

STATE OF CONNECTICUT



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

AUDITORS OF PUBLIC ACCOUNTS
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FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

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

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. Dr. J. Phillip Smith served as Interim President from June 27, 2003 until April 30, 2004, at which time Dr Cheryl J. Norton was appointed University President.

Recent Legislation:

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

Public Act 05-4, Section 1, amended Section 10a-149 of the General Statutes, to authorize the Connecticut State University System to award education doctoral degree programs. This Act became effective on July 1, 2005.

Enrollment Statistics:

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

	<u>Fall 2003</u>	<u>Spring 2004</u>	<u>Fall 2004</u>	<u>Spring 2005</u>
Full-time undergraduate	6,347	5,937	6,617	6,152
Full-time graduate	<u>944</u>	<u>957</u>	<u>992</u>	<u>959</u>
Total full-time	<u>7,291</u>	<u>6,894</u>	<u>7,609</u>	<u>7,111</u>
Part-time undergraduate	1,776	1,768	1,697	1,640
Part-time graduate	<u>3,076</u>	<u>2,868</u>	<u>2,871</u>	<u>2,760</u>
Total part-time	<u>4,852</u>	<u>4,636</u>	<u>4,568</u>	<u>4,400</u>
Total Enrollment	<u>12,143</u>	<u>11,530</u>	<u>12,177</u>	<u>11,511</u>

RÉSUMÉ OF OPERATIONS:

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

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

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

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

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

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

Operating Revenues:

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

Operating revenues as presented in the University's financial statements for the audited period follows:

	<u>2003-2004</u>	<u>2004-2005</u>
Tuition and fees (net of scholarship allowances)	\$49,292,018	\$52,719,224
Federal grants and contracts	5,880,162	6,313,122
State and local grants and contracts	3,457,319	3,272,204
Non-Governmental grants and contracts	805,255	1,205,525
Indirect cost recoveries	55,358	15,446
Auxiliary revenues	13,441,179	16,153,899
Other sources	<u>25,022,339</u>	<u>45,539,810</u>
Total operating revenues	<u>\$97,953,630</u>	<u>\$125,219,230</u>

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

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

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

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Fees	2003-2004			2004-2005		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
General	\$1,282			\$1,499		
State University	732	1,798	732	765	1,879	765
Information Technology	218			218		

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

Fees	2003-2004	2004-2005
Housing	\$3,918	\$4,024
Food Service	3,132	3,226

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

The increase in the tuition and fees category of \$3,427,206 during the 2004-2005 fiscal year was primarily the result of an increase in the University’s fee structure. As presented above, the University’s full-time tuition charge increased by eight percent between the 2003-2004 and 2004-2005 fiscal years. In addition, the University’s General fees and University fees increased by seventeen and five percent, respectively, during the same time-period.

The primary reasons for the increase of \$20,517,471 in the other sources category were the increase of CHEFA funding, reclassification of prior year revenues, and reclassification of transfers between the Connecticut State University System Office and the University. The approximate monetary effect attributed to each cause was \$4,500,000, \$6,500,000 and \$9,500,000, respectively.

Operating Expenses:

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

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

	<u>2003-2004</u>	<u>2004-2005</u>
Personal service and fringe benefits	\$91,117,615	\$100,510,128
Professional services and fees	5,734,117	6,029,576
Educational services and support	15,137,746	15,350,361
Travel expenses	1,299,072	1,188,501
Operation of facilities	6,682,161	14,931,666
Other operating supplies and expenses	5,472,045	14,935,735
Depreciation expense	6,424,572	8,070,975
Amortization expense	<u>0</u>	<u>8,746</u>
Total operating expenses	<u>\$131,867,328</u>	<u>\$161,025,688</u>

The increase in the personal service and fringe benefits category of \$9,392,512 in the 2004-2005 fiscal year was primarily the result of salary increases attributed to collective bargaining increases. A significant portion of the increases in the operation of facilities and other operating supplies and expenses categories were attributed to internal transfers between funds.

Nonoperating Revenues:

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

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

	<u>2003-2004</u>	<u>2004-2005</u>
State appropriations	\$59,062,742	\$61,668,629
Gifts	226,195	229,424
Investment income	257,700	839,424
Other nonoperating revenues	867,500	891,003
State financial plant facilities	<u>22,328,389</u>	<u>0</u>
Total nonoperating revenues	<u>\$82,742,526</u>	<u>\$63,628,480</u>

In addition to the operating and nonoperating revenues presented above, the University's financial statements also presented revenues classified as State appropriations restricted for capital purposes totaling \$3,968,772 and \$4,887,039, for the fiscal years ended June 30, 2004 and 2005, respectively.

The decrease in the State financial plant facilities category was due to the fact that there were no capital projects completed at the University by DPW during the fiscal year ended June 20, 2005.

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

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the fiscal years ended June 30, 2004 and 2005, in accordance with Section 4-37f, subsection (8), of the General Statutes. We were provided with separate audit reports on Foundation operations, for each of the audited years. Both reports did not disclose any material inadequacies in Foundation records and indicated compliance, in all material respects with Sections 4-37e through 4-37i of the General Statutes.

CONDITION OF RECORDS

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

Time and Attendance:

Criteria: The Core-CT Human Resource Management System (HRMS) is the University's official time and attendance record.

Sound business practices require that time and attendance information is accurate.

Good internal control requires that multiple systems containing the same information should be reconciled to ensure accuracy. Such reconciliations should be performed in a timely manner.

Condition: Our review of the University's time and attendance records disclosed that the agency maintains two separate systems for tracking accrued leave balances. The two systems utilized are an internal spreadsheet maintained by the University and Core-CT HRMS. In addition, we noted a number of instances, where the leave balances reported in each system were not in agreement.

Effect: Employees' accumulated leave balances may not be accurate. The University is utilizing a significant amount of time and resources to maintain two separate time and attendance systems.

Cause: The University did not perform a reconciliation between the two time and attendance systems.

Recommendation: The University should review its current time and attendance policies and procedures to ensure that the accrued leave balances reported in the Core-CT HRMS are accurate. The University's review should address the feasibility and/or efficiency of maintaining two separate time and attendance systems. (See Recommendation 1.)

Agency Response: "The Associate Vice President (AVP) of Human Resources (HR) will request technical assistance from SCSU IT area as well Core-CT to reconcile time and attendance discrepancies. Over the next three months, HR will review/investigate the employee's time that needs adjustment and transition to Core-CT by July 1, 2007."

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.

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

Conditions: The University did not comply with the provisions of Article 16.2 of the SUOAF-AFSCME bargaining agreement.

We noted two instances where staff was granted a blanket authorization to accrue compensatory time balances greater than ten days. In one of these instances the request, which affected 11 employees, was in effect for the entire fiscal year ending June 30, 2005. In the other instance, which affected 13 employees, the duration of the request did not have an expiration date. These requests were approved by the Director of Human Resources, who was not the Chief Personnel Officer at the University. In addition, we noted one instance, where an employee was allowed to accrue compensatory time that exceeded the contractual limit without the approval of the Chief Personnel Officer.

Effect: The University did not comply with provisions of the SUOAF-AFSCME bargaining agreement contract.

Cause: The University’s practice of authorizing a blanket authorization for certain staff to accrue compensatory time balances in excess of ten days for performing regular job responsibilities is contrary to the provisions of the bargaining agreement.

Recommendation: The University should comply with SUOAF-AFSCME bargaining agreement provisions governing compensatory time. (See Recommendation 2.)

Agency Response: “The University will comply with SUOAF-AFSCME bargaining agreement provisions governing compensatory time. The AVP of HR will meet formally with the Directors of the specific areas involved to develop a plan to eliminate the need for compensatory time. Blanket authorizations will no longer be granted without detailed justification. Any exception will be discussed with the President prior to the AVP of HR granting approval.”

Leave Records – Full-time Athletics Coaches:

Background: In our audit report, covering the 2001-2002 and 2002-2003 fiscal years, we noted that the University’s Athletics Department was not enforcing certain employment provisions stipulated in the collective bargaining agreement. Our review of the full-time coaches’ time and attendance records disclosed that no leave time, whether it was vacation, sick or personal leave, was charged during calendar year 2002 and 2003. In addition, the cumulative balances of vacation and sick leave accrued to date, indicates that such employees have not charged any leave time since they have been employed in their current positions. Several of these full-time coaches were appointed to their positions in calendar year 1999.

Our interviews with representatives of the Athletics Department disclosed that it was their understanding that full-time coaches do not charge leave time because of their unique and demanding work schedule.

Criteria: The collective bargaining agreement between the Connecticut State University, American Association of University Professors and Board of Trustees for the Connecticut State University System (AAUP) governs employment provisions for full-time coaches.

Article 9.4.5 of the AAUP agreement states “For payroll and record purposes each department Chairperson will submit a statement only of days absent from assigned duties for each full-time member of a department, indicating whether they are sick leave days, personal leave days, etc.”

Condition: Our review of the same full-time coaches’ time and attendance records disclosed that no leave time, whether it was vacation, sick or personal leave, was charged during calendar years 2004, 2005 and 2006.

One of these full-time coaches separated from the University during the fiscal year ended June 30, 2005, and received a lump sum payout of the maximum accrued vacation leave under the provisions of this bargaining agreement.

Effect: Internal controls are not adequate. The cumulative accrued leave balances for full-time coaches appear to be overstated. In addition, the University was not in compliance with applicable bargaining agreement provisions

pertaining to payroll provisions.

Cause: The University did not enforce the time and attendance provisions of the AAUP bargaining agreement.

Recommendation: The University should improve controls over the record keeping and monitoring of leave and attendance records, especially for full-time coaches, to ensure compliance with applicable bargaining agreement provisions. (See Recommendation 3.)

Agency Response: “Effective January 2007, all twelve-month faculty are required to complete, sign and remit biweekly time and attendance worksheets to HR.”

Termination Payments:

Background: In our audit report on the University, covering the 1997-1998 and 1998-1999 fiscal years, 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 Human Resources Department. In that report, we recommended that the University 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.

In our audit report, covering the 1999-2000 and 2000-2001 fiscal years, we noted that the University conducted a review of such payments. However, it was disclosed that collection efforts were suspended. No calculated overpayments have been collected, and no calculated underpayments resulted in additional payments. In that report, we recommended that 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.

In our previous audit report, covering the 2001-2002 and 2002-2003 fiscal years, we noted that on August 26, 2003, the University requested legal advice from the Office of the Attorney General regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave.

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.

Conditions: The University has not yet received the legal advice from the Office of the Attorney General and the previously calculated overpayments and underpayments have not been pursued further for collection and/or payment.

Our review of payments of accrued leave at termination to ten employees during the fiscal year ended June 30, 2005 disclosed that two were underpaid in the amounts of \$748 and \$924, respectively, while two were overpaid \$563 and \$186, respectively.

Effect: The University acknowledges that it had paid employees incorrect amounts for accrued vacation and sick leave. Additional payments or collection efforts appear to be necessary.

Cause: The condition above was primarily due to inaccurate permanent attendance and leave records as maintained by the Human Resources Department. The University has concerns about its legal ability to demand recoveries of calculated overpayments or to make additional payments.

The majority of the conditions noted during the current audit period appear to have been caused by the Human Resources Department having provided the Payroll Department with incorrect attendance and leave records.

Recommendation: The University should continue its efforts to pursue legal advice regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave. (See Recommendation 4.)

Agency Response: “The University will continue to pursue legal advice regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick time. The HR Department has sent letters to those employees who were overpaid and will follow up with an additional letter. Two months after the second letter is sent and if no response is received, HR will refer the matter to the State Comptroller’s Office.”

Procurement:

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

Sound internal control procedures require that prior to services being

rendered or goods being delivered there should be a valid commitment document authorizing the transaction.

The Connecticut State University System's Procurement Manual provides additional guidance in this area.

Conditions: Our sample for procurement testing consisted of 20 expenditures for the audited period. Our testing disclosed the following:

- One instance where a contract totaling \$119,115 was approved as "sole source" in nature, without the proper written documentation on file.
- One instance where the vendor's invoice was dated prior to the approval of the related purchase requisition and purchase order.
- One instance where a transaction was processed as a direct payment without the issuance of an encumbering document.
- One instance where several campus Catering Service Request Forms were authorized after the services were rendered.

Effect: The University is not in compliance with established policies and procedures. In the condition of the sole source transaction, it could not be determined whether the University received the most competitive price for the purchase made.

Cause: With respect to the cases cited, established control procedures in the area of procurement were not adequately executed.

Recommendation: The University should take steps to improve internal control over the procurement process and comply with established policies and procedures. (See Recommendation 5.)

Agency Response: "Subsequent to the audited period ended June 30, 2005, stronger controls have been established as a result of updated procedures to the CSUS Procurement Manual. With respect to the cases cited:

- Sole source acquisitions require a written justification from the requester and through extensive research are reviewed for their applicability and determination of whether to treat as a no substitute transaction or release for competitive bid.
- Confirming orders result in a letter to the requester and their associated Vice President alerting of noncompliance of procedure and the possibility of personal liability.
- Direct payment without encumbrance specifically involves the state contract for office supplies. Beginning with the 2007-2008 fiscal year, a standing order shall be issued to cover associated transactions.
- A catering software application is now administered monthly to capture all booked and confirmed events for encumbrance purposes."

Personal Service Related Expenditures:

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

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

Sound internal control procedures require that if payment is issued prior to a service being completed there is an after-the-fact certification that such services were rendered and payment was received.

Conditions: Our testing of 20 personal service related expenditures during the audited period disclosed the following:

- Ten instances where the PSA or Honorarium Form was not signed by one of the necessary parties prior to the contract term. In five of these instances the approval of the Attorney General's Office was received after the services on the contract had been completed.
- Two instances where the Honorarium Form was not approved by the budget authority.
- One instance where a PSA greater than \$20,000 was not competitively bid.
- One instance where the budget authority authorized payment before the services were completed.
- Two instances where the payment for services was coded to the incorrect fiscal year.
- Nine instances where there was no after-the-fact certification that services were performed and that payment was issued to the vendor. In each of these instances, a check was issued by the Accounts Payable (A/P) Department prior to the services being performed.

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

Cause: The departments requesting services are not submitting the requests to the Controller's Office with enough lead time to allow for the review and approval of these contracts. With respect to the other conditions cited, established control procedures were not followed.

Recommendation: The University should comply with established policies and procedures and improve internal control over personal service related expenditures processed on a Personal Service Agreement or Honorarium Form. (See Recommendation 6.)

Agency Response: “University department training regarding PSA, Honorarium and other agreements have been held and continue to be conducted in an effort to improve the timeliness and procedural requirements of these particular transactions.”

Travel-Related Expenditures:

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

Conditions: Our review of a sample of ten travel-related expenditures disclosed the following:

- Two instances where a revised Travel Authorization Form (TA) was missing the signature of the budget authority.
- Three instances where a Travel Reimbursement Form was not approved, certifying that the travel had been taken and the expenses incurred.
- One instance where the Travel Reimbursement Form was approved prior to the trip.
- Two instances, totaling \$3,967, where individual transactions were not supported by a vendor’s invoice or receipt.
- Two instances where rosters, related to team travel, were not approved by the Director of Athletics prior to the trip. The roster includes the names of the employees and athletes to be included in the official travel party.
- One instance where the employee did not submit a completed Travel Reimbursement Form with the required documentation to the Travel Office within 15 business days after completion of the trip. The paperwork was submitted 28 business days late.
- One instance where an employee was reimbursed for the incorrect meal per diem rate for the first day of the trip.

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

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with established policies and procedures and improve internal control over travel-related expenditures. (See Recommendation 7.)

Agency Response: “The following actions and on-going discussions were completed:

- Since January 2005, the Accounts Payable (A/P) Coordinator encumbers the TA and reviews it for compliance with CSU Travel Policy. There are now two individuals reviewing the paperwork.
- As of July/August 2006, the Travel Office returns items with an inter-office memo indicating the reason for the return and action to be taken.
- TA’s for athletic travel are now submitted with rosters including the names of all athletes and employees constituting the travel party. The TA along with the roster is approved by the Athletic Director or designee.
- A/P Coordinator sends a notice to the employee to inform him/her of proper procedure. In this case, the traveler submitted paperwork as required however, other offices delayed the paperwork from reaching the Travel Office. A/P will continue to work to educate offices (thru newsletter, website) of the need for timely submission of paperwork.”

Competitive Bids:

Criteria: 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. This statutory provision requires that purchases exceeding \$10,000 shall be based, when possible, on competitive bids or competitive negotiation.

Section 1-84, subsection (i), of the General Statutes states that “No public official or state employee or member of his immediate family or a business with which he is associated shall enter into any contract with the state, valued at one hundred dollars or more, other than a contract of employment as a state employee or pursuant to a court appointment, unless the contract has been awarded through an open and public process, including prior public offer and subsequent public disclosure of all proposals considered and the contract awarded.”

Conditions: We disclosed two instances, where the University contracted with a vendor without obtaining competitive bids and/or entering into the competitive negotiation process as required by the General Statutes.

In the first instance, the University contracted with a vendor to perform diversity training. The original purchase order supporting this transaction

was processed for \$8,750. Subsequent to the issuance of the purchase order, a request was submitted to the Purchasing Department to amend the original purchase order amount to \$16,750. The purchase order was amended to increase the amount of the contract by \$1,249, which made the total contract \$9,999. Further review of this contract, disclosed that the vendor's immediate family member was an employee of the University.

In the second instance, the University contracted with a vendor for promotional supplies. During the audited period, the University processed 58 purchase orders to this vendor, which resulted in payments totaling \$202,447. Further review disclosed that the salesperson for this vendor had an immediate family member employed by the University. It was also disclosed that this same salesperson was affiliated with another vendor, which the University had conducted business with. The University paid this vendor \$11,263 during the fiscal year ended June 30, 2005.

Effect: The University did not comply with its established policies and procedures, which weakens internal control, and increases the likelihood of the perception that contracts were awarded due to favoritism. It could not be determined whether the University received the most competitive prices for purchases made.

Cause: The University did not have a control procedure in place to identify if a prospective vendor has an immediate family member employed by the University.

Recommendation: The University should take steps to ensure that its purchases are based on competitive bids or competitive negotiation when required by the General Statutes. (See Recommendation 8.)

Agency Response: "The Director of Administrative Support Services will be working with the CSUS System Office Contract Compliance Officer to address the recommendation for implementing control procedures for identifying immediate family members of prospective vendors. A possible solution is to modify the CSUS Purchase Requisition Form to include requirements related to this statute."

Accounting Control over Receipts:

Criteria: Section 4-32 of the General Statutes requires each State agency to deposit and account for revenue within 24 hours of receipt.

Sound internal control procedures require that a receipts journal be maintained by all departments receiving money. Receipts received by a department may contain cash, money orders and checks.

Conditions: Our examination of 15 bank deposits, containing individual receipts

received at locations other than the Bursar's Office, disclosed that a number of these locations had no record of the original receipt date. In such cases, we could not determine whether the prompt deposit requirements of the General Statutes were met. However, based upon our review of copies of checks and correspondence on file, we determined that deposit delays were evident. The minimum delays ranged from one to four business days late.

Effect: The University did not comply with the prompt deposit requirements of Section 4-32 of the General Statutes. This condition also increased the risk of loss or theft of funds.

Cause: Internal control policies were not being followed.

Recommendation: The University should improve controls over cash receipts and ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. The University should implement a control procedure that requires each department collecting funds to use a standard receipts journal to document the receipt date. (See Recommendation 9.)

Agency Response: "The Finance area (particularly the Bursar and Controller's Offices) regularly work with all University departments regarding cash controls and timely deposits. The Finance staff will continue to use all educational opportunities available in an effort to improve the timeliness of these particular transactions."

Accounts Receivable:

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

Conditions: Our review of a sample of 15 students with individual account receivable balances as of June 30, 2005, disclosed eight instances where the University did not follow its informal collection procedures. The conditions noted include the following:

- Failure to place holds on students accounts with past due balances;
- Students being allowed to register and attend classes with outstanding debts from a previous semester;
- Untimely internal collection attempts;
- Untimely submission of past due accounts to an external collection agency.

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

Cause: Informal internal control policies were not followed.

Recommendation: The University should formalize its policies and procedures and improve internal control over accounts receivable. In addition, the University should perform a review of all its delinquent accounts to ensure that the individual balances are accurate and in the appropriate stage of collection. (See Recommendation 10.)

Agency Response: “At present, the Bursar and Controller Offices are working with the CSU Internal Audit staff in their review of the Accounts Receivable process. Recommendations and a plan of action will be discussed by fiscal year end. The Bursar, Accounting and Technology staff will discuss and create additional reports necessary to complete a “detailed inventory” of delinquent accounts by June 30, 2007.”

Equipment and Supplies Inventory:

Criteria: Accurate inventory records are an integral part of internal control. The Connecticut State University System’s Capital Valuation and Asset Management Manual provides additional guidance in this area.

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

- Certain amounts on the annual Fixed Assets/Property Inventory Report (CO-59) either contained errors or could not be readily verified to supporting documentation.
- From a sample of 25 equipment items purchased during the audited period, the value of three equipment items were reported on the property control records at the incorrect amount. Further review disclosed another 83 items with the same condition.
- From a sample of 27 equipment items selected from the inventory records, three equipment items could not be located. A University representative informed us that these three items were not located during the last physical inventory. Further review disclosed that the University had not completed a Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles) - CO-853 for the missing items. In addition, two items were reported as off-campus on loan without any updated paperwork. The off-campus loan paperwork was completed on January 30, 1996, and stated that the equipment items would be returned to campus on June 30, 1997.
- From a sample of 15 equipment items identified by a random inspection of the premises, we found a computer purchased in July 2005 that was still in its original packing at the time of our physical inspection in June 2006. The University’s capitalization policy has a computer’s estimated useful life listed as five years.

- From a sample of 20 disposed equipment items, the University disposed of ten items prior to obtaining one of the required authorization signatures.
- From a sample of 15 stores and supplies items, we found four items that had a different quantity on hand than what was reported on the perpetual inventory record.

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

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and, improve control over equipment and supplies inventory. (See Recommendation 11.)

Agency Response: "The Finance and Administration staff continue their review and have recommended changes to existing procedures, policies and forms to provide efficient oversight regarding inventory and the reporting of deficiencies.

- Improvements to the compilation of information for the CO-59 have been addressed by the Inventory Control area and the Accounting Department.
- Changes have been instituted regarding missing items – effective April 2007, if items continue to be unfound, the affected department will be instructed by the Inventory Control staff to complete a report of loss with SCSU's Police Department. The Inventory Control area will follow-up with the Police Department to verify a report was filed and a copy sent to them for inventory records.
- In regards to items loaned for off-campus use, two additional notices will be sent by email if the paperwork is not completed by the expiration date. Department chairs and deans will be notified and asked to retrieve the equipment from the employee and return the equipment to Inventory Control within an agreed upon time period.
- To address the discrepancies in the inventory counts, an additional review will be completed by the Supervising Store Keeper. All discrepancies will be reported and accounted for.
- The Finance and Inventory staff for all CSU campuses and members of the CSUS System Office are currently meeting and

working on a revised Capital Valuation and Asset Management Manual to address issues noted at each of the campuses.”

Information System Controls:

Background: Our review of the University’s information system included the examination of access privileges to Banner. Banner is the Connecticut State University’s client-server based administrative software.

Criteria: The University has formal procedures for granting access privileges to Banner. These procedures require that an employee be granted the appropriate security profile necessary to perform the assigned duties of the position. In addition, a Banner Access Request Form must be signed by the employee and submitted to the Office of Information Technology (OIT).

In order to ensure system integrity, all computer access should be disabled immediately upon the separation of an employee.

Condition: From a sample of 20 employees who were granted Banner access during the audited period, we noted eight employees who did not have the appropriate Banner Access Request Form on file. In addition, we noted five instances where the employee’s Banner access was not disabled upon termination or change in employment status. Upon notification of the later condition, the University locked access to the Banner accounts.

From a sample of employees who separated employment from the University during the audited period, we noted ten instances where the employees’ Banner access was not disabled upon termination. Upon notification of this condition, the University locked access to these Banner accounts. The delay in these accounts being locked ranged from 405 to 943 days after the employee was terminated.

Effect: Internal control over the University’s information system is weakened when an employee’s access is not properly documented and disabled promptly upon termination.

Cause: The University did not comply with its established procedures for granting and/or terminating employees’ access privileges to its information system.

Recommendation: The University should comply with its established procedures for granting and/or terminating employees’ access privileges to its information system. (See Recommendation 12.)

Agency Response: “HR staff members met and developed a plan of action with the Information Technology (IT) Department representatives during 2006.

Every two weeks, a listing of terminated employees is prepared and sent to five staff members in IT. HR terminates Core-CT access if the terminated employee has access. In IT, there are two staff members who use the list from HR to “lock” a user Banner account. These terminations and locking of accounts are completed within a week of the user’s departure. Regarding Banner privileges, all requests are made to the Director of Banner Communications through an email from the user’s manager in order to grant or change access.”

Software Inventory:

Criteria: The State of Connecticut Property Control Manual states that “a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation and related items.” The Manual further states that “each agency will produce a software inventory report on, at a minimum, an annual basis... A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This report will be retained by the agency for audit purposes.”

Condition: The University does not maintain a software inventory that tracks and controls all of its software media, licenses or end user license agreements, certificates of authenticity, and other related items. Further, the University does not conduct a physical inventory of software on an annual basis.

Effect: The University is not in compliance with software inventory requirements contained in the State of Connecticut’s Property Control Manual.

Cause: The University does not have a policy requiring the OIT to be notified of all the individual software that has been purchased/installed by the faculty and staff outside of their control.

Recommendation: Control over the University’s software should be improved by establishing procedures designed to ensure compliance with the State of Connecticut’s Property Control Manual. (See Recommendation 13.)

Agency Response: “The University Accounting area currently has a query that is periodically executed to capture information for capitalizable software purchases. This query can be expanded to include other expenses categories related to software posted through the General Ledger. While this query may allow the capture of expenses, it does not fully comply with other procedure/policy components contained within the State of Connecticut’s Property Control Manual. The compliance issue is being discussed further with CSUS System Office and the other CSU campuses in order to obtain some level of agreement of how to address this issue.”

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 conducted 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 2004-2005 fiscal year are presented below:

- **General:** The University should complete its identification of all Perkins Loans, which have not been reported to the third party service organization processing the loans. In addition, the University should prepare Perkins Loan reconciliations on a monthly basis in the prescribed format. The University should strengthen its account reconciliation procedures by implementing controls that include proper segregation of duties, maintaining documentation that the preparer and reviewer performed the reconciliation, and investigation and resolution of all differences noted. At the time that the implementation of the on-line purchase requisition commences, the University should consider revising their procurement and payables policies to ensure that they obtain efficiencies in operations. Management should clearly define its procedures for the authorization of journal entries.
- **Information Systems:** The University should consider implementing additional security access controls around the Banner system to ensure that financial and student information is adequately protected. Management should ensure that change management projects are fully documented. The University should assess and implement an intrusion detection system to reduce the level of risk from external threats. Management should develop a comprehensive Disaster Recovery Plan or a Business Resumption plan that is documented and periodically tested.

RECOMMENDATIONS

Our prior report contained 11 recommendations. There has been satisfactory resolution of one of these recommendations. The remaining ten recommendations have been repeated or restated to reflect current conditions. Three additional recommendations are being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- The University should continue its efforts to pursue legal advice regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave. Our current review disclosed that no further action has been taken; we are repeating this recommendation. (See Recommendation 4.)
- The University should improve controls over the record keeping and monitoring of leave and attendance records, especially for full-time coaches, to ensure compliance with applicable bargaining agreement provisions. The recommendation is being repeated. (See Recommendation 3.)
- The University should comply with its established policies and procedures and improve internal control over travel-related expenditures. The recommendation is being repeated. (See Recommendation 7.)
- The University should improve internal controls over personal service agreements. The recommendation is being repeated with modification. (See Recommendation 6.)
- The University should comply with Section 4-32 of the General Statutes by ensuring that all receipts are accounted for and deposited promptly. While we noted improvements, we did note certain exceptions that need to be addressed and are repeating this recommendation in modified form. (See Recommendation 9.)
- The University should formalize its policies and procedures and improve internal control over accounts receivable. The recommendation is being repeated with modification. (See Recommendation 10.)
- Control over the University's equipment and supplies inventory should be improved. The recommendation is being repeated with modification. (See Recommendation 11.)
- The University should comply with the State of Connecticut's Property Control Manual by ensuring that all the costs associated with construction projects administered by the University are included in the recorded assets' cost. Improvement was noted in this area; therefore the recommendation is not being repeated.
- Internal control over the University's information system should be improved. The recommendation is being repeated with modification. (See Recommendation 12.)

- Control over the University’s software should be improved by establishing procedures designed to ensure compliance with the State of Connecticut’s Property Control Manual. The recommendation is being repeated. (See Recommendation 13.)
- Control over the University’s Activity Fund expenditures should be improved by following established control procedures designed to ensure compliance with the relevant requirements. We noted similar conditions during our current review and are repeating this recommendation in modified form. (See Recommendations 6 and 7.)

Current Audit Recommendations:

- 1. The University should review its current time and attendance policies and procedures to ensure that the accrued leave balances reported in the Core-CT HRMS are accurate. The University’s review should address the feasibility and/or efficiency of maintaining two separate time and attendance systems.**

Comment:

Our review of the University’s time and attendance records disclosed that the agency maintains two separate systems for tracking accrued leave balances. In addition, we noted a number of instances, where the leave balances reported in each system were not in agreement.

- 2. The University should comply with SUOAF-AFSCME bargaining agreement provisions governing compensatory time.**

Comment:

The University did not comply with the compensatory time provisions of the SUOAF-AFSCME bargaining agreement.

- 3. The University should improve controls over the record keeping and monitoring of leave and attendance records, especially for full-time coaches, to ensure compliance with applicable bargaining agreement provisions.**

Comment:

We found that the University’s twelve-month coaches were not complying with the leave and attendance provisions of the AAUP bargaining agreement.

- 4. The University should continue its efforts to pursue legal advice regarding actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave.**

Comment:

The University has requested legal advice from the Office of the Attorney General

regarding possible actions it may take pertaining to identified incorrect payments for accrued vacation and sick leave. Our review of payments of accrued leave at termination to ten employees during the fiscal year ended June 30, 2005, disclosed four incorrect payments.

5. The University should take steps to improve internal control over the procurement process and comply with established policies and procedures.

Comment:

A significant number of expenditure transactions were not processed in compliance with established policies and procedures. Most significantly, for some purchases examined, it could not be determined whether the Office received the most competitive prices for purchases made.

6. The University should comply with established policies and procedures and improve internal control over personal service related expenditures processed on a Personal Service Agreement or Honorarium Form.

Comment:

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

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

Comment:

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

8. The University should take steps to ensure that its purchases are based on competitive bids or competitive negotiation when required by the General Statutes.

Comment:

We noted several instances where the University purchased goods and services without obtaining competitive bids as required by the General Statutes.

9. The University should improve controls over cash receipts and ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. The University should implement a control procedure that requires each department collecting funds to use a standard receipts journal to document the receipt date.

Comment:

Our examination of a sample of bank deposits, containing individual receipts received at locations other than the Bursar's Office, disclosed that a number of these locations had no record of the original receipt date. In such cases, we could not determine whether the prompt deposit requirements of the General Statutes were met.

- 10. The University should formalize its policies and procedures and improve internal control over accounts receivable. In addition, the University should perform a review of all its delinquent accounts to ensure that the individual balances are accurate and in the appropriate stage of collection.**

Comment:

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

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

Comment:

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

- 12. The University should comply with its established procedures for granting and/or terminating employees' access privileges to its information system.**

Comment:

From a sample of employees who had terminated employment with the University, we noted a number of instances where Banner access was not disabled promptly. In addition, we noted several instances where the University granted access without the appropriate Banner Access Request Form on file.

- 13. Control over the University's software should be improved by establishing procedures designed to ensure compliance with the State of Connecticut's Property Control Manual.**

Comment:

The University does not maintain a complete software inventory that tracks and controls all of its software media, licenses or end user license agreements, certificates of authenticity, and other related items. Further, the University does not conduct a physical inventory of software on an annual basis.

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, 2004 and 2005. This audit was primarily limited to performing tests of the University's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the University's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the University are complied with, (2) the financial transactions of the University are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the University are safeguarded against loss or unauthorized use. The financial statement audits of Southern Connecticut State University for the fiscal years ended June 30, 2004 and 2005, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of 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: inadequate control over the record keeping and monitoring of leave and attendance records; weaknesses in controls over the procurement process; weaknesses in controls with the monitoring of accounts receivable; the lack of adequate controls over equipment and supplies; and inadequate control over the University's information system.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the University's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the University's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above are material or significant weaknesses.

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
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts