

# STATE OF CONNECTICUT

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

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

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February 24, 2003

**AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
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We have made an examination of the financial records of the University of Connecticut (University) for the fiscal years ended June 30, 2000 and 2001. The University is a component unit of the University of Connecticut system, which includes the University, the Health Center, the University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation). This report thereon consists of the Comments, Recommendations and Certification which follow.

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

**COMMENTS**

**FOREWORD:**

The University of Connecticut operates generally under the provisions of Title 10a, Chapter 185, where applicable, and Chapter 185b, Part III, of the General Statutes. The University is a constituent unit of the State system of public higher education under the central authority of the Board of Governors of Higher Education. The University is governed by a Board of Trustees of the University of Connecticut, consisting of 19 members appointed or elected under the provisions of Section 10a-103 of the General Statutes.

This Board, subject to Statewide policy and guidelines established by the Board of Governors of Higher Education, makes rules for the governance of the University and sets policies for administration of the University pursuant to duties set forth in Section 10a-104 of the General Statutes. The members of the Board of Trustees at June 30, 2001, were:

Ex officio members:

John G. Rowland, Governor of the State of Connecticut  
Shirley C. Ferris, Commissioner of Agriculture  
Theodore S. Sergi, Commissioner of Education

Appointed by the Governor:

James F. Abromaitis, Unionville  
Louise M. Bailey, West Hartford, Secretary  
William R. Berkley, Greenwich  
Michael H. Cicchetti, Litchfield  
Linda P. Gatling, Southington  
Roger A. Gelfenbien, Wethersfield, Chairman  
Lenworth M. Jacobs, MD., West Hartford  
Claire R. Leonardi, Harwinton  
Michael J. Martinez, Meriden  
David W. O'Leary, Waterbury  
Irving R. Saslow, Hamden  
Richard Treibick, Greenwich

Elected by alumni:

Louise S. Berry, Danielson  
Frank A. Napolitano, Manchester

Elected by students:

Christopher J Albanese, Gales Ferry  
James M. Donich, Colchester

Effective June 30, 2000, Alyssa O. Benedict of Farmington completed her term. She was succeeded by Christopher J. Albanese of Gales Ferry. On April 10, 2001 John R. Downey of Redding resigned from the Board of Trustees and was replaced by David W. O'Leary of Waterbury. Further, June 30, 2001 marked the completion of the terms of James M. Donich of Colchester and Irving R. Saslow of Hamden . They were succeeded by Christopher S. Hattayer of Storrs and Denis J. Nayden of Stamford.

Pursuant to Section 10a-108 of the General Statutes, the Board shall appoint a President of the University to be the chief executive and administrative officer of the University and of the Board of Trustees. Philip E. Austin served as President during the audited period.

additional facilities and carries out programs at locations across the State. These facilities and programs include:

Avery Point:

University of Connecticut at Avery Point  
Marine Sciences Program  
National Undersea Research Center  
Connecticut Sea Grant College Program

Hartford area:

University of Connecticut at Hartford  
University of Connecticut School of Law  
MBA Program at Hartford  
School of Social Work

Farmington:

University of Connecticut Health Center

Stamford:

University of Connecticut at Stamford  
MBA Programs at Stamford  
Bartlett Arboretum

Torrington:

University of Connecticut at Torrington

Waterbury:

University of Connecticut at Waterbury

Operations of the University Health Center are examined and reported upon separately by the Auditors of Public Accounts.

Section 10a-112a of the General Statutes states that the museum of natural history at the University shall be the State Museum of Natural History. Similarly, the University's William Benton Museum of Art is designated the State Museum of Art by Section 10a-112g.

**Recent Legislation:**

During the period under review legislation was passed by the General Assembly affecting the University. The most significant of which is presented below.

Public Act 00-167 - Section 2, subsection (b)(1), of this Act, effective July 1, 2000, authorizes the issuance of general obligation bonds for the purpose development of a new downtown campus for the University of Connecticut in Waterbury.

Public Act 00-220 – Section 38 of this Act, effective July 1, 2000, requires that the Commissioner of Higher Education develop a prototype accountability report. Each

higher education constituent unit must then prepare and submit such accountability report to the Commissioner of Higher Education.

Public Act 01-141– Section 11 of this Act, effective July 1, 2001, extended the endowment fund matching grant program an additional seven years, from fiscal year 2006-2007 through fiscal year 2013-2014 as well as increased the overall matching commitment by \$115 million.

Public Act 01-173– Section 35 of this Act, effective July 1, 2001, allows for the creation of a board of directors for the governance of the University of Connecticut Health Center.

**Enrollment Statistics:**

Statistics compiled by the University's registrar showed the following enrollments in the University's credit programs, including the Health Center, during the audited period.

Student Status	1999-2000			2000-2001		
	Summer	Fall	Spring	Summer	Fall	Spring
Undergraduates	6,665	15,741	15,088	6,782	16,681	15,773
Graduates	1,220	5,863	5,652	1,059	5,625	5,526
School of Law	133	637	618	200	629	611
Medicine – Students		323	323		324	324
Medicine – Other <sup>(1)</sup>		520	520		525	525
Dental – Students		172	172		160	160
Dental – Other <sup>(1)</sup>		86	86		98	98
Totals	8,018	23,342	22,459	8,041	24,042	23,017

(1) - Other includes residents, interns and post-graduate clinical enrollment.

**RÉSUMÉ OF OPERATIONS:**

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

- General Fund appropriation accounts.
- The University of Connecticut Operating Fund.
- The University of Connecticut Research Foundation Fund.
- The University Bond Liquidation Fund (used for both the University and the Health Center).

The University maintained additional funds that were not reflected in the State Comptroller's records. The most significant of which relate to the UCONN 2000 infrastructure improvement

program. Such funds are used to account for the revenue from the issuance of UCONN 2000 bonds and expenditures related to the UCONN 2000 capital improvement program.

The University of Connecticut also maintains a “Special Local Fund” which is used by the University to account for endowments, scholarships and designated funds, loans, agency funds and miscellaneous unrestricted balances.

Additionally, there are certain activity funds associated with the University which, though they are legally controlled by the University they are not considered part of the University of Connecticut system reporting entity. These include the following University activity funds:

- Graduate Student Senate Activity Fund
- Storrs Associated Student Government Activity Fund
- Connecticut Daily Campus Activity Fund
- WHUS Radio Station Activity Fund
- Student Organizations Activity Fund
- UConn PIRG (Storrs) Activity Fund
- Student Bar Association Activity Fund
- Legal Clinic Activity Fund
- Law Review Activity Fund
- School of Social Work Activity Fund
- Hartford Associated Student Government Activity Fund
- UConn Public Interest Research Group (Hartford) Activity Fund
- Torrington Associated Student Government Activity Fund
- Torrington Snack Bar Activity Fund
- Stamford Associated Student Government Activity Fund
- Southeastern (Avery Point) Associated Student Government Activity Fund
- Waterbury Associated Student Government Activity Fund
- Student Television Activity Fund

The University’s accounting system reflects the accounting model in general use by colleges and universities, per the American Institute of Certified Public Accountants’ industry audit guide Audits of Colleges and Universities. Under this model, the University maintains separate fund groups for current unrestricted, current restricted, endowment and similar, loan and plant funds. 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 using the discrete presentation format. Significant aspects of the operations of the University, as shown on Agency prepared financial statements, are discussed in the following sections of this report.

University employment remained relatively stable during the audited period. University position summaries show that permanent full time filled positions aggregated 3,998 and 4,054 as of May 2000 and May 2001, respectively.

Under the provisions of Section 10a-105, subsection (a), of the General Statutes, fees for tuition were fixed by the University's Board of Trustees. The following summary shows annual tuition charges during the 1999-2000 and 2000-2001 fiscal years.

Student Status	1999-2000			2000-2001		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$4,158	\$12,676	\$6,236	\$4,282	\$13,056	\$6,424
Graduates	5,118	13,298	7,678	5,272	13,696	7,908
School of Law	10,630	22,420	15,946	10,948	23,092	16,424

**Current Unrestricted Funds:**

Current unrestricted funds account for all resources available for current operations that have not been restricted as to use by outside donors. Current operations include expenditures for educational and general purposes of the University, together with auxiliary service operations, which include, among others, student residences, food services, and athletics.

The University's current unrestricted fund balance increased from \$31,203,259 as of June 30, 1999, to \$34,729,634 as of June 30, 2000, and \$37,985,481 as of June 30, 2001. Current unrestricted revenues increased from \$420,679,763 for the 1998-1999 fiscal year to \$464,422,414 for fiscal year 1999-2000 and \$497,738,668 for fiscal year 2000-2001. The University's main source of current unrestricted revenues was General Fund support of \$213,181,741, \$234,872,559 and \$238,381,846 for the fiscal years ended 1999, 2000 and 2001, respectively.

**Current Restricted Funds:**

Current restricted funds account for resources made available to the University for operating purposes that have been restricted by outside donors. These resources generally are in the form of gifts, grants and contracts received by the University in support of research, educational, and public service activities. Revenues are recognized when related funds have been expended.

The University's current restricted fund balance increased from \$17,553,637 as of June 30, 1999, to \$19,564,039 as of June 30, 2000, and decreased by \$2,400,471, or 12 percent, for the 2000-2001 fiscal year to \$17,163,568.

**Endowment and Similar Funds:**

Endowment and similar funds are subject to the restrictions of gift instruments, requiring in perpetuity that principal be invested. Quasi-endowment funds have been established by the University's administration for the same purposes as endowment funds.

The University's endowment and similar funds fund balances increased by \$453,395, or six percent, from \$7,310,085 as of June 30, 1999, to \$7,763,480 as of June 30, 2000. It then decreased by \$925,355, or 12 percent, to \$6,838,125 as of June 30, 2001.

The University's endowment balances are smaller than would normally be expected for such an institution. However, it has been their longstanding practice to deposit funds raised with the University of Connecticut Foundation or the Law School Foundation.

A summary of the Foundations' assets, liabilities, support and revenues and expenditures follows.

	Foundation		Law School Foundation	
	Fiscal Year Ended		Fiscal Year Ended	
	June 30, 2000	June 30, 2001	June 30, 2000	June 30, 1999
Assets	\$263,515,000	\$251,095,000	\$9,896,000	\$10,423,000
Liabilities	14,123,000	14,266,000	66,000	55,000
Net Assets	249,392,000	236,829,000	9,830,000	10,368,000
Support and Revenue	74,896,000	18,448,000	2,259,000	1,243,000
Expenditures	26,963,000	30,704,000	743,000	705,000

**Loan Funds:**

Loan funds account for resources, primarily from the Federal Government, which provide loans to students on a revolving basis (repayments of principal and interest become available for loans to other students.)

Loans made under the Federal Perkins Loan Program were the primary component of this University fund group. This program provides low interest loans to undergraduate and graduate students with exceptional financial need.

University loans receivable increased \$167,144, or 1.5 percent, from \$11,483,852 as of June 30, 1999, to \$11,650,996 as of June 30, 2000. They further increased by \$278,885, or 2.4 percent, to \$11,929,881 as of June 30, 2001.

**Agency Funds:**

Agency funds account for the resources handled in a custodial manner for other agencies and affiliated organizations.

University agency fund deposit balances were \$1,490,021, \$2,004,740 and \$1,862,347 as of June 30, 1999, 2000 and 2001, respectively.

**Plant Funds:**

The Plant Funds fund group is made up of three subgroups, Unexpended Plant Funds, Funds

for Retirement of Indebtedness and Investment in Plant. The Unexpended Plant Funds subgroup is used to account for unexpended resources available for acquisition, renewal and replacement of physical plant. The Funds for Retirement of Indebtedness subgroup is used to account for resources held for the retirement of and interest on debt. The investment in plant subgroup is used to account for plant assets and related liabilities, such as indebtedness associated with funds borrowed and expended for the acquisition or construction of plant assets.

Bonds authorized by the General Assembly and the State Bond Commission provide most of the capital funding accounted for in the University's Plant Funds fund group. General obligation bonds are met from general State revenues, while revenues generated by Agency operations are used to fund the debt service requirements of revenue bonds.

Total assets in the Unexpended and Retirement of Indebtedness subgroups, as reported by the University, increased by \$129,178,811, or 126 percent, from \$102,437,379 as of June 30, 1999, to \$231,616,190 as of June 30, 2000. It then decreased by \$52,233,467, or 23 percent, to \$179,382,723 as of June 30, 2001. The University's financial statements show an increase in net investment in plant of \$69,756,246, or eight percent, from \$829,098,560 as of June 30, 1999, to \$898,854,806 as of June 30, 2000. It further increased by \$117,079,316, or 13 percent, to \$1,015,934,122 as of June 30, 2001. The collective change within the Plant Funds group reflects the completion of several large construction projects.

### **Microchemistry Laboratory**

Section 12-577 of the General Statutes requires that the accounts and records of the Microchemistry Laboratory be audited as part of our audit of the accounts and records of the University. This audit has been limited to assessing certain aspects of the Microchemistry Laboratory's operation, primarily amounts reported as expended by the laboratory.

Under Title 12, Chapter 226, Section 12-577 (b) of the General Statutes, the Microchemistry Laboratory, a unit of the College of Agriculture and Natural Resources at the University, is responsible for the testing performed under Connecticut's greyhound racing dog drug testing program. It was directed by Dr. Dennis Hill during the audited period.

Public Act 85-471, effective July 1, 1985, codified as Section 12-575(b), established a Microchemistry Laboratory Fund, to be held in trust by the State Treasurer, to account for urine testing of racing dogs performed by the microchemistry laboratory unit of the College of Agriculture and Natural Resources at the University of Connecticut. Public Act 86-107, effective July 1, 1986 amended Section 12-575 (b), establishing the Microchemistry Laboratory Fund as a fund accounted for by the State Comptroller.

Public Act 89-324, effective July 1, 1989, codified as Section 12-575 (b), repealed the statutory authorization for the Microchemistry Laboratory Fund. Subsequently, the activities of the Microchemistry Laboratory have been accounted for in separate accounts within the University's accounting system.

Prior to July 1, 1989, subsection (b) of Section 12-577 of the General Statutes mandated that the operations of the Microchemistry Laboratory be audited by a certified auditing company on a

biennially basis to establish the actual cost for the testing of urine of racing dogs. Public Act 89-213, effective July 1, 1989, amended Section 12-577, substituting the requirement that the Auditors of Public Accounts, as part of their audit of the University of Connecticut, audit the accounts and records of the Microchemistry Laboratory and make a separate report of their findings relative to the Microchemistry Laboratory.

**Operations of the Microchemistry Laboratory:**

The Microchemistry Laboratory performs drug tests on urine samples of greyhound racing dogs, which are collected by personnel of the State of Connecticut Division of Special Revenue. The responsibilities of the Microchemistry Laboratory and the Division of Special Revenue, with respect to this activity, are defined in a Memorandum of Understanding dated July 30, 1985. The laboratory's objective is to determine if any banned drugs are present in the urine.

Initially the Microchemistry Laboratory was compensated by the Division of Special Revenue on a per sample basis. This was changed when Public Act 85-471 created the Microchemistry Laboratory Fund. Public Act 85-471 directed that, to pay for the laboratory testing, one quarter of one percent of the total money wagered on dog racing events be paid into the fund. Revenues in excess of the actual cost of the testing were to be returned to the General Fund.

When Public Act 89-324 abolished the Microchemistry Laboratory Fund it also eliminated this source of funding. Effective with the fiscal year beginning July 1, 1989, the Microchemistry Laboratory began submitting annual budgets to the Division of Special Revenue for review and approval. Each year, the University's accounting department prepares a transfer invoice requesting payment of the budgeted amount from the Division of Special Revenue. The transfer is funded from the Division of Special Revenue's General Fund appropriation. The University also submits to the Division of Special Revenue annual reports that summarize the year's revenue and expenditures for the laboratory.

Section 14 of Public Act 99-1 (June Special Session), effective July 1, 1999, revised Section 12-577 of the General Statutes and provides that the microchemistry laboratory shall conduct, within available appropriations, such number of tests on such specimens as required, provided the total number of such tests conducted does not exceed twenty thousand in any fiscal year and provided, if only one facility for dog racing is operating, the total number of such tests conducted does not exceed sixteen thousand samples in each fiscal year.

During the audited period two racing facilities were open and the laboratory tested 15,534 samples for the 1999-2000 fiscal year and 17,370 in the 2000-2001 fiscal year.

Expenditures for the laboratory consist primarily of payroll, lab supplies, equipment and repairs. The laboratory has six permanent full time employees and also utilizes some student labor. The revenues and expenditures of the Microchemistry Laboratory were recorded in the University's accounting system and reported to the Division of Special Revenue on, essentially, a cash basis. The Microchemistry Laboratory's recorded revenues and expenditures for the fiscal years ended June 30, 2000 and 2001 are shown below.

	<u>Fiscal Year Ended June 30.</u>	
	<u>2000</u>	<u>2001</u>
Revenues		
Transfers in from Special Revenue	\$456,996	\$463,236
Other Revenue	<u>41,737</u>	<u>18,741</u>
Total Revenues	<u>\$498,733</u>	<u>\$481,977</u>
Expenditures		
Personal Services	\$260,580	\$259,376
Outside Professional Services	311	6,566
Fringe Benefits	-	-
Travel	5,177	2,868
Repairs	41,190	35,259
Laboratory Supplies	57,315	77,544
Equipment	75,248	74,554
Other Expenditures	<u>26,808</u>	<u>36,045</u>
Total Expenditures	<u>\$466,629</u>	<u>\$492,211</u>

Traditionally, the State has not processed, against agency appropriations, fringe benefit assessments for employees paid out of the General Fund. The majority of the personal services expenditures charged to the Microchemistry Laboratory were for employees paid out of the General Fund. As a result, the Microchemistry Laboratory expenditures shown above include only a minor portion of the fringe benefit charges associated with the personal service costs incurred. A comparison of such fringe benefit charges with those actually posted follows.

<u>Fiscal Year Ended June 30.</u>	<u>Full (Calculated) Charges</u>	<u>Posted Charges</u>	<u>Unrecorded Costs</u>
2000	\$82,340	\$ 0	\$82,340
2001	\$78,925	\$ 0	\$78,925

**PROGRAM EVALUATION:**

Section 2-90 of the Connecticut General Statutes authorizes the Auditors of Public Accounts to review an area of an agency's operations for performance and efficiency.

As our performance review we examined the operations of the Nutmeg Grille, a University-operated restaurant housed in the student union.

**Audit Objective:**

Our review was conducted in order to determine if, based upon the results of our examination, we could make any recommendations that might assist the University in achieving economic efficiencies.

**Background**

The Nutmeg Grille is a University operated restaurant which opened for business February 5, 1998. The restaurant's name was chosen from a list of recommendations developed by students in the School of Business Administration as part of a class project.

The restaurant is located on the second floor of the Student Union building. It is open for lunch between 11:00 a.m. and 1:30 p.m. Monday through Friday. Payment is accepted by cash or credit cards. Meals are also purchased by University Departments using internal transfer invoices.

The Nutmeg Grille is available for rental and catered events. Rental costs are \$150 for the entire restaurant, \$100 for the large section and \$50 for the small section.

The construction, equipment and furnishing costs associated with opening the Nutmeg Grille were approximately \$ 700,000. These costs were subsidized by a \$100,000 gift from the American Association of University Professors (AAUP). The 100 person capacity dining room is located in the Student Union rooms 278 and 282. The University informed us the restaurant was created in direct response to the need for facilities to bring the University community together and its development is an integral part of the strategic plan and the campus master plan.

The menu offers a variety of appetizers, salads, sandwiches, desserts and non-alcoholic beverages. There are also daily specials prepared by the Chef.

The Nutmeg Grille is patronized primarily by faculty and staff. Students cannot use their University issued cards to pay for meals. Therefore patrons consist of approximately 90 percent faculty and staff and 10 percent students. UConn coaches will bring their top recruits to the Nutmeg Grille to make them feel welcomed.

**Scope and Methodology:**

To accomplish our objective we obtained information primarily through interviews, observation and examination of financial records and supporting documents. We analyzed the financial statements prepared for the restaurant for the most recent years in an effort to determine the profit or operating subsidy related to the restaurant. We assessed customer traffic to determine who uses the restaurant and when they are using it. Finally, we discussed with management the overall operations of the restaurant which included staffing, salary levels, hours of operation, cost of goods sold and fixed and variable overhead.

**Results:**

The finding of our performance evaluation follows:

*Criteria:* The University operates in an environment of limited resources. Those resources should be allocated in a manner in which it can be demonstrated that sufficient value has been obtained for the resources expended.

*Condition:* We concluded based upon our review the following:

- The Nutmeg Grille serves primarily the faculty and staff of the University with only a limited number of students patronizing the restaurant.
- The prices for the Nutmeg Grille were competitive when compared to restaurants of a similar size and type in the area.
- The Nutmeg Grille's cost of goods sold compared favorably with guidelines published for the industry.
- The restaurant's labor costs were significantly higher than industry norms for restaurants of similar size.
- The restaurant has experienced significant losses since its opening. University records show losses of \$70,521, \$82,515 and \$82,964 for fiscal years 1999, 2000, and 2001 respectively. These losses do not include any charges for rent or other overhead which would increase such losses.

*Effect:* The University is using its limited resources to provide a convenient restaurant for faculty and staff. Such resources, used to fund the operating deficits of the Nutmeg Grille, are unavailable for use in furthering the University's academic mission.

*Cause:* Based upon published industry standards, labor costs at the Nutmeg Grille are significantly higher than that of similarly-sized restaurants. In fact, labor costs actually exceed sales.

The reason labor costs are so high appears to be attributable to higher than normal hourly wages paid to wait staff, a high ratio of preparation and cleanup time relative to the low hours of operation, and to a high overall staffing level.

*Recommendation:* The University should consider structuring its manpower hours to

more accurately reflect the time that the restaurant is open. Additionally, the University should consider whether expanding the restaurant's hours of operation might enhance its profitability. Finally, the University should consider if funding the continuing deficits of Nutmeg Grille is a desirable and appropriate use of resources. (See Recommendation 1.)

*Agency Response:*

“In the absence of a Faculty Club or other on-campus eating facility which might facilitate professional interchange among faculty, staff, students, and guests, the University established the Nutmeg Grille to provide such a forum. It was acknowledged *ab initio* [from the beginning] that a moderate operating subsidy would likely be required (as is the case at such establishments at Universities nationwide), and the decision to proceed under this model was an appropriate exercise of management discretion, given the expected advantages for the University community.

The recommendation, in any case, is moot: as a consequence of renovations to the Student Union, the Nutmeg Grille will be eliminated at the end of calendar 2003. Any replacement facility in the Student Union will be a commercial concession awarded by competitive bid.”

## CONDITION OF RECORDS

Areas in need of improvement, along with discussions concerning improvements in managerial control, are presented in this section of the report.

### **Entities Affiliated with the University:**

*Criteria:* Sections 4-37e through 4-37j of the General Statutes set the requirements regarding private foundations affiliated with State agencies.

In those instances in which an affiliated entity does not fall under the purview of Sections 4-37e through 4-37j, prudent business practice dictates that the University establish an agreement with the organization which defines the rights and obligations of each party.

*Condition:* During our prior audit we reported that we had become aware of several non-profit organizations, having some affiliation with the University, which were not operating in accordance with the statutory provisions of Sections 4-37e through 4-37j of the General Statutes.

We also noted that the University had not entered into formal agreements with these entities establishing the obligations of each party.

During the current audit we again noted non-profit entities operating in close affiliation with the University for which formal agreements outlining the rights and obligations of the two parties did not exist. The most significant of these, the Interdistrict Committee for Project Oceanology (Project Oceanology), occupies and operates out of a new 30,000 square foot building constructed by the University, on University land, for what appears to be the exclusive use of Project Oceanology.

*Effect:* The lack of a formal agreement between the University and a non-profit corporation affiliated with the University jeopardizes the rights of both parties. Additionally, the University may not be in compliance with Sections 4-37e through 4-37j of the General Statutes.

*Cause:* The University has not developed procedures which allow for the identification of entities for which a formal agreement is appropriate.

*Recommendation:* The University should develop procedures to identify entities

affiliated with the University, should enter into formalized agreements with these entities, when appropriate, and should ensure that those entities that fall under the provisions of Sections 4-37e through 4-37j of the General Statutes are in compliance with the Statutes. (See Recommendation 2.)

*Agency Response:* “The University does not believe Project Oceanology to be an affiliated entity under the purview of Sections 4-37e through 4-37j of the General Statutes. We nevertheless agree that a formal agreement between the parties is both necessary and appropriate. Negotiations toward defining such an agreement with Project Oceanology have begun and will be completed during FY03.”

**University Construction Projects:**

*Criteria:* Section 10a-109n of the General Statutes requires that the University solicit bids for construction projects and that such bids be opened publicly.

Competitive bidding is assumed generally to be a procedure wherein the contracting authority does not negotiate prices.

*Condition:* On April 1, 2002 we reported to the Governor and other State officials the following:

The University entered into a \$39,300,000 contract with Capstone Builders for the construction of the Hilltop Student Apartments. No bids were solicited for this project. University personnel have indicated that it was their original plan for Capstone to finance this project but that complications occurred, which precluded Capstone from financing the construction. Due to the University’s desire to start construction on the project as soon as possible, they did not proceed with the bidding process.

A Visitors Center, owned by the University, was recently constructed on the University campus at a cost of approximately \$2,000,000. The University of Connecticut Foundation (a separate entity) paid for approximately \$1,250,000 of the project with the University paying for the remaining \$750,000. The Foundation specified what contractor (Bartlett Brainard Eacott Inc.) would be used. Accordingly, the University did not obtain any bids for the project. Additionally, the University also entered into a contract with Bartlett Brainard Eacott (BB&E) for the construction of an elevator in Gulley Hall. We were told that the University did not solicit bids for the elevator project. The construction of the elevator was considered a priority and as such the University contracted with BB&E. University personnel felt that because

BB&E was working on the Visitors Center and were available that they would be able to complete the project in the most timely manner. We were also told that the University did obtain some evidence that led them to believe that the price for the project, approximately \$900,000, was competitive.

*Effect:* The lack of bidding on these projects and the resultant inability to open bids publicly are ostensible violations of Section 10a-109n of the Connecticut General Statutes.

*Cause:* In the case of the Capstone Construction/Hilltop Apartments construction project the University believes that the competitive proposal process followed by the University meets the requirements of Section 10a-109n of the Connecticut General Statutes. In the other instances the University considered the procedures followed sufficient in light of the urgency of timely completion of the projects.

*Recommendation:* The University should request a formal opinion from the Attorney General to determine if the methods used by the University to obtain certain construction services are in compliance with bidding requirements of Section 10a-109n of the General Statutes. (See Recommendation 3.)

*Agency Response:* The University believes its previous response to the Governor on this topic is adequate. That response is excerpted below:

“Hilltop Apartments

The Auditor’s statement that no bids were solicited for this project is simply inaccurate. Capstone Builders were selected to construct this design/build project after a rigorous, thorough and competitive selection process. The selection process included a publicly advertised request for qualifications in three newspapers, two pre-submission conferences attended by 23 representatives of potentially interested parties, issuance of 30 RFQ packages, receipt of 7 responses, and interviews with three semi-finalists prior to Capstone’s ultimate selection. Copies of all these materials continue to remain on file and are available for further review. Respondents were evaluated based on the following predetermined selection criteria: demonstrated experience, evidence of financial capability and access to financing, qualifications, and experience of staff to construct and manage on-campus, undergraduate housing apartments, quality of student life programs, and prior relevant experience.

As indicated above, one aspect of the proposal included the

developers' capacity to access low-cost construction and mortgage financing that would ensure affordable housing costs for students. The developer financing component was ultimately eliminated from the final project scope after discussion with the Office of the State Treasurer, bond counsel and CHEFA. In keeping with those discussions, UConn issued tax-exempt special revenue bonds to minimize borrowing costs to keep rents affordable for students. Although the financing mechanism changed, the other selection criteria remained unchanged. Both the bidding and bid award were sound and consistent with advice received throughout the entire selection process from the University's legal counsel.

### Visitors Center

The Visitors Center, which opened in August 2002, plays a pivotal role in enabling the University to greet approximately 30,000 visitors annually and introduce the University to prospective students and their families in an effective and appropriate way. While constructed and owned by the University, the Visitors Center was largely funded with private resources. The University of Connecticut Foundation, Inc. (a separate, non-profit corporation, which exists exclusively to support the University) secured tax-exempt bond financing through CHEFA to construct its own office building and the Visitors Center in 1999. Private funds - \$1.25 million provided by the Foundation from its CHEFA bond proceeds and an alumni family's outright gift of \$300,000 – accounted for approximately 67 percent of the ultimate cost of the Visitors Center. The donors additionally provided \$1.25 million to the University of Connecticut Foundation to permanently endow UConn's Visitors Center.

When planning for the project got underway in the fall of 1998, it was anticipated that the Visitors Center's expected costs would be entirely privately financed. A selection team, comprised of the donors and appropriate University construction and program personnel, reviewed the proposals submitted by eighteen design service firms. Seven firms were interviewed before Flad Associates was awarded the successful bid.

In February 2000, the same group selected BB&E of Bloomfield, Connecticut to serve as the construction manager for the Visitors Center. BB&E was not selected competitively for four reasons. First, BB&E had been selected by the UConn Foundation, Inc. to construct its new office building based on a competitive selection process mirroring that typically used by the University for its projects. University personnel participated in the selection process and provided advice to the Foundation prior to its final decision.

Second, BB&E's performance was outstanding in constructing the UConn Foundation building, which was occurring contemporaneously to the planning of the Visitors Center. Third, because BB&E was simultaneously constructing the Foundation building, BB&E was immediately proximate and thereby able to significantly reduce the costs for general conditions and mobilization. Finally, and most critically, at the time the project was initiated, and throughout the design process, there was no indication the project would cost most than \$1.25 million to complete. After the construction manger was selected and completed a full cost-out of the project design in March 2000, however, it became apparent, even after value engineering, that additional and timely funding would be required of the donor and the University in order to achieve the specific programming needs of the Visitors Center.

Since University dollars became involved, albeit only well after the design and construction processes were underway, it is fairly argued that those dollars were dedicated to activities that required competitive bid. With the benefit of hindsight, prior knowledge of the need for additional funds, and an opportunity to start afresh, we would conduct a separate selection process for the Visitors Center's construction manager. It goes without saying, however, that the significant private funds committed to the effort dictated that the University contribute the relatively small amount required for completion. Failure to do so would have been at best ill-advised and counterproductive.

That said, it is also important to note that \$1.865 million, or 88 percent of the Visitors Center's total design and construction costs, were effectively competitively bid. More than 90 firms bid on 17 separate trade subcontracts accounting for \$1.7 million of total project costs. Eighteen responses for design services were reviewed and seven firms were interviewed prior to Flad Associates being awarded a contract for \$160,000. Payments to BB&E accounted for 12 percent of the total design and construction costs.

The University will seek a formal opinion from the Attorney General as recommended. ”

### **Supervisory Review and Approval of Paid Time:**

*Criteria:* Supervisory review and approval of paid time is a key feature of internal control with respect to payroll.

- Condition:* A review of payments made to 18 temporary non-academic employees paid by the University's special payroll revealed 13 did not have secondary or supervisory authorization of time worked.
- Effect:* There is a greater chance that improper or erroneous payments will be made without supervisory review and approval of paid time.
- Cause:* The University has not developed procedures that ensure that supervisors review and approve time paid for temporary non-academic employees.
- Recommendation:* Procedures that provide for positive supervisory verification that temporary non-academic employees are entitled to the salary payments they receive should be improved. (See Recommendation 4.)
- Agency Response:* "As described in the June 18, 2002 edition of the University's Human Resources newsletter under the heading "Special Payroll – Review & Reminders", the "Primary/Subsidiary method of payment is now required for all administrative titles.
- "Effective immediately, unless a specific exception is granted by Human Resources, all payments for administrative titles will be processed as "Primary/Subsidiary" and will require departments to sign off on payroll timesheets each pay period."

**Land Sales:**

- Criteria:* Section 4b-21, subsection (b), of the General Statutes states that "Any state agency, department or institution having custody and control of land, an improvement to land or interest in land, belonging to the state, shall inform the Secretary of the Office of Policy and Management in writing when such land improvement or interest or any part thereof is not needed by the agency, department or institution." Sections 4b-21, subsection (c)(2)(A), and 4b-21, subsection (c)(2)(B), of the General Statutes require the approval of the Secretary of the Office of Policy Management and the State Properties Review Board prior to the sale of such land, improvement or interest.
- Condition:* The University has sold land and buildings without any correspondence or approval from the Office of Policy and Management or the State Properties Review Board.
- Effect:* Uncertainty exists as to whether the University has complied with Section 4b-21 of the General Statutes.

*Cause:* University personnel believe that Section 4b-21, subsection a, of the General Statutes allows the University to sell land independent of any approval of, or correspondence with, the Secretary of the Office of Policy and Management and the State Properties Review Board.

*Conclusion:* The University has requested a formal opinion of the Attorney General to determine if any outside approval or correspondence is needed to sell real property.

*Agency Response:* “It is the University’s position that it is empowered to make such sales by Section 10a-109d, “Powers of the university for UConn 2000.” C.G.S. Section 10a-109d(a)(7) includes among the enumerated powers, “To acquire by purchase, contract, lease, long-term lease or gift, and hold or dispose of, real or personal property or rights or interests in any such property and to hold, sell, assign, lease, rent, encumber, other than by mortgage, or otherwise dispose of any real or personal property, or any interest therein, owned by the university or in its control, custody or possession...”

Moreover, Section 10a-104(a)(10) specifies among the duties of the University’s Board of Trustees: “exercise the powers delegated to it pursuant to section 10a-109...”

Regardless, on June 12, 2001, President Austin requested a formal opinion of the Attorney General as to whether outside approval is needed to sell property. The opinion is pending.”

**Accounts Receivable:**

*Criteria:* Sound financial management practice dictates that the University make a concerted effort to collect amounts owed to it by outside parties.

*Condition:* In our prior auditor’s report we noted several older non-grant/non-student accounts receivable, for which the University had yet to receive payment. The most significant of these receivables has been resolved. However, we did note the need for further improvement in this area.

We found several areas of concern as follows:

- Several old large accounts receivable for which we were unable to conclude that the University has made reasonable efforts to either collect upon or had prepared for submission to the Office of Policy and Management for cancellation.

- Long standing disputed balances that were not being given the attention necessary to resolve the disputed amounts.
- Several accounts receivable for which it appeared no effort had been made to contact the delinquent debtor to determine the reason for non-payment.

*Effect:* As time passes the ultimate collection or resolution of these receivables becomes both more difficult and less likely.

*Cause:* Confusion appears to exist as to who is responsible for the collection or other resolution of delinquent non-grant/non-student accounts receivable.

*Recommendation:* The University should establish policies that assign responsibility for the collection of delinquent non-grant/non-student accounts receivable. (See Recommendation 5.)

*Agency Response:* “The University’s accounts receivable are generated from a number of departments that invoice for services rendered to outside non-student customers. The primary billing and collection responsibility is decentralized at the department level. Currently, upon invoicing, the department immediately receives credit to its fund balance. This process does not incent departments to follow through on collection activities since the funds are available to the department even though they have not been collected.

The University is in the final planning phase for changing to a cash basis approach for crediting departments, i.e. crediting fund balance when invoices are collected not when billed. The central accounts receivable unit of the University is also increasing its collection efforts through better utilization of outside collection agents.

Upon completion of the change to cash basis, the University will communicate the change and policy with respect to responsibilities for collection. Procedures for dealing with delinquent accounts will also be documented to eliminate the apparent confusion noted in the above finding.”

### **Daily Campus Activity Fund:**

*Criteria:* The *Daily Campus* is a student newspaper distributed on the Storrs campus. The financial operations of the newspaper are accounted for as a student activity fund that operates under the provisions of Sections 4-52 through 4-55 of the General Statutes.

*Condition:* Problems with respect to the *Daily Campus* activity fund noted during our current audit, many of which were previously reported by the University's Office of Internal Audit in January of 1999, are listed below.

- The *Daily Campus* has relied primarily on its Financial Manager, its one full time employee, to monitor the processing of financial transactions as well as to prepare financial reports.
- The financial statements prepared by the Financial Manager have not been prepared in accordance with generally accepted accounting principles.
- Our analysis of Accounts Receivable indicated a significant amount of overdue receivables.
- It is unclear to us whether the *Daily Campus's* Board of Directors, the University's Office of Campus Activities or the Executive Officers of the *Daily Campus* are responsible for the operational accountability of the *Daily Campus* activity fund. Our inquiries to the Director of Campus Activities as to his Office's responsibility with regard to the *Daily Campus* went unanswered.

*Effect:* The reliance on one key employee is indicative of inadequate segregation of duties. Inadequate segregation of duties increases the risk of financial malfeasance. Additionally, should the key employee leave, there may be a difficult transition period until a replacement employee is hired and learns his/her duties.

The lack of financial statements prepared in accordance with generally accepted accounting principles makes it difficult to make informed financial decisions.

The presence of a significant amount of overdue accounts receivable may indicate a lack of effort on the part of the staff of *Daily Campus* in collecting such receivables. In addition, the financial condition of the *Daily Campus* may be distorted if such receivables prove to be uncollectible.

The lack of clear assignment of operational accountability makes it difficult to respond to adverse conditions.

*Cause:* We attribute the conditions described above to the lack of clear assignment of responsibility for operational accountability and to the limited number of permanent employees employed by the entity.

*Recommendation:* The University should clearly delineate the duties of the *Daily Campus's* Board of Directors, the University's Office of Campus Activities and the Executive Officers of the *Daily Campus* thereby assigning operational accountability. Additionally, consideration should be given to using outside professional accountants to compile monthly financial statements. (See Recommendation 6.)

*Agency Response:* "With the objective of enhancing control and accountability, the University of Connecticut Board of Trustees, at its June 25, 2002 meeting, approved an Administration request that the staff of the *Daily Campus* student newspaper complete the full budget proposal/packet now required of all student organizations. Additionally, the Board approved a request that officers of the *Daily Campus* appear in a public hearing before the Student Fee Advisory Committee by September 30, 2002 so that the committee can make an informed recommendation regarding the continuation of the *Daily Campus* fee on the University's fee bill in FY04 and FY05.

The *Daily Campus* hired a new full time financial manager in June 2002. Business Office staff in the Department of Campus Activities will continue to work with the new financial manager and other staff at the *Daily Campus* to help ensure compliance with all applicable policies and procedures. Efforts in this regard will include but not be limited to:

1. Regular meetings with *Daily Campus* staff to discuss policies and procedures.
2. Continue to develop internal policies and procedures related to the *Daily Campus* operations.
3. Review and evaluate overdue accounts receivable."

### **Retail Dining Operations**

*Criteria:* The centralized control systems developed by the University are designed to detect and minimize errors, provide reliable financial information and achieve compliance with applicable laws and regulations.

*Condition:* The University's retail dining service operations, known as cash operations, deposits its receipts into its own checking account and makes disbursements from the same checking account.

This is inconsistent with other departments on campus, which use the University's central cashier's office for depositing departmental receipts and the University's Accounts Payable Department for making disbursements.

*Effect:* By not using the University's centralized control process of depositing cash receipts and disbursing funds the University's retail dining service operations is operating outside of the University's control system that was designed to minimize the risk of error and assist in providing timely financial information.

*Cause:* The University has traditionally accounted for retail dining services operations independent of the other operating activities of the University.

*Conclusion:* We were informed by University personnel that as of November 1, 2002, the University's retail dining service operations began using the Central Cashier's office for daily receipt deposits and the University's Accounts Payable Department for all disbursements.

### **Petty Cash Replenishments and Cash Advances to Employees**

*Criteria:* The University issued a revised Petty Cash Request Form and Petty Cash Policies and Procedures on October 16, 1997, which it provided to all petty cash custodians. Additionally, procedures for making payments to research subjects were developed April 19, 1994.

*Condition:* We reviewed documentation for 11 petty cash replenishments totaling \$4,417 and 14 cash advances made to individuals totaling \$17,722, during fiscal year 1999-2000, from a total of \$103,384 of expenditures coded as petty cash replenishment charges. We found the following:

In two of 11 petty cash reimbursements, we found instances where expenditures were for unauthorized uses, i.e., rentals, meals, individual purchases exceeding \$50 and purchases at the UConn Co-op.

One instance in which a department made a petty cash replenishment request of \$492 in an untimely manner for expenditures covering a period of two years and three months.

In five instances, totaling \$3,060, documentation to support expenditures for cash advances was not submitted within six weeks

from the receipt of monies. Delays averaged six months.

A cash advance of \$500 was given to a researcher on March 3, 2000, for project supplies and respondent fees. Five receipts submitted as backup, totaling \$109.90, were dated over a year prior to the date the cash advance was made. One receipt submitted for \$33 was for restaurant meals and tip. Also, per a note from the researcher, \$36.36 of this advance was not spent and carried over to another advance the researcher received on October 5, 2000, for \$500.

Three cash advances totaling \$1,772 were given to employees for other than research purposes, i.e., students to attend stage production, hotel reservations and football recruiting expenses.

One professor received over \$116,000 in cash advances from January 1997 through May 1999, for research being done in foreign countries. We noted a \$50,000 cash advance paid on May 20, 1999, was not closed out until March 22, 2002. The date of the receipts submitted as backup to the advance covered the period from April 1999 through January 2000. There does not appear to be any formal University policy regarding this type of advance. Also, foreign travel expenses for airfare, meals, per diem and hotels were paid from this cash advance. It appears that the travel portion of expenditures should have been processed through normal channels (the University's travel office) and should not have been included as a sundry operating expense.

Additionally, in scanning the Accounts Payable cash advance log, we noted that there were six advances outstanding to individuals who were no longer employed at the University, totaling \$25,305. These advances were disbursed between September 10, 1996 and October 26, 1999. There are also many advances outstanding for current employees that go back as far as January 1996.

*Effect:* The conditions described above weaken the control structure.

*Cause:* We were informed by Accounts Payable staff that due to staff shortages there was a lack of time to closely scrutinize petty cash replenishment requests and to follow-up on outstanding cash advances. Certain individuals and departments are also not adhering to the policies and procedures and timeframes noted for returning receipts to support petty cash replenishments and cash advances. Additionally, the University does not have any formal written policies regarding cash advances made to individuals for other than making payments to research subjects.

*Recommendation:* The University should develop a comprehensive set of procedures

that address the use of petty cash funds and cash advances. Such procedures should include techniques for enforcement and penalties for non-compliance. (See Recommendation 7.)

*Agency Response:* “We concur with the findings that receipts that support petty cash advances and replenishments are not always returned in a timely manner and that Accounts Payable staff have not always been aggressive enough in following up on outstanding cash advances. We have made a concerted effort to close out all outstanding cash advances and as a result only a few remain unresolved. Additionally, we have instituted a clearing account to support our efforts herein, and we continue to make progress in the new development of topical policies and procedures.”

**Illegal, Irregular or Unsafe Handling of State Funds:**

*Criteria:* Section 4-32 of the General Statutes requires that a State agency receiving money or revenue amounting to \$500 or more, deposit such receipts within 24 hours. Total receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for a period of more than seven calendar days.

*Condition:* On January 7, 2001, we reported to the Governor and other State Officials that a review of ten deposits made by the University of Connecticut’s West Hartford Campus Cashier’s Office between July 1, 1999 and June 30, 2001, revealed that four of the deposits totaling \$12,879 were deposited between two and three days late.

*Effect:* State funds were handled in an illegal, irregular or unsafe manner.

*Cause:* There appears to be a lack of coordination between the departments initially receiving funds and the department responsible for depositing the funds.

*Recommendation:* The University should take additional steps to inform employees of depository requirements and amend control procedures to prevent late deposits. (See Recommendation 8.)

*Agency Response:* “The Director of the Hartford Campus is exploring the recently provided details as to the dates and times of late deposits. Dr. Williams is committed to ensuring compliance with state regulations in the new fiscal year. Support services at the Hartford campus are in the process of being reorganized to address this and other administrative service issues.”

**Equipment Inventory:**

*Criteria:* The University's equipment inventory is a significant asset of the University. As such, controls should be in place to minimize the theft, loss or unauthorized use of such equipment.

*Condition:* During our test checks of equipment we noted certain items, the most significant of which were a tractor with an original purchase price of \$12,513 and a camera with an original cost of \$20,000, were unexplainably missing. Although these items were purchased in 1986 and 1996 respectively, we believe they would still have significant value.

The tractor's disappearance was reported to our Office using the State Comptroller's standard "Report of Loss or Damage to Real or Personnel Property" form.

Significantly after the conclusion of our test University personnel indicated that the missing camera had malfunctioned and had been replaced by the manufacturer at no cost to the University.

*Effect:* The use of University resources was lost due to inadequate safeguards at the user department level.

*Cause:* User departments do not appear to have any incentive for protecting assets in their custody.

*Recommendation:* For all new pieces of equipment the University should assign a custodian at user department level. Such custodians would be responsible for adequately safeguarding and monitoring the equipment assigned to them. Budgetary sanctions should be applied to those departments which have failed to adequately safeguard equipment in their custody. (See Recommendation 9.)

*Agency Response:* "The University concurs that the items noted above were lost. The Plant Funds unit within the Accounting Department is following up on an earlier request to insure that the "Report of Loss or Damage to Real or Personal Property" form is completed by the department for the missing camera.

The Plant Funds unit completes periodic physical inventories that are designed to capture lost, damaged or retired assets. When such items are noted, departments are instructed to complete and file all appropriate University/State forms and documentation.

The University does not agree that a custodian should be assigned for each piece of equipment. Deans, Directors and Department Heads are ultimately responsible for all equipment. Assigning an

individual within a department would be administratively burdensome because of turnover and the resulting required updating of records, and would not significantly enhance control over equipment or improve compliance for reporting lost equipment. With ultimate responsibility residing with Deans, Directors and Department Heads, and periodic inventories of all equipment by the Plant Funds unit, such instances of noncompliance should be relatively low. Decentralized budgeting and departmental control over its budget allows, at the department's discretion, sanctions to be levied at users in instances of lost equipment, e.g. future purchases could be denied or restricted."

*Auditors' Concluding  
Comments:*

Past experience has indicated to us that not all Deans, Directors and Department Heads have accepted responsibility for safeguarding and monitoring the equipment for which the University has indicated they are ultimately responsible. We believe that a custodian at the Department level should be formally assigned such responsibility.

## **Other Matters**

In addition to the letters to the Governor and others mentioned in the preceding findings, we also wrote to the Governor and other State Officials on two other reportable conditions that did not result in findings.

- On February 7, 2001 we reported that during an analysis of University expenditures, we noted payments in excess of \$5,000,000 made by the University for the construction of the new central warehouse. The source of the funds for these payments was UCONN 2000 bond funds. The central warehouse is not specified as a project under Connecticut General Statutes Sec. 10a-109e, subsection (a). According to Connecticut General Statutes Sec. 10a-109e, subsection (d)(3), a material addition of a project requires formal approval of the Board of Trustees, as well as a public or special act approving such addition. We were unaware of any such formal approval of the Board of Trustees or any public or special act approving such addition. Accordingly, at that time we believed this condition to be an unauthorized use of funds.
- On May 21, 2001, we reported that our investigation of a whistle blower complaint revealed that a University employee had made \$789.15 in unauthorized phone calls. This employee has since made restitution to the University for the unauthorized phone calls.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

In our previous report on our audit examination of the University, we presented nine recommendations pertaining to University operations. The following is a summary of those recommendations and the actions taken thereon:

Recommendations addressing University operations:

- The University should consider the requirement that instructors prepare and distribute a course syllabus, containing certain standardized information, for all courses and that

such syllabuses be monitored and filed at the department level. The University has forwarded our recommendation to the University Senate for their consideration. The recommendation is not being repeated.

- Segregation of duties with respect to the student registration and student billing systems should be increased. Effective September 2001 the University implemented a new student registration system. The recommendation is not being repeated.
- The University should develop procedures to identify entities affiliated with the University, enter into formalized agreements with these entities when appropriate and ensure that those entities that fall under the provisions of Sections 4-37e through 4-37j of the General Statutes are in compliance with the Statutes. This recommendation is being repeated. (See Recommendation 2.)
- Procedures that provide for positive supervisory verification that temporary non-academic employees are entitled to the salary payments they receive should be improved. This recommendation is being repeated. (See Recommendation 4.)
- The University should emphasize the need for supervisory approval of student payroll. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should request a formal opinion of the Attorney General to determine if any outside approval or correspondence is needed to sell real property. The University has requested such an opinion and therefore has implemented this recommendation. The recommendation is not being repeated.
- The University should establish policies that assign responsibility for the collection of delinquent non-grant/non-student accounts receivable. This recommendation is being repeated. (See Recommendation 5.)
- The University should inform activity fund custodians of the procedures to follow in an effort to eliminate undesirable conditions and strengthen internal control. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should take additional steps to inform employees of depository requirements and amend control procedures to prevent late deposits. This recommendation is being repeated. (See Recommendation 8.)

*Current Audit Recommendations:*

- 1. The University should consider structuring its manpower hours to more accurately reflect the time that the Nutmeg Grille restaurant is open. Additionally, the University should consider whether expanding the restaurant's hours of operation might enhance**

**its profitability. Finally, the University should consider if funding the continuing deficits of Nutmeg Grille is a desirable and appropriate use of resources.**

Comment:

Resources used to fund the operating deficits of the Nutmeg Grille are unavailable for use in furthering the University's academic mission.

- 2. The University should develop procedures to identify entities affiliated with the University, should enter into formalized agreements with these entities when appropriate, and should ensure that those entities that fall under the provisions of Sections 4-37e through 4-37j of the General Statutes are in compliance with the Statutes.**

Comment:

The lack of formalized agreements jeopardizes the rights of both entities. Additionally, the University may not be in compliance with Sections 4-37e through 4-37j of the General Statutes.

- 3. The University should request a formal opinion from the Attorney General to determine if the methods used by the University to obtain certain construction services are in compliance with bidding requirements of Section 10a-109n of the General Statutes.**

Comment:

The lack of bidding and public opening of bids on certain construction projects are violations of the General Statutes.

- 4. Procedures that provide for positive supervisory verification that temporary non-academic employees are entitled to the salary payments they receive should be improved.**

Comment:

There is a greater chance that improper or erroneous payments will be made without supervisory review and approval of paid time. This is a special concern with respect to temporary non-academic and similar employees as, once such employees have been added to the University's payroll, checks will be issued until their ending dates, unless the Payroll Department is notified otherwise.

- 5. The University should establish policies that assign responsibility for the collection of delinquent non-grant/non-student accounts receivable.**

Comment:

The assignment of responsibility for the collection of delinquent non-grant/non-student accounts receivable will help ensure timely collection.

- 6. The University should clearly delineate the duties of the Daily Campus's Board of Directors, the University's Office of Campus Activities and the Executive Officers of the Daily Campus thereby assigning operational accountability. Additionally, consideration should be given to using outside professional accountants to compile monthly financial statements.**

Comment:

The clear delineation of duties among the responsible parties will facilitate responsiveness to adverse conditions. The use of outside accountants will assist in providing continuity should key employees separate from service and provide compensating control by mitigating weaknesses due to inadequate segregation of duties.

- 7. The University should develop a comprehensive set of procedures that address the use of petty cash funds and cash advances. Such procedures should include techniques for enforcement and penalties for non-compliance.**

Comment:

We noted several instances of inappropriate use or inappropriate monitoring of petty cash funds and cash advances during our tests of petty cash replenishments and cash advances to employees.

- 8. The University should take additional steps to inform employees of depository requirements and amend control procedures to prevent late deposits.**

Comment:

Our examination of University operations disclosed instances of untimely deposit of receipts.

- 9. For all new pieces of equipment the University should assign a custodian at user department level. Such custodians would be responsible for adequately safeguarding and monitoring the equipment assigned to them. Budgetary sanctions should be applied to those departments which have failed to adequately safeguard equipment in their custody.**

Comment:

We noted instances in which the use of University resources was lost due to inadequate safeguards at the user level department.

### **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the University of Connecticut (University) for the fiscal years ended June 30, 2000 and 2001. The University is a component unit of the University of Connecticut system, which includes the University, the Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. 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 audit of the 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 government auditing standards applicable to financial related audits contained in *Government Auditing Standards*,

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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 the 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 the University of Connecticut is the responsibility of the 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 the laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report. Those findings are the lack of bidding and public opening of bids for certain construction projects.

We also noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the University is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the University. In planning and performing our audit, we considered the University's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the University's financial operations in order to determine our auditing procedures for the purpose of evaluating the 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: no supervisory verification that services were rendered by certain non-academic employees and unclear responsibility for the collection of certain accounts receivable.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the University's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the University being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the University's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency'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 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 to the staff of the University for the cooperation and courtesies extended to our representatives during this examination.

Gregory J. Slupecki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

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