommendations:

- 1. The University should consider a complete review of its permanent employee attendance and leave records, including compensatory time records, correcting exceptions noted, documenting corrections made and taking the steps needed to keep such records accurate and in accordance with applicable collective bargaining agreements, personnel policies and statutes.**

Comment:

We found that 13 employee attendance and leave records tested all contained exceptions. Most exceptions noted concerned leave time used pursuant to employee biweekly time sheets not reflected in employee permanent attendance and leave records. Also, we noted evidence that showed that two employees were out sick roughly 252 and 206 work hours, respectively, and were paid full pay for this period. However, neither biweekly time sheets nor permanent attendance and leave records reflected use of leave time. In addition, our test of compensatory time records for seven members of the SUOAF-AFSCME bargaining unit revealed that the University's Personnel Department incorrectly recorded such time in all cases tested, generally overstating employee's available balances. Furthermore, compensatory time activity was not being recorded in the University's automated attendance and leave record system in a timely manner. As of January 11, 2000, the Personnel Department had not entered compensatory time activity into the automated system since June 1999.

- 2. The University should review its employee attendance and leave records to ensure that correct vacation leave accruals were applied to employees on leave without pay, in accordance with applicable employee bargaining unit contracts and Regulation 5-248-3 of the *State Personnel Act and Regulations of the Personnel Policy Board*. Also, the University should diligently attempt to fully recover any resulting payroll overpayments found.**

Comment:

In our last audit, covering the fiscal years 1995-1996 and 1996-1997, we noted that the University credited monthly vacation leave accruals to employees on leave without pay for up to five days in a calendar month. However, in accordance with Regulation 5-248-3 of the *State Personnel Act and Regulations of the Personnel Policy Board*, members of the Maintenance and Service bargaining unit should not have received monthly vacation accruals for months when on leave without pay for more than three days. Our current audit showed that the University's employee attendance and leave records were so poor that we could not rely on them and, thus, test whether or not this condition persisted. Moreover, in our last audit, at least in part

as a result of the above practice, we found that a Maintenance and Service employee was overpaid a net amount of \$939, according to the University Personnel Department. The University began recovering the overpayment through payroll deductions. However, in our current audit we noted that after the employee left University employment, no further attempts were made to recover the \$419 the employee still owed the University.

3. **The University should take steps to ensure the correctness of payments made to employees for unused vacation leave and unused sick leave and should consider a complete review of the correctness of such payments made during the audited period and subsequently, especially focusing on payments to SUOAF-AFSCME bargaining unit members for unused sick leave at retirement or death.**

Comment:

We tested ten payments the University made to employees for unused sick leave and vacation leave and found that there appeared to have been incorrect payments made in all ten cases, mostly as a result of attendance and leave record inaccuracies. It appeared that three employees were overpaid for accrued vacation leave at termination in the amounts of \$319, \$788 and \$1,195, respectively, while two were underpaid in the amounts of \$1,124 and \$1,494, respectively. In addition, it appeared that five employees were overpaid for accrued sick leave balances at retirement in the amounts of \$232, \$2,924, \$1,078, \$870 and \$1,084, respectively. Three of these five employees were members of the SUOAF-AFSCME bargaining unit. Article 24.2.2 of the SUOAF-AFSCME union contract calls for the up-front annual crediting of a member's full work year's sick leave days and the deduction of unearned sick leave days for members who terminated prior to the end of the contract year. The University's Personnel Department failed to deduct unearned sick leave days from these employees' ending sick leave balances.

4. **The University should ensure that its employee permanent attendance and leave records are retained in accordance with the records retention requirements set by the State Library's Public Records Administrator.**

Comment:

The University's Personnel Department maintains monthly reports of employees' permanent attendance and leave records. We requested such reports for each of the 24 months in our audited period. The University could not locate and provide us with these reports for the months of June 1998 and June 1999.

- 5. The University should adopt a policy mandating that employees be paid on the basis of work actually performed in the positions in which they are employed.**

Comment:

Documentation provided to us indicated that a University employee was awarded reassigned time and allowed to fill multiple concurrent positions in an effort to provide compensation at a level administrators felt was equitable for the administrative/consulting work the employee actually performed.

We noted multiple instances where hours claimed as worked under one position conflicted with hours claimed as worked under another or with hours billed by the employee for consulting services provided to the Connecticut State University System Office. In a memorandum, the employee characterized the various forms of compensation as a “retainer” for his management consulting work for the agency, indicating that hours claimed were part of this “retainer” and did not necessarily represent hours actually worked at the times shown.

- 6. The University should improve internal controls over Student Activity Fund expenditures, particularly in the area of contractual expenditures.**

Comment:

We reviewed 11 contracts set up for entertainment events funded by the Student Activity Fund and found exceptions with respect to contract approvals obtained for all 11 contracts. Exceptions included contracts that should have been submitted to the Office of the Attorney General for approval but weren't, contracts that were signed by University officials who were not authorized signers per CSU Board of Trustees' resolutions, contracts that were neither signed by the contractor nor by a University official, and contracts that either weren't signed by a University official or by the contractor. Also, Student Activity Fund contracts for entertainment performances tested were not always clear on which party, the University or the contractor, bore the cost of State income taxes due. Further, the University did not consistently apply the same method for withholding and paying State income taxes due: most times, the entertainer bore the cost of the taxes, but sometimes the Student Activity Fund bore the cost. In addition, in ten of 15 cases tested, the University issued vendor checks, totaling \$132,813 charged to the Student Activity Fund, without obtaining documentation evidencing that services were performed or goods were received. In nine of these cases, primarily in connection with entertainment events under contract, the University issued checks, totaling \$130,604, in advance of corresponding performances; however, there were no controls in place to monitor and document if such performances actually occurred.

- 7. The University should improve controls over library periodical accounts payable by adequately monitoring amounts due to its periodical vendor.**

Comment:

The University did not monitor the amounts due its library periodical vendor to ensure that amounts billed reflected any prompt payment credits earned and, in general, reflected the correct amount owed. Instead, it relied on the vendor's records to determine the amount owed.

- 8. The University should take steps to ensure that employees are only reimbursed for expenses after submission of adequate support documentation and after it is determined that such expenses were linked to University business.**

Comment:

For the audited years, we reviewed the propriety of reimbursements made to 15 employees. We found that the University made 24 employee reimbursements to three employees, all from the Communications Department, for which adequate support documentation was not on file to determine whether or not the expenses were connected to University business. Receipts, without any explanation as to their relation to University business, were submitted to the University's Accounts Payable Department, and the employees who submitted them were reimbursed. In some cases, supporting documentation consisted of only a copy of an employee's credit card statement with a dollar amount circled.

- 9. The University should improve controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner.**

Comment:

We tested 25 personal service agreement contracts during the audited period and found that 11 were approved by University Officials either after corresponding services had begun or after services had been completed. In five of the 25 cases tested, we were unable to determine the timeliness of contract approval, because the University Official who approved the contract did not date the approval.

- 10. The University should comply with Section 432 of the General Statutes by ensuring that all receipts received, especially at locations other than the central cashiering office, are accounted for and deposited promptly.**

Comment:

We tested the timeliness of deposits of nine quarterly royalty checks sent to the University's Office of Student and University Affairs. We found that eight checks totaling \$8,069 were deposited between four and 163 days late. Three of these checks were only discovered in the Office of Student University Affairs files after our inquiry as to their disposition. At the time of our review, one check in the amount of \$1,243 was paid to the University but hadn't cleared the payer's bank. The University considered the check unaccounted for and said that the vendor would be contacted, requesting a reissue of the missing check.

- 11. The University should improve controls over deferments of tuition and fees granted by, among other things, setting up and retaining related promissory notes for all deferments granted, and accounting for and safeguarding promissory notes related to past deferments.**

Comment:

We reviewed a sample of tuition and fee deferments granted to 11 students during the audited period. In four cases, the University was unable to locate related promissory notes. In one case, a student-athlete was granted a deferment but no promissory note was set up. We were told that it was the University's policy not to set up promissory notes when athletes were granted deferments. In another case, a student and former employee was granted deferments of tuition and fees for three consecutive semesters, and though promissory notes were set up, none of the notes were signed by the student. Records showed that this student was granted deferments for the Spring 1998 and Fall 1998 semesters even though no payments were made on deferments granted for the immediately preceding semesters, the Fall 1997 and Spring 1998 semesters, respectively. In five cases, including the last one mentioned, students were granted deferments even though records showed that the students had outstanding balances owed the University ranging from at least \$562 to \$3,612.

- 12. The University should develop and implement a time and effort reporting system for documenting payroll costs associated with its Federal grant programs, as required by Office of Management and Budget Circular A-21.**

Comment:

During the audited period, the University did not have a time and effort reporting system for documenting payroll costs associated with Federal grant programs. That is, for employees whose payroll costs were funded by Federal grant programs, the University's payroll documents did not provide signed certification that the

employee's payroll expenditures were charged to the program(s) on which the employee actually worked.

- 13. The University should consider working with the Office of the State Comptroller to ensure that it correctly reports its year-end Operating Fund cash balances to the State Comptroller.**

Comment:

For the fiscal years ended June 30, 1998 and 1999, respectively, the University incorrectly reported its locally held year-end Operating Fund cash balances to the State Comptroller. Among other things, in neither year did the University in its calculation take into account the beginning balance of these funds. Also, at least in part due to this incorrect reporting, the State Comptroller's records of the University's Operating Fund expenditures were misstated.

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of Southern Connecticut State University for the fiscal years ended June 30, 1998 and 1999. 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 Southern Connecticut State University for the fiscal years ended June 30, 1998 and 1999, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether Southern 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 Southern Connecticut State University is the responsibility of Southern 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, 1998 and 1999, 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 certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report. Those findings include: the University's failure, through inadequate employee attendance and leave record keeping, to comply with requirements for employee use and earning of vacation leave, sick leave and compensatory time as set by union contracts, the General Statutes and University personnel policies; and the University's failure to correctly pay employees for related unused sick leave and vacation leave according to such requirements.

We also 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 Southern 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 Southern 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: the failure to keep accurate employee attendance and leave records; the failure to correctly pay employees for unused vacation leave and sick leave; weaknesses in internal controls over Student Activity Fund contractual expenditures; incurring obligations for personal services prior to formal approval of contractual terms; inadequate monitoring of amounts payable to the University’s library periodical vendor; weaknesses in controls over employee reimbursements paid; and inadequate controls over deferments of tuition and fees granted.

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 University being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the University’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable conditions to be material or

significant weaknesses: the University's failure to keep accurate employee attendance and leave records; and its failure to correctly pay employees for unused vacation leave and sick leave.

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 Southern Connecticut State University during the course of our examination.

Daniel F. Puklin
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts