

STATE OF CONNECTICUT

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

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

Table of Contents

INTRODUCTION	1
COMMENTS	1
Foreword	1
Recent Legislation	2
Enrollment Statistics	2
Résumé of Operations	3
Operating Fund	3
Grants – Tax-Exempt Proceeds Fund	5
State Capital Projects	6
Fiduciary Funds	6
Student Activity Fund	6
Institutional General Welfare Fund	6
Southern Connecticut State University Foundation, Inc.	7
CONDITION OF RECORDS	8
Payments for Accrued Leave Time Balances	8
Employee Medical Certificates	9
Compensatory Time	10
Personal Service Agreements	11
Employee Reimbursements	12
Student Activity Fund Internal Controls	13
Inadequate Segregation of Duties in the Bursar’s Office	14
Late Bank Deposits	15
Accounts Receivable	16
Equipment Inventory	16
Financial Data Reported to the State Comptroller	17
Southern Connecticut State University Foundation, Inc.	18
Other Audit Examination	20
RECOMMENDATIONS	21
CERTIFICATION	25
CONCLUSION	27

June 4, 2003

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

We have examined the financial records of Southern Connecticut State University (University) for the fiscal years ended June 30, 2000 and 2001.

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

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

COMMENTS

FOREWORD:

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

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

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

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

Enrollment Statistics:

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

	<u>Fall 1999</u>	<u>Spring 2000</u>	<u>Fall 2000</u>	<u>Spring 2001</u>
Full-time undergraduate	5,651	5,250	6,010	5,432
Full-time graduate	<u>718</u>	<u>705</u>	<u>781</u>	<u>714</u>
Total full-time	<u>6,369</u>	<u>5,955</u>	<u>6,791</u>	<u>6,146</u>
Part-time undergraduate	1,973	1,907	2,070	1,964
Part-time graduate	<u>3,209</u>	<u>3,147</u>	<u>3,266</u>	<u>2,981</u>
Total part-time	<u>5,182</u>	<u>5,054</u>	<u>5,336</u>	<u>4,945</u>
Total Enrollment	<u>11,551</u>	<u>11,009</u>	<u>12,127</u>	<u>11,091</u>

As reflected above, enrollment remained relatively stable during the audited period, though there was a typical drop in enrollment, particularly among full-time undergraduates, when

comparing fall to spring semesters. However, total enrollment increased approximately two percent from the fiscal year 1998-1999 to 1999-2000 and approximately three percent from the fiscal year 1999-2000 to 2000-2001.

RÉSUMÉ OF OPERATIONS:

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

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

Operating Fund:

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

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Tuition and educational fees	\$49,699,148	\$57,966,307	\$63,378,962
Other grants and transfers-restricted	52,330,661	58,553,927	54,616,432
Miscellaneous private donations	454,126	528,797	670,730
Refunds of expenditures	294,152	475,015	500,063
Federal aid-miscellaneous	21,185	0	0
Sale of property	<u>450</u>	<u>0</u>	<u>1,725</u>
Total receipts	<u>\$102,799,722</u>	<u>\$117,524,046</u>	<u>\$119,167,912</u>

As shown above, receipts for Operating Fund accounts totaled \$117,524,046 and \$119,167,912 for the fiscal years ended June 30, 2000 and 2001, respectively, compared with \$102,799,722 for the fiscal year ended June 30, 1999, a \$16,368,190 increase over the audited years. A significant portion of this increase can be isolated to the receipts category of Tuition and educational fees, which was primarily the result of an increase in the University's fee structure. As shown below, over the audited years, the University's General and University fees increased by seven percent. In addition, the University's overall enrollment increased, which correlated to augmented tuition and educational fees.

There was also a considerable increase of \$6,223,266 in the 1999-2000 fiscal year within the receipts category of Other grants and transfers-restricted, a category largely made up of General Fund appropriation transfers from the CSU central office to the University's Operating Fund. The CSU central office received a larger appropriation in the audited period, compared to the preceding fiscal year, to cover an additional pay-period. Furthermore, the State legislature granted a supplemental appropriation to CSU to offset a tuition freeze as shown below. The University's portion of the allotment was \$2,276,500.

Auditors of Public Accounts

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

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

Besides full-time tuition, Operating Fund receipts included student payments for continuing education course programs and summer session courses. In addition, the Operating Fund was used to account for income derived from auxiliary activities and business operations, such as dormitories and dining facilities. Receipts generated by the General Fee, which is set annually by the Board of Trustees for the Connecticut State University, were also credited to the Operating Fund. Also, the State University fee, fixed by the Board of Trustees under authority granted in Section 10a-99 of the General Statutes, was assessed on all full-time students during the audited period and accounted for within the Operating Fund. Furthermore, the Information Technology fee was assessed on all students and included in Operating Fund receipts.

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

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
General Fee:	761	781	818
University Fee:			
In-State	615	637	659
Out-of-State	1,512	1,565	1,620
Information Technology Fee:	120	125	125

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

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Personal services	\$55,448,534	\$62,933,045	\$66,158,810
Contractual services	14,434,858	15,548,748	16,560,376
Commodities	2,752,724	3,140,937	3,821,663
Revenue refunds	5,003,020	6,906,546	8,946,189
Sundry charges	11,779,562	17,036,539	19,501,493
Land	39,224	61,636	438,652
Equipment	2,521,848	2,184,608	3,928,595
Building, improvements and other	<u>15,854</u>	<u>(33,560)</u>	<u>(98,515)</u>
Total Expenditures	<u>\$91,995,624</u>	<u>\$107,778,499</u>	<u>\$119,257,263</u>

Expenditures for Operating Fund accounts totaled \$107,778,499 and \$119,257,263 for the two audited years, respectively, and were primarily for personal services and employee fringe benefits, various University operating costs and equipment. Expenditures classified as "Contractual Services" consisted of contractual-related expenditures, including fees for outside professional services, telecommunication services, and utility charges. Expenditures classified as "Revenue refunds" primarily consisted of refunded student tuition and fees. The majority of the expenditures classified, as "Sundry charges" were employee fringe benefit costs.

The increase of \$7,484,511 and \$3,165,765 for personal services in the fiscal years ended June 30, 2000 and 2001, respectively, was largely the result of the creation and filling of new positions coupled with salary increases attributed to collective bargaining increases. A University generated personnel status report for the months ended June 30, 1999, 2000 and 2001 listed total full-time filled positions of 872, 912, and 963, respectively. In addition, during the 1999-2000 fiscal year there was an additional payroll period, which occurs every eleven years. There were 27 pay periods in the 1999-2000 fiscal year, compared to 26 in the preceding fiscal year.

Expenditures classified as sundry charges fluctuated significantly, totaling \$17,036,539 and \$19,501,493 for the fiscal years 1999-2000 and 2000-2001, respectively, compared to \$11,779,562 for the fiscal year 1998-1999. The fluctuation of \$7,721,931 was primarily the result of the University not reporting accurate financial data to the State Comptroller. This, in turn, led to a year-end adjustment of the State Comptroller's books resulting in an understatement (some \$4,000,000) and (some \$2,500,000) of Operating Fund sundry charges for the fiscal years ended June 30, 1999 and 2000. (For further details on this weakness, see the subheading titled "Financial Data Reported to the State Comptroller" in the "Condition of Records" section of this report.)

Grants – Tax-Exempt Proceeds Fund:

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

Receipts of the Fund totaled \$4,292,269 and \$3,014,530 during the fiscal years ended June

30, 2000 and 2001, respectively, and consisted primarily of transfers of funds from the Department of Public Works. Grant expenditures totaled \$2,172,837 and \$4,040,817 during the respective audited years. The major portion of expenditures during the audited period was coded to building sites and institutional buildings.

State Capital Projects:

Capital project fund expenditures during the fiscal years ended June 30, 2000 and 2001, totaled \$12,911,640 and \$11,104,656 respectively, and included transfers from the Department of Public Works that were charged to the University's capital project funds and credited to the Inter-agency/Intra-agency Grants - Tax Exempt Proceeds Fund.

Expenditures were primarily for the construction of new buildings and facilities on campus and for the renovation and improvement of existing structures. Most notable of these expenditures were the costs of constructing a new physical plant building,

Fiduciary Funds:

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

Student Activity Fund:

The Student Government 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.

Revenues totaled \$1,078,789 and \$1,183,950, respectively. Revenues consisted primarily of Student Activity fees assessed on students as well as funds generated by various student fund raising activities.

Expenditures totaled \$1,033,894 and \$1,047,436, respectively. Expenditures charged to this fund supported the student organizations and their related activities. These were coded primarily to contractual services.

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.

Revenues totaled \$311,053 and \$544,071, respectively. The major source of revenues included vending machine commissions received and credited to a scholarship account as well as

other scholarship monies received.

Expenditures totaled \$360,812 and \$521,722, respectively. Expenditures were mostly made up of scholarships granted.

Southern Connecticut State University Foundation, Inc.:

The Southern Connecticut State University Foundation, Inc. (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, 2000 and 2001, in accordance with Section 4-37f, subsection (8), of the General Statutes. We were provided with two audit reports on Foundation operations, one for each of the audited years. Both reports showed no material inadequacies in Foundation records and indicated compliance, in all material respects with Sections 4-37e through 4-37i of the General Statutes. 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.

Payments for Accrued Leave Time Balances:

Background: In our last audit report on the University, covering the fiscal years 1998-1999 and 1999-2000, we noted that the University had paid employees incorrect amounts for unused vacation and sick leave. This condition was largely the result of inaccurate permanent attendance and leave records as maintained by the Personnel Department. We recommended that the University should take steps to ensure the correctness of payments made to employees for unused vacation and sick leave and should consider a complete review of the correctness of such payments made during the audit period and subsequently, especially focusing on payments to members of the State University Organization of Administrative Faculty (SUOAF) AFSCME bargaining unit.

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 and sick leave.

Condition: During the current audited period, we encountered a continuing problem in this area. Our review of payments of accrued leave at termination to 15 employees disclosed that three were underpaid in the amounts of \$880, \$1,632 and \$2,297, respectively, while two were overpaid \$388 and \$1,262, respectively.

Subsequently, the University has taken the following action in response to the audit issues raised in our last audit report and currently:

The University has identified 274 employees who separated from the University between January 1997 and February 2001. From this list the University reviewed the quality of records and the calculation of separation payments for 153 employees, focusing on 99 from the SUOAF and American Association of University Professor (AAUP) bargaining unit contracts.

The list of 99 SUOAF and AAUP employees was further sorted by assigning a confidence level on the completeness and quality of the records to generate a ranking. The University selected the first 22 employees on the list for further review, which received the highest ranking in the quality of records.

Early in its collection attempts, the University was confronted with a

refusal by a former employee with his attorney to reimburse, apparently based upon a question of the accuracy of records supporting the calculated overpayment. At this point, collection efforts were apparently suspended. No calculated overpayments have been collected, and no calculated underpayments resulted in additional payments.

Effect: The University believes it has paid employees incorrect amounts for accrued vacation and sick leave. Additional payments or collections efforts appear to be necessary.

Cause: The condition above was largely the result of inaccurate permanent attendance and leave records as maintained by the Personnel Department. Subsequently, the University has developed concerns about its legal ability to demand recoveries of calculated overpayments or to make additional payments.

Recommendation: The University should proceed with collection efforts or seek legal advice regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave. (See Recommendation 1.)

Agency Response: “The Executive Vice President and the Associate Vice President of Human Resources will seek legal advice from the State Attorney General’s Office by March 31, 2003. If the advice of the State Attorney General is to proceed with the collection efforts, the University would commence efforts immediately.”

Auditors’ Concluding Comments:

The University’s Executive Vice President informed us on May 6, 2003, that seeking legal advice has been delayed due to the retirement of the Assistant Attorney General assigned to the CSU System Office. We were also informed that a meeting with the Attorney General’s Office to discuss the matter will be scheduled prior to the end of the current fiscal year.

Employee Medical Certificates:

Criteria: Regulation 5-247-11 of the *State Personnel Act and Regulations of the Personnel Policy Board* provide that a medical certificate will be required of an employee to substantiate a request for sick leave for any period of absence consisting of more than five consecutive working days. In addition, the applicable employee bargaining units have adopted this requirement in their respective contracts.

Condition: We noted seven out of eight instances where the University had no medical certificate on file supporting an employee’s use of more than five consecutive sick leave days.

Effect: The University was not in compliance with established policies and

procedures.

Cause: The University did not follow established policies and procedures for the retention of medical certificates.

Recommendation: The University should take steps to ensure medical certificates are on file for employees who use more than five consecutive sick days, as required by regulation 5-247-11 of the *State Personnel Act and Regulations of the Personnel Policy Board* and applicable employee bargaining unit contracts. (See Recommendation 2.)

Agency Response: “The Associate Vice President of Human Resources has reviewed current procedures and has adjusted them to ensure that employees are identified and medical certificates are submitted on a timely basis.”

Compensatory Time:

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

Conditions: The University’s record keeping and monitoring of compensatory time needs improvement. Our sample included five members from the State University Organization of Administrative Faculty (SUOAF) AFSCME bargaining unit and two members from the Management and Confidential Professional Personnel bargaining unit. Our review disclosed the following conditions.

We noted that compensatory time earned and/or used for three employees was not approved in a timely manner. In two of these instances the approvals were given four to five months after time was earned.

Four SUOAF employees were allowed to accrue compensatory time without the approval of the first appropriate manager outside of the bargaining unit as required in such contract.

Four SUOAF employees were allowed to accrue more than ten days of compensatory time without the approval of the Chief Personnel Officer.

Two Management and Confidential Professional employees were accruing compensatory time on a regular basis in nominal increments. The bargaining unit stipulates that its employees are eligible to accrue compensatory time for unusually long hours of work. This agreement also stipulates that compensatory time will not be used as the basis for additional compensation.

Effect: Internal controls over compensatory time were weakened. In addition, the

University was not in compliance with applicable bargaining agreement provisions pertaining to compensatory time.

Cause: Internal control policies were not being followed.

Recommendation: The University should improve controls over the record keeping and monitoring of compensatory time. (See Recommendation 3.)

Agency Response: “The University has improved controls on time record keeping and is monitoring compensatory time. All SUOAF and Management Confidential employees complete a bi-weekly time sheet that includes time worked outside normal business hours. Supervisors of these employees have also completed memorandums or pre-approval forms for Human Resources with implicit approvals for limited compensatory time by their respective staff. Furthermore, the first appropriate manager outside of the bargaining unit authorizes the timesheets with noted compensatory time.”

Personal Service Agreements:

Criteria: Sound internal control procedures require personal service agreements to be signed by all necessary officials prior to the contract term. In addition, good business practice requires that services be completed prior to the authorization of payment. The Connecticut State University System’s Personal Service Agreement Procedures Manual provides additional guidance in this area.

Section 10a-151b of the General Statutes governs the purchase of equipment, supplies, contractual services, and execution of personal service agreements by constituent units of higher education. Section 10a-151b, subsection (b), requires that purchases exceeding \$10,000 shall be based, when possible, on competitive bids or competitive negotiation.

Conditions: We reviewed 25 personal service agreement contracts during the audited period and found the following:

We noted 16 instances where the personal service agreement was approved by one of the necessary parties after corresponding services had begun.

We noted 13 instances where the University Accounts Payable Department processed a payment without obtaining the appropriate documentation and/or signature attesting that the services have been rendered.

We noted four instances where the University did not comply with the bidding process set forth in the General Statutes.

Effect: Internal controls over personal service agreements were weakened.

Cause: Internal control policies were not being followed.

Recommendation: The University should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner. In addition, the University should take the necessary steps to ensure that services secured by personal service agreements follow established policies and procedures. (See Recommendation 4.)

Agency Response: “The Executive Vice President will continue to meet with all other cabinet members to explain the steps related to the PSA process. The Office of Finance and Administration continues to provide ongoing support in assisting departments and contract signers with the contract processing, including the timeliness of contract submittal.”

Employee Reimbursements:

Criteria: The University’s Finance and Administration Business Services Resource Manual sets forth specific policies regarding employee reimbursements. Those policies dictate the type and amount of purchases that are allowable.

The Connecticut State University System’s Travel Policy and Procedures Manual provide additional guidance for travel related employee reimbursement expenditures.

In addition, 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.

Conditions: During the audited period, we reviewed a sample of 33 expenditures associated with employee reimbursements. Our examination disclosed the following:

- Four reimbursements were not submitted on the proper employee request form.
- 15 of the reimbursement requests lacked the approval of the department’s supervisor.
- 20 reimbursements lacked the required justification identifying how the transaction related to University business.
- Three purchases exceeded the monetary threshold limit for personal reimbursement. The acquisition of goods or services exceeding \$100 must be purchased directly from a vendor utilizing the normal purchasing process.

In addition, there were a significant number of other inconsistencies that did not comply with established policies and procedures.

Effect: The University did not maintain adequate controls over employee reimbursements.

Cause: Controls in place did not work effectively to prevent reimbursements to employees who did not submit adequate 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 supporting documentation and after it is determined that such expenses were linked to University business. (See Recommendation 5.)

Agency Response: “The Controller and the Director of Accounting will continue their review of expenditure and supporting documentation. They will also continue the training of the Accounts Payable staff and other employees in what is correct and adequate support documentation. Written procedures that were established previously will be reviewed and re-communicated to all financial managers.”

Student Activity Fund Internal Controls:

Background: Our review of expenditures included the examination of several expenditure items originating from clubs and organizations associated with the University’s Student Activity Fund. The examination disclosed the following:

Criteria: Sections 4-52 through 4-55 of the General Statutes set guidelines for establishment and operation of institutional activity funds and authorize the State Comptroller to approve the establishment of such funds in accordance with procedures she prescribes.

In addition to the State guidelines prescribed in the Comptroller’s *Activity and Welfare Funds Accounting Procedures Manual*, the University has a fiduciary responsibility to ensure that sound internal controls are in place.

Conditions: Our review found that the record keeping supporting Student Activity Fund expenditures needs improvement. The transactions that were sampled focused on club and organization travel expenditures. There were no accountability reports prepared for funds that were collected from the participants to subsidize the cost of the trip. The lack of such accountability lessens the assurance that the appropriate amount of funds was collected. One club had a significant number of non-students attending the trip without having the required insurance waivers on file.

On several trips, the advisors did not have the appropriate travel authorization form on file. In addition, the payment authorization form for one club's trip lacked the appropriate signatures, including that of the club representative.

Effect: Controls over Student Activity Fund expenditures were weakened. Also, It was not always clear from documentation included with these expenditures whether the funds were properly used for the benefit of the students.

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 club and organization related travel. (See Recommendation 6.)

Agency Response: "The Vice President for University and Student Affairs and the Dean of Students will review current procedures regarding club and organizational travel to strengthen policies, procedures and review of the documentation required for these expenditures. This review and policy/procedural changes have begun and will continue throughout this academic year."

Inadequate Segregation of Duties in the Bursar's Office:

Criteria: Sound internal control procedures dictate that there is a segregation of duties between employees authorizing, recording and maintaining custody of an asset. Adequate segregation of duties prohibits any one employee from performing a complete cycle of operations. This requires that a different employee within the Bursar's Office perform the tasks of cash handling and record keeping.

Condition: During our review of the internal controls in the Bursar's Office, we found that there was an inadequate segregation of duties within that department. The same employee was involved in the complete cycle of operations. This employee received cash, posted payments to the student records, and prepared the daily deposit and CO-39.

Effect: The above condition could result in a loss or misappropriation of University funds.

Cause: An official within the Bursar's Office, informed us that the condition was the result of a staff shortage.

Recommendation: The University should take steps to improve internal controls within the Bursar's Office, specifically with regards to segregation of duties. (See Recommendation 7.)

Agency Response: “The University has taken steps to segregate duties and responsibilities of the staff by reassigning staff functions and working through the recommendations from both State Auditors and Internal Audit personnel. This progress has been hampered by the recent layoffs of University personnel that reduced the Business Office staff by two full-time employees. Given those circumstances, the unit will continue its efforts in improving internal controls.”

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.

Conditions: Our current audit examination of the University's cash receipts system revealed the following:

We tested the timeliness of 25 bank deposits containing individual receipts originally received by the University at locations other than its central cashiering office. We found 16 instances of late deposits totaling \$24,335. The deposit delays ranged from one to seven days. In addition, we found five deposits where the University had no record of the original receipt date. In these cases, we could not determine whether the prompt deposit requirements of the General Statutes were met.

We tested the timeliness of 25 bank deposits containing individual receipts originally received at its central cashiering office. We found seven instances of late deposits. In each instance, the deposit delay was two days.

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 December 31, 2002.

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

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with Section 4-32 of the General Statutes by ensuring that all receipts received are accounted for and deposited promptly. (See Recommendation 8.)

Agency Response: “Annually, the Executive Vice President communicates the policies for collection and deposit for University funds to all financial managers. This memorandum states Sec 4-32 and other information in regards to funds

and their deposit. Department deposit slips have been re-engineered to include date of submission to the Business Office and the date of posting and deposit by the Business Office staff. The Controller will continue to work with the Bursar and his staff to process funds received to meet compliance statutes.”

Accounts Receivable:

Criteria: Sound business practices require that the University attempt to collect all outstanding debts.

Conditions: Our review of a sample of ten students with individual account receivable balances revealed the following:

Six students with individual account receivable balances were never sent two collection letters before the accounts were transferred to a collection agency, as required by the University’s informal policies and procedures.

Four students were allowed to attend classes when they had outstanding debts from a previous semester.

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

Cause: Informal internal control policies were not being followed.

Recommendation: The University should formalize its policies and procedures and improve internal control over accounts receivable. (See Recommendation 9.)

Agency Response: “The University has made the following improvements in the accounts receivable area. The University has reassigned a full-time member of the Business Office Staff the duties of collection agent. A set procedure of correspondence and due diligence is completed. The University further reviews current accounts in an effort to reduce student accounts making their way into the overdue receivable balance. This is accomplished by way of a committee of enrollment offices [Registrar, Financial Aid, Bursar and other administrative offices] meeting weekly and reviewing current semesters accounts and taking the necessary action to discontinue students from continuing with a past-due balance.”

Equipment Inventory:

Criteria: Accurate inventory records are an integral part of internal control.

Reconciliation of the amount expended for equipment to the change in the inventory record balance is an important facet of the control structure. The State of Connecticut's Property Control Manual provides additional guidance in this area.

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

From a sample of 38 equipment items purchased during the audited period, we found 14 items that were recorded on the property control records at the incorrect cost.

From a sample of 25 supplies selected from the perpetual stores and supplies inventory record, we found seven instances where the individual supply balances were incorrect.

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

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

Cause: Internal control policies were not being followed.

Recommendation: Control over the University's equipment and supplies inventory should be improved. (See Recommendation 10.)

Agency Response: "The University has reviewed, corrected and established new procedures in regards to equipment cost listing in both the inventory and accounting systems. The Property and Facilities MIS Coordinator in Facility Operations and the Director of Accounting of the Finance staff regularly reconcile these two systems with the use of automated reports. In regards to the perpetual stores and supplies inventory, the staff completes continuing cyclical counts and has developed a volume usage measure to monitor supply balances."

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. At the end of each fiscal year, CSU must report to the State Comptroller its locally held year-end Operating Fund cash balance. 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: During the 1999-2000 fiscal year, the University incorrectly reported its locally held year-end Operating Fund cash balance to the State Comptroller. Accordingly, the expenditure figures reported on the State Comptroller's accounting system were understated. Those records showed that the University's generic (5-39) Operating Fund expenditures totaled a negative \$2,513,276 for the 1999-2000 fiscal year instead of showing a zero balance.

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

Cause: The University incorrectly reported its locally held year-end Operating Fund cash balances to the State Comptroller.

Resolution: The University has since adhered to the procedures developed by the Office of the State Comptroller to correctly account for such direct disbursement expenditures in the State Comptroller's accounting records for fiscal year 2000-2001. Those records showed that the University's generic (5-39) Operating Fund expenditures had a zero balance.

Southern Connecticut State University Foundation, Inc.:

Background: In our audit report on the University covering the fiscal years ending June 30, 1998 and 1999, we disclosed that the operations of the Southern Connecticut State University Foundation, Inc. (Foundation) were audited by independent public accountants for the fiscal years ended June 30, 1998 and 1999, and in both 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 the respective June 30th. 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.

Subsequently, we inquired as to the status of Foundation's works of art. Our review revealed that items of art, mainly paintings and sculptures donated to the Foundation and listed during 1987 as having an estimated value of some \$500,000 were missing or unaccounted for on records of either the University or its Foundation. Pursuant to requirements of Section 2-90 of the General Statutes, we reported this breakdown in control over these items to the Governor and other State Officials in a letter dated June 13, 2001.

Condition:

During the current audit period, we noted that audit reports for the years ended June 30, 2000 and 2001, expressed similar qualified opinions on the Foundation's financial statements. The auditors were not able again to satisfy themselves as to the value and quantity of the Foundation's works of art as of June 30, 2000 and 2001.

We inquired of University and Foundation representatives as to the current status of the Foundation's art collection. We were provided with an excerpt of a motion dated December 10, 2001, from the minutes of the Foundation's Board of Governors. This motion, which unanimously carried, gifted the Foundation's art collection, with a current estimated value of \$343,020, to the University's Visual Center for the Arts. We were also provided with a memorandum from the President of the University to the Vice-President for Institutional Advancement dated August 20, 2002, acknowledging the Foundation's gift.

In addition, we also obtained a copy of the most recent audited financial statements for the Foundation covering the fiscal year ending June 30, 2002. We noted that this audit report expressed an unqualified opinion on the Foundation's financial statements. Donated assets as of June 30, 2002, were identified as one oil painting and an anthropology collection.

We were told that a physical inventory of the Foundation's art collection had identified all existing artwork. With the exception of the oil painting shown as donated to the Foundation as of June 30, 2002, on Foundation statements, the collection has been transferred to the University's Visual Center for the Arts.

Effect:

Items previously unaccounted for have been identified to the extent possible.

Cause:

The condition above may have resulted largely from poor record keeping and lack of monitoring of gifted artwork received by the Foundation.

Resolution: The Southern Connecticut State University Foundation, Inc has identified artwork on hand at the University and, with the exception of the June 30, 2002, items, has made arrangements with the University to gift the entire art collection. Such collection thus became subject to University inventory control procedures. The most recently published audit report by an independent accounting firm for the Foundation contains an unqualified opinion.

Other Audit Examination:

In recent years the Board of Trustees of the Connecticut State University has entered into agreements with a public accounting firm to conduct certain auditing and consulting services on an annual basis, including an audit of the combined financial statements of the Connecticut State University System. As part of its audit work, the firm has made an annual study and evaluation of the system's internal controls to the extent deemed necessary to express an audit opinion on the financial statements. Certain matters involving internal controls have been included in an annual *Report to Management* accompanying the audited financial statements.

The areas pertaining to Southern Connecticut State University as set forth in the *Report to Management* relating to the 2000-2001 fiscal year, the most recent report published, are presented below.

- **Students' Billing:** The University should write off the remaining balances of loans that were granted to students in the past by Student Affairs and the Financial Aid Office, which collection has been determined to be very unlikely. In the past these loans were granted to students to pay for small, non-tuition school-related expenses and to cover the educational expenses covered by a student's financial aid award that was expected to come in shortly.
- **General:** The University should consider revising their procurement and payables policies to include on-line purchase requisitions. A complete reassessment of the purchasing authorization process should be conducted to determine that appropriate procedures, flow of information, and levels of review is documented and relative to the materiality of the expenditures.
- **Payroll and Disbursements:** The manual time and attendance process should be replaced by a computerized system.
- **Information Systems:** The University's management should continue to segregate the BANNER responsibilities of security and programming functions. Management should develop and implement formal procedures for granting and removing user access rights to the different BANNER applications. In addition, management should develop standard procedures that require the department manager to periodically review users' access rights to that department's applications. The University should continue to pursue formal adoption of the policy for requiring formal acknowledgement of security policies.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- 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. The recommendation is being repeated with modification. (See Recommendation 1.)
- 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. The recommendation is being repeated with modification. (See Recommendation 1.)
- 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. The recommendation is being repeated with modification. (See Recommendation 1.)
- 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. The recommendation is being repeated with modification. (See Recommendation 2.)
- 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. The University implemented such policy; therefore the recommendation is not being repeated.
- The University should improve internal controls over Student Activity Fund expenditures, particularly in the area of contractual expenditures. The recommendation is being repeated with modification. (See Recommendation 6.)
- The University should improve controls over library periodical accounts payable by adequately monitoring amounts due to its periodical vendor. Improvement was noted in this area; therefore the recommendation is not being repeated.
- 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. The recommendation was not

implemented and is being repeated. (See Recommendation 5.)

- 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. The recommendation is being repeated with modification. (See Recommendation 4.)
- 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. The recommendation is being repeated with modification. (See Recommendation 8.)
- 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. The matter was resolved subsequent to the audit period due to procedural changes made in the processing of deferments.
- 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. The University developed and implemented a time and effort reporting system; therefore the recommendation is not being repeated.
- 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. The recommendation was implemented; therefore the recommendation is not being repeated.

Current Audit Recommendations:

- 1. The University should proceed with collection efforts or seek legal advice regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave.**

Comment:

The University paid employees incorrect amounts for accrued vacation and sick leave.

- 2. The University should take steps to ensure medical certificates are on file for employees who use more than five consecutive sick days, as required by regulation 5-247-11 of the *State Personnel Act and Regulations of the Personnel Policy Board* and applicable employee bargaining unit contracts.**

Comment:

We noted a significant number of instances where the University had no medical certificate on file supporting an employee's use of more than five consecutive sick leave days.

3. The University should improve controls over the record keeping and monitoring of compensatory time.

Comment:

From a sample of employees' accruing compensatory time, we found a significant number of internal control weaknesses.

4. The University should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner. In addition, the University should take the necessary steps to ensure that services secured by personal service agreements follow established policies and procedures.

Comment:

Our testing revealed a number of personal service agreements that were approved by one of the necessary parties after corresponding services had begun. There were also a number of instances, where the University processed a payment without obtaining the appropriate documentation and/or signature attesting that the services have been rendered. In addition, we noted several instances where the proper bidding process was not followed.

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

Comment:

The University did not maintain adequate controls over employee reimbursements. We found a considerable number of transactions that were not processed in accordance with established policies and procedures.

6. The University should improve internal controls over Student Activity Fund expenditures, particularly in the area of club and organization related travel.

Comment:

Our review found that the record keeping supporting Student Activity Fund travel related expenditures needs improvement.

- 7. The University should take steps to improve internal controls within the Bursar's Office, specifically with regards to segregation of duties.**

Comment:

We found that there was an inadequate segregation of duties within the Bursar's Office.

- 8. The University should comply with Section 4-32 of the General Statutes by ensuring that all receipts received are accounted for and deposited promptly.**

Comment:

We tested the timeliness of receipts received by the University. We noted a number of instances where monies received were not deposited within 24 hours of receipt. The reporting delays ranged from one to seven days.

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

Comment:

Our review of a sample of students with individual account receivable balances revealed a number of internal control weaknesses. These weaknesses included the failure to send the required number of collection letters to students with outstanding accounts receivable balances.

- 10. Control over the University's equipment and supplies inventory should be improved.**

Comment:

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

INDEPENDENT AUDITORS' CERTIFICATION

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

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 the 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, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of 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 correctly pay employees for unused vacation and sick time; incurring obligations for personal service agreements prior to formal approval of contractual terms; weaknesses in controls over employee reimbursements paid; weaknesses in internal controls over Student Activity Fund expenditures; inadequate segregation of duties within the Bursar's Office; weaknesses in controls with the monitoring of accounts receivable; and the lack of adequate controls over equipment.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the University's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the University's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: inadequate segregation of duties within the Bursar's Office.

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.

Walter J. Felgate
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts