

# STATE OF CONNECTICUT



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

**AUDITORS OF PUBLIC ACCOUNTS**

KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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May 9, 2007

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

We have made an examination of the financial records of the University of Connecticut (University) for the fiscal years ended June 30, 2004 and 2005. 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.

## *Auditors of Public Accounts*

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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, 2005, were:

Ex officio members:

M. Jodi Rell, Governor of the State of Connecticut  
F. Philip Prelli Commissioner of Agriculture  
Betty J. Sternberg, Commissioner of Education

Appointed by the Governor:

James F. Abromaitis, Unionville  
Louise M. Bailey, West Hartford, Secretary  
William R. Berkley, Greenwich  
Peter Drotch, Framingham, MA  
Linda P. Gatling, Southington  
Dr. Lenworth M. Jacobs, Jr., West Hartford  
Rebecca Lobo, Granby  
Michael J. Martinez, East Lyme  
Denis J. Nayden, Wilton  
Thomas D. Ritter, Hartford  
Dr. John W. Rowe, Hartford, Chairman  
Richard Treibick, Greenwich

Elected by alumni:

Philip P. Barry, Storrs  
Andrea Dennis-Lavigne, Simsbury

Elected by students:

Stephen A. Kuchta, Storrs  
Michael Nichols, Cromwell

Other members who served during the audited period included the following:

John G. Rowland, Governor of the State of Connecticut  
Bruce Gresczyk, Commissioner of Agriculture  
Theodore S. Sergi, Commissioner of Education  
Richard Twilley, Hartford  
Frank Napolitano, Manchester  
David W. O'Leary, Waterbury  
Michael H. Cicchetti, Litchfield

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.

The University's main campus is located at Storrs, Connecticut. The University maintains

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

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 05-3 (June Special Session) – Section 65 of this Act reduced the rate at which the Department of Higher Education will match endowment fund eligible gifts received by the University from one-half to one-quarter. Further, Section 68 of this Act made the appropriation of funds to the Department of Higher Education to match such endowment fund eligible gifts contingent on the Budget Reserve Fund, established in Section 4-30a of

the General Statutes, equaling ten percent of the net General Fund appropriations for the

fiscal year in progress, effective July 1, 2005.

Public Act 05-255 - Section 1 of this Act increases the membership of the University of Connecticut Board of Trustees from nineteen to twenty-one. The two new members of the Board, both of whom are ex officio members, are the Commissioner of Economic and Community Development and the chairperson of the University of Connecticut Health Center Board of Directors, effective July 1, 2005.

**Enrollment Statistics:**

Statistics compiled by the University's Office of Institutional Research present the following enrollments in the University's credit programs, including the Health Center, during the audited period.

	2003-2004		2004-2005	
Student Status	Fall	Spring	Fall	Spring
Undergraduates	19,287	18,431	20,151	19,197
Graduates	6,002	5,761	6,053	5,925
Professional (School of Law and Doctor of Pharmacy)	867	847	890	859
Medicine – Students	312	312	318	318
Medicine – Other <sup>(1)</sup>	609	609	597	597
Dental – Students	161	161	167	167
Dental – Other <sup>(1)</sup>	91	91	99	99
Totals	27,329	26,212	28,275	27,162

(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

Beginning with the fiscal year ended June 30, 2002, the University adopted Governmental Accounting Standards Board Statements No. 34 and No. 35. These statements change 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 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 4,013 and 4,250 as of June 2004 and June 2005, 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 presents

annual tuition charges during the 2003-2004 and 2004-2005 fiscal years.

Student Status	2003-2004			2004-2005		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$5,260	\$16,044	\$7,892	\$5,772	\$17,604	\$8,664
Graduates	6,478	16,830	9,718	7,110	18,478	10,674
School of Law	13,454	28,376	20,178	14,760	31,152	22,152

**Operating Revenues:**

Operating revenue results from the sale or exchange of goods and services that relate to the University's missions of instruction, research and public service. Major sources of operating revenue include tuition, Federal grants, State grants and sales from auxiliary service enterprises such as room and board charges.

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

	<u>2003 - 2004</u>	<u>2004 - 2005</u>
Student Tuition and Fees (net of scholarship allowances)	\$ 141,573,265	\$ 159,054,150
Federal Grants and Contracts	78,454,917	86,277,144
State and Local Grants and Contracts	17,486,752	16,879,914
Non-Governmental Grants and Contracts	7,952,256	9,293,290
Sales and Services of Educational Departments	12,166,016	13,755,026
Sales and Services of Auxiliary Enterprises (net of scholarship allowances)	104,784,446	113,537,985
Other Sources	<u>9,007,326</u>	<u>10,007,008</u>
Total Operating Revenue	<u>\$ 371,424,978</u>	<u>\$ 408,804,517</u>

The significant rise in Student Tuition and Fees is attributable to an approximate rise in undergraduate enrollment of 4.5 percent, as well as a rise of 9.7 percent in fees charged for undergraduate tuition.

**Operating Expenses:**

Operating expenses generally result from payments made for goods and services to assist in achieving the University's missions of instruction, research and public service. Operating expenses do not include interest expense or capital additions and deductions.

Operating expenses include employee compensation and benefits, supplies, services, utilities, and depreciation and amortization.

Operating expenses by functional classification as presented in the University's financial statements for the audited period follows:

	<u>2003-2004</u>	<u>2004-2005</u>
Instruction	\$ 200,872,187	\$ 227,084,420
Research	61,993,855	64,364,998
Public Service	29,480,541	31,076,037
Academic Support	63,932,206	72,213,723
Student Services	24,958,903	29,365,354
Institutional Support	49,439,568	53,927,431
Operations and Maintenance	44,935,019	54,321,765
Depreciation	69,594,696	84,508,242
Student Aid	548,932	418,639
Auxiliary Enterprises	<u>102,573,786</u>	<u>116,021,275</u>
Total Operating Expenses	<u>\$ 648,329,693</u>	<u>\$ 733,301,884</u>

**Nonoperating Revenues and Expenses:**

Nonoperating revenues and expenses are those revenues and expenses that are neither operating revenues/expenses nor capital additions/deductions. Nonoperating revenues and expenses include items such as the State's general fund appropriation, gifts, investment income and interest expense.

Nonoperating revenue (expenses) as presented in the University's financial statements for the audited period follows:

	<u>2003-2004</u>	<u>2004-2005</u>
State Appropriation (including fringe benefits)	\$ 256,467,347	\$ 273,085,313
State Debt Service Commitment for Interest	27,852,310	32,332,930
State Match to Endowment	0	994,759
Gifts	15,319,152	15,290,616
Investment Income	2,388,513	4,551,132
Interest Expense	(37,817,551)	(41,864,618)
Other Nonoperating Revenues (Expenses)	<u>(6,802,412)</u>	<u>(3,254,416)</u>
Net Nonoperating Revenue	<u>\$ 257,407,359</u>	<u>\$ 281,135,716</u>

The State appropriation, the largest source of revenue at the University, increased in fiscal year ended June 30, 2005, by \$16,617,966 or 6.5 percent when compared to the fiscal year ended June 30, 2004. The ratio of the State appropriation to tuition revenue was 1.81 in the fiscal year ended June 30, 2004 and 1.72 in the fiscal year ended June 30, 2005. The ratio of the State appropriation to total operating revenue was .69 in the fiscal year ended June 30, 2004 and .67 in the fiscal year ended June 30, 2005. The ratio of the State appropriation to total operating expenses was .40 and .37 for the fiscal years ended June 30, 2004 and 2005, respectively.

The State debt service commitment for interest listed above refers to amounts paid by the State for interest expense on University of Connecticut General Obligation Bonds. The gifts component of non-operating revenue is comprised of amounts received from the University of Connecticut Foundation and other nongovernmental organizations and individuals.

**Capital Additions (Deductions):**

Capital additions and deductions are associated with the acquisition and disposal of capital assets and include items such as capital grants, endowments and gains/losses on the sale or disposal of capital assets.

Capital additions and expenses as presented in the University's financial statements for the audited period follows:

	<u>2003-2004</u>	<u>2004-2005</u>
State Debt Service Commitment for Principal	\$ 91,635,000	\$ 81,720,000
Capital Grants and Gifts	8,243,365	9,163,961
Disposal of Property and Equipment, Net	(4,190,358)	(511,441)
Capital Other	<u>(19,566,305)</u>	<u>(33,072,921)</u>
Total Capital Additions (Deductions)	<u>\$ 76,121,702</u>	<u>\$ 57,299,599</u>

The amounts listed as State debt service commitment for principal refer to University General Obligation Bonds issued during the respective years for which the State has committed to pay the principal as it becomes due. Amounts listed as Capital Other consist primarily of amounts paid or to be paid for landfill remediation and for the correction of certain construction deficiencies for three student residential facilities.

**Net Assets:**

Net assets are assets minus liabilities. Net assets as presented in the University's financial statements for the audited period follows:

	<u>2003-2004</u>	<u>2004-2005</u>
Invested in Capital Assets, Net of Related Debt	\$1,206,280,804	\$1,229,952,094
Restricted Nonexpendable	10,904,207	12,532,244
Restricted Expendable:		
Research, Instruction, Scholarships and Other	9,929,683	9,894,092
Loans	3,314,153	3,283,317
Capital Projects	12,811,778	10,718,251
Debt Service	10,793,674	11,400,800
Unrestricted	<u>101,484,679</u>	<u>91,676,128</u>
Total Net Assets	<u>\$1,355,518,978</u>	<u>\$1,369,456,926</u>

Amounts above listed as invested in capital assets, net of related debt, reflect the value of capital assets such as buildings and equipment after subtracting the outstanding debt used to acquire such assets. Restricted nonexpendable assets are primarily comprised of permanent endowments. Restricted expendable assets are assets whose use by the University is subject to externally imposed stipulations. Unrestricted assets are assets not subject to externally imposed

restrictions.

**Related Entities:**

Two related, but independent, corporate entities also support the mission of the University. The University of Connecticut Foundation and the University of Connecticut Law School Foundation operate to solicit and administer donations of properties, monies and securities. These resources are then used, in accordance with the terms under which they were given, to aid the University.

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, 2004	June 30, 2005	June 30, 2004	June 30, 2005
Assets	\$311,273,000	\$342,996,000	\$13,101,000	\$15,936,000
Liabilities	13,622,000	17,835,000	58,000	27,000
Net Assets	297,651,000	325,161,000	13,044,000	15,910,000
Support and Revenue	88,730,000	66,170,000	2,373,000	3,798,000
Expenditures	33,049,000	38,660,000	790,000	932,000

**Program Evaluation:**

In accordance with Section 2-90 of the Connecticut General Statutes, the Auditors of Public Accounts are authorized to perform evaluations of agency operations for effectiveness and compliance with laws and regulations. We selected the University of Connecticut's fleet of vehicles for review.

**Audit Objective:**

The audit objective was to determine if the University is utilizing the assets and resources, allocated to the fleet of vehicles, in an efficient manner.

- To determine if the current vehicle policy adequately ensures proper safeguarding of university assets.
- To determine if current vehicle practices constitute efficient and policy compliant resource management.

**Scope and Methodology:**

To accomplish our objectives, the auditing staff used a number of methods including interviews, observations, surveys, reviews of procedures, documents and reports. Interviews were conducted with the Directors and staff of the Motor Pool (MP), Transportation Department (TD), Plant Funds, Purchasing, and University departments with vehicles.

The audit was limited to a review of vehicles located at the main branch of the University of Connecticut, located in Storrs, CT.

**Background**

In the early to mid 1960's the university built the current Motor Pool (MP) garage. The MP was created to service and maintain the University's growing fleet of vehicles and machinery. Initially, the rental vehicles and busses were part of the MP operations. The Transportation Department (TD) was created in the late 1960's to manage busses, rentals and other services.

The MP has operated with the same mission since its creation. It is tasked with servicing and maintaining all of the University's vehicles, machinery (heavy equipment and farming) and other items with motors (power tools, landscaping, etc). Public Safety vehicles are the MP's priority mission and others are served on a first come first serve basis. The only functions that they do not perform are factory recalls. They do perform mechanical services, body work, vehicle in-service, safety inspections, fuel distribution and other services.

The University fleet, consisting of 496 vehicles, with a value of \$13,746,424 (November 2004), has steadily increased every year. The MP currently operates with four to five staff, one shift per day. In prior years the MP had two full shifts operating with considerably fewer vehicles. According to MP personnel, the building is outdated and too small, while the fleet of vehicles it services continues to grow and diversify.

The Transportation Department was created in the late 1960's. Since then the operation has grown to provide several services to the University community. They currently provide Rental Services (vans and cars), Shuttle Services, Charter Busses, and Accessible Van Service for students and staff with disabilities.

### **Results of Testing, Questionnaires and Discussions:**

#### Discussions with the Motor Pool

The MP is responsible for maintenance, repairs, safety inspections/notifications, fuel dispensing, new car in-servicing and out-servicing for new and retiring vehicles. The manager indicated that they were not responsible for policy enforcement of usage and control of the vehicles. The MP indicated that responsibility resides with the Transportation Department.

When we interviewed departments with vehicles we inquired about the service the MP was providing to its customers. In all circumstances the departments indicated that the MP provided quality service and was very helpful in making repair projections and new car referrals when necessary.

Although the MP does not have a policy and procedures manual, they do seem to operate efficiently enough to maintain and service the University fleet of vehicles. The University's growing fleet of vehicles continues to challenge the MP and its staff. Staff indicated they could use two additional bays and staffing increases just to meet the demands of the current fleet.

#### Discussions with the Transportation Department

The TD provides the University community with services that include rental vehicles, shuttle services, charter busses and accessible van service for students and staff with disabilities.

The TD recently updated its' policy and procedures manual. The manual outlines policies governing only those vehicles in the TD's possession. When we inquired about policies governing 'usage and control' of University departmental vehicles not belonging to the TD, their initial response was that they did not promulgate any policies or have any knowledge of a university policy. The manager indicated that the only responsibility of the TD, as far as departmental vehicles were concerned, was to collect voluntarily submitted mileage reports and accident reports involving University vehicles.

The TD was aware of the existence of the State of Connecticut Department of Administrative Services, General Letter #115, *Policy for the Use of State-owned Motor Vehicles and Personally-owned Motor Vehicles on State Business* (Nov. 1997). The TD has several State-owned, non- university, vehicles under its charge and must comply with this policy for those vehicles. The TD was unaware of a University promulgated policy governing the 'use and control' of University owned vehicles. Per the TD, usage was controlled by each individual Department Head.

It is clearly evident that the University does not have a unified and promulgated policy for departments operating University owned or leased vehicles.

Discussions with various departments

We conducted interviews and completed questionnaires with department heads and managers including the Transportation Department, Motor Pool and departments in possession of University vehicles. After discussions with departments in possession of departmental vehicles the following points were noted:

- Most departments were unaware of any policies governing the use of University owned motor vehicles. DAS's, General Letter #115, or the University's own policy, dated 1994 had never been distributed.
- Drivers are not checked for valid driver's licenses.
- Mileage reports are not used.
- Departments are unaware of any requirement to submit accident reports to TD.
- Vehicle usage volume varies by department. Many departments have multiple cars with minimal usage. Cars are not loaned or rotated with other departmental vehicles.
- Fuel economy of departmental vehicles is not monitored.
- There are no guidelines for circumstances in which employees can take vehicles home.
- There are no fleet miles per gallon standards or guidelines.
- Odometer readings during refueling are frequently erroneously entered preventing tracking of mileage and fuel economy.

**Results:**

The finding of our performance evaluation follows:

<i>Criteria:</i>	The University of Connecticut possesses a large, decentralized fleet of vehicles. The fleet should be managed with the appropriate level of oversight to guard against misuse and ensure responsible, prudent utilization of these assets.
<i>Condition:</i>	During our testing we found a lack of oversight of vehicles assigned to departments, inconsistent use of mileage reports, inconsistent use of accident reports, a lack of policies for the appropriate home to work use of vehicles and a lack of guidelines governing vehicle purchases.
<i>Cause:</i>	The University apparently felt it was appropriate to have vehicle oversight responsibility at the departmental level.
<i>Effect:</i>	The lack of centralized oversight increases the risk that University resources will be inefficiently used.
<i>Recommendation:</i>	The University should centralize control over the vehicle fleet by allocating the necessary resources to the Transportation Department and develop a comprehensive motor vehicle policy and procedures manual. (See Recommendation 1.)

*Agency Response:* “The Transportation Department will work in conjunction with the University’s Parking and Transportation Advisory Committee (PTAC) to update and revise the University’s existing “Rules and Policies for Use of University Motor Vehicles” dated August 1997. The revised policy will be communicated to the University community and updated as appropriate. The Transportation Department will update its own policy and procedures manual to incorporate the changes made to the University’s policy directive.”

## CONDITION OF RECORDS

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

### **Background: Cogeneration Facility:**

In anticipation of an extended need for energy, primarily due to an expanded physical plant, the University decided to construct a central cogeneration facility. Our review of the construction process of this facility disclosed a number of unusual circumstances, as follows:

- Of three original proposals from pre-qualified contractors, the University selected the highest such proposal, which was 15.7 percent higher than the lowest.
- A change from a “Design/Build” process was made to a “Construction Manager at Risk” process.
- The subcontractor (constructor) for the project, originally accounting for approximately 81 percent of the project cost in total, was replaced without a formal competitive bid process.
- Very little documentation was available at the University to explain contracting changes made during the construction period.
- While claims were made that cost savings were being realized, the total cost of the project increased from a \$50,000,000 to \$60,000,000 estimate to an almost \$82,000,000 budgeted project.
- Upon our requests for additional information, the University contracted with a law firm to investigate the circumstances of concern to us.

A history of the project and our review follows:

In February 1999 the University advertised for engineering services for the Central Cogeneration/Chiller Based Energy Facility. The required services were to be completed in two separately negotiated phases. Phase One would include a study to define cost-effective energy supply option; and Phase Two would include preparation of an RFP for the Cogeneration Based Energy Facility. Eleven firms responded to the ad and four firms were selected to be interviewed. Dahlen Berg & Co (Dahlen), an energy supply management firm, was selected by the University and a consultant’s contract for the study was entered into by the University and Dahlen on July 8, 1999, in the amount of \$62,000. To date, Dahlen’s contract has been extended to approximately \$3,500,000.

In November 2000 the University advertised an “Invitation to Pre-qualify to Submit Proposals” for the cogeneration project at an estimated cost of between \$50,000,000 and \$60,000,000. As a result, six firms were deemed as pre-qualified to submit proposals. In January 2002, Dahlen issued a project manual for the cogeneration facility and the pre-qualified firms were requested to submit proposals by March 26, 2002. Four proposals were received and one firm’s response was deemed noncompliant (proposal not on file). The proposals, and respective bids received, were from:

- Keyspan; \$45,134,184

- Noresco; \$48,991,096 and
- Select Energy Services, Inc.; \$52,219,000.

The proposals were to include the firms' named subcontractors. Select Energy's proposal listed Gemma Power Systems Inc. (Gemma) as subcontractor (constructor), with Gemma performing work valued at \$42,219,000 of the total.

On May 8, 2002, Dahlen completed an evaluation of the proposals received concluding that Select Energy's steam turbine generator was the preferred alternative. Dahlen's specific conclusion was that Select Energy had the highest net present value savings, lowest operating cost and greatest efficiency. Having the highest capital cost was noted as a drawback. On May 24, 2002 the University requested additional information from the three proposers; their responses were to be submitted prior to the interview date of June 20, 2002.

On October 7, 2002 the University informed Select Energy of the University's "intent to enter into negotiations for a possible agreement"; shortly thereafter, an American Institute of Architects "Standard Form of Agreement Between Owner and Design/Builder" contract was signed. Part 1 of the contract dated March 31, 2003, was valued at \$3,600,000 for design services. Gemma was, consistent with the original proposal, listed as subcontractor (constructor.) On May 7, 2003, the Board of Trustees approved a resolution providing for financing of the cogeneration project in the amount of \$75,000,000. Part 2 of the contract with Select Energy was dated December 10, 2003, in the amount of \$60,900,000. We noted that their named subcontractor, Gemma, had been replaced by O&G Industries. There was no corresponding documentation available or reason given for this change of subcontractor.

On April 12, 2005, the Board of Trustees approved a resolution providing for a revised project budget of \$81,900,000.

On May 16, 2006, after having analyzed all the documents purported to relate to the contract with Select Energy for the construction of the new cogeneration facility, we contacted the University's Interim Executive Director of Architectural and Engineering Services to determine if any information existed that would allow us to conclude why the major subcontractor listed in the accepted proposal to construct the facility, was no longer involved in the project. On June 1, 2006, we received information from the University which indicated the subcontractor was replaced in an effort to reduce the cost of the project. However, such reductions or cost saving efforts were not apparent within the available documentation.

On June 30, 2006, we contacted the University's Vice President and Chief Financial Officer, Interim Vice President and Chief Operating Officer, and the Interim Vice President for Operations and asked for any additional information that would allow us to conclude that by changing the subcontractor the cost of the cogeneration facility was reduced. The results of this request did not yield information to our satisfaction. As such, in an August 25, 2006 letter, we informed the University's President of our inability to obtain sufficient documentation to support the University's contention that changing the subcontractor reduced costs. We further requested the assistance of the University President in providing us with the documentation necessary to support the University's decision to change the subcontractor on this project.

On September 5, 2006, the University's President responded that he was directing the

University's Chief Audit and Compliance Officer to extend the University's inquiry to additional parties in an effort to document the decision to replace the original subcontractor, and that a report on this matter would be completed no later than December 15, 2006. On December 15, 2006, we received the University's report, which was based upon an investigation performed by an outside law firm. The substance of this report indicated that, in an effort to lower project costs, the University decided to change the "project delivery method" and that when this occurred the original subcontractor withdrew from the project.

To date, Select Energy's contract with the University is approximately \$68,000,000 (inclusive of change orders) and the Board of Trustees approved budget for the entire cost of the cogeneration facility is approximately \$82,000,000.

**Absence of Documentation Supporting Contractor Selection:**

*Criteria:* The University operates in an environment of limited resources and as such should select the lowest qualified proposal when selecting contractors for construction projects.

*Condition:* When reviewing proposals submitted by pre-qualified contractors for the construction of the University's cogeneration facility, we noted that the University received three proposals of \$45,134,184; \$48,991,096 and \$52,219,000. The University chose the contractor whose proposal totaled \$52,219,000. Our analysis of available information left us concerned as to why the lowest proposal was not selected. It should be noted that the three competing contractors had already been pre-qualified.

Information, provided to us subsequent to our initial inquiries, indicates that the University selected the highest proposal based upon the recommendation of a consultant.

*Effect:* The University may have paid more for construction services than was necessary.

*Cause:* The University apparently did not feel the lowest proposal met their needs.

*Recommendation:* In those instances in which the lowest proposal is not selected the University should prepare documentation that provides evidence of the rationale for their decision. (See Recommendation 2.)

*Agency Response:* "The University believes it selected the lowest, most responsible, technically qualified bid and documented its decision.

The May 8, 2002 Dahlen Berg analysis, commissioned by the Administration and cited by the Auditors, compared the expected capital cost to construct the facility, the anticipated lifetime

operating costs and resulting projected energy cost savings of each proposal. The analysis also assessed each proposal's technical and design components. That analysis concluded that SESI's proposal, provided the most appropriate and efficient design and highest long-term economic value achieving projected savings, ranging from \$17 to \$34 million, \$4.4 to \$8.3 million on a net present value basis than either of the lower capital cost proposals. The net present value of projected project energy cost savings have risen to \$233.6 million, primarily resulting from the impact of higher electric rates.

This analysis was provided by the Administration to the Board of Trustees in executive sessions on August 13, 2002 and January 14, 2003. A \$3.6 million Part 1 agreement for project management, design, and preconstruction mobilization was then executed with SESI on March 31, 2003.

Subsequently, the Board, in public session, reviewed the Administration's recommendation to select SESI prior to approving the \$75 million lease financing purchase agreement on May 7, 2003. On December 10, 2003, the Administration executed the final Part 2 agreement with SESI totaling \$64.5 million. Approved change orders increased the value of the final contract to \$68.2 million, or 5.7 percent.

The remaining project costs, approximately \$14 million, include insurance, legal, construction administration and other expenses.

The University has modified its policies and procedures to require its Chief Financial and Chief Operating Officers to approve any contract award to a pre-qualified contractor (all contracts exceeding \$500,000) that is not awarded to the lowest bidder and requires any such award to be reported to the Board..

As result of the UCONN 2000 amendments enacted in 2006, the University is no longer authorized to engage in design build contracts.

### **Failure to Engage Construction Manager in an Open and Competitive Process:**

*Criteria:*

Prior to entering into contractual commitments for construction services the University should have a clear understanding of the procurement technique/delivery method to be used, know what companies will be performing significant components of the anticipated work and ensure that contracts are awarded in an open competitive process.

*Condition:* Based upon our review of a contract entered into between the University and Select Energy Services, Inc., entitled “Standard Form of Agreements Between Owner and Design Builder”, Part 1, dated March 31, 2003, the University chose Select Energy Services, Inc. as the “Design Builder” for its cogeneration facility. Within this same contract, Gemma Power Systems, LLC. is listed as constructor for the facility. The establishment of Gemma Power Systems LLC. as constructor is consistent with Select Energy’s original proposal for the cogeneration facility which had listed Gemma Power Systems, LLC. as performing \$42,219,000 of construction work.

In Part 2 of the University’s contract with Select Energy Services, Inc. for the cogeneration facility, entitled “Standard Form of Agreements Between Owner and Design Builder”, dated December 10, 2003, O&G Industries was named as constructor of the cogeneration facility, having replaced Gemma Power Systems LLC.

After conducting a thorough review of documents made available to us, we were unable to conclude that Gemma Power Systems had been replaced using an open competitive process.

*Effect:* The University incurred a contractual obligation in which a major party was selected in a less than transparent fashion.

*Cause:* The University apparently decided that the use of a construction manager for preconstruction services and the use of a “Guaranteed Maximum Price” contract were preferable to the delivery method originally contemplated, and that a change of the subcontractor to construct the facility did not have to be competitively bid in a formal manner.

*Recommendation:* In those instances in which fundamental terms upon which a contract was awarded have changed, the University should take steps to ensure that the new contract is awarded in an open and competitive process. (See Recommendation 3.)

*Agency Response:* The relationship between the University and SESI is governed by the terms of a design build contract executed following competitive prequalification and proposal processes. In 2003, SESI fell behind on the project schedule. The University sought additional contractual assurances to increase the likelihood that SESI would complete the project to performance specifications and budget. These assurances included the addition of a construction manager for preconstruction services and use of a guaranteed maximum price contract. They were sought to ensure: constructability, appropriate value engineering and more detailed

delineation of the equipment design and specifications as well as the cost of key systems. The changes ultimately reduced project costs. They also appear to have contributed to the decision of SESI's largest subcontractor, Gemma, to withdraw from the project. SESI vetted the substitution of the replacement subcontractors, including O&G, with the University's then project management leadership team.

Although significant, the additional assurances did not fundamentally alter the University's underlying design/build contractual relationship with SESI. Incorporating the additional assurances and proceeding with SESI was a prudent business decision. Rebidding the project, at that juncture, would have exposed the University to the potential loss of the more than \$3 million invested to that point, higher construction costs, increased claim and litigation risks and higher utility operating expenses attributable to delay in the plant's availability/use.

As result of the UCONN 2000 amendments enacted in 2006, the University is no longer authorized to engage in design build contracts.

*Auditors Concluding  
Comments:*

The original estimated cost for the cogeneration facility as specified in the "Invitation to Pre-qualify to Submit Proposals" was between \$50,000,000 and \$60,000,000. Select Energy Services Inc. proposed building a cogeneration facility at a cost of \$52,219,000. The current contract with Select Energy for the construction of the cogeneration facility is almost \$68,000,000. It is unclear to us how changing the delivery method has reduced costs.

Further, we recommended that an open and competitive process be followed when replacing a major subcontractor, not "rebidding the project". As such, the University would not have been exposed to a potential loss of \$3,000,000.

**Entities Affiliated with the University:**

*Criteria:* Prudent business practice dictates that the University establish agreements with organizations operating within the University environment that define the rights and obligations of each party.

*Condition:* We noted the following non-profit organizations operating in some manner at the University for which the University did not have an agreement defining the rights and obligations between the University and the non-profit organization.

- Connecticut Urban Legal Initiative, Inc.
- The UConn Club, Inc.
- The Long Island Sound Foundation
- Ocean Technology Foundation, Inc.
- Roper Center for Public Opinion Research
- Center for Children’s Advocacy, Inc.
- Community Accounting Aid & Services, Inc.

*Effect:* University resources may have been used in a manner inconsistent with the University’s intentions. Parties dealing with these non-profit organizations may be under the mistaken impression that they are dealing directly with the University.

*Cause:* The University has not assigned responsibility for the monitoring of non-profit entities operating on the University campuses.

*Recommendation:* The University should assign the responsibility for developing procedures to identify entities affiliated with the University and should enter into formalized agreements with these entities. (See Recommendation 4.)

*Agency Response:* “In June 2006, the University assigned responsibility to the Real Estate and Property Management Unit for developing procedures to identify and formalize agreements with entities affiliated with the University operating within the University environment.”

**Lack of Competition on Construction Projects:**

*Criteria:* A fundamental tenet of public construction contracting is competition among qualified contractors.

*Condition:* In May 2003, the University instituted a “Multiple Award Construction Contract Program” in which seven contractors were asked to submit bids on a sample construction project. Six contractors submitted bids. The University then selected the four lowest bidders and indicated that they were “pre-qualified Multiple Award Contractors”. These pre-qualified multiple award contractors were then the only contractors allowed to submit bids on Multiple Award Contract Projects (MAC).

We noted eleven projects ranging from approximately \$50,000 to \$500,000 awarded under this MAC program. In six of these eleven projects only two contractors submitted bids.

*Effect:* The method in which the University has implemented its MAC program has limited competition to less than the traditional three

bid minimum.

*Cause:* The University administration believes the MAC program allows for a faster administrative process.

*Recommendation:* The University should publicly advertise to solicit competition for projects that have not previously been publicly advertised and for which less than three bids have been received. (See Recommendation 5.)

*Agency Response:* “The University has established a policy that a minimum of three bids will be required under the multiple award contracting (MAC) procedure. The University has initiated expanding the present field of bidders through a publicly noticed bid process, from four to seven to increase the capacity of the bidding pool and increase the assurance of at least three competitive bids.”

**Lack of Segregation of Duties Between Requests for Contract Modification and Negotiation of Price for Contract Modifications:**

*Criteria:* An important component of internal control is the segregation of duties between the initiation, evaluation and approval of transactions.

*Condition:* When reviewing the process for amending construction contracts we found that the Architectural and Engineering Unit of the University appeared to be initiating the requests for construction amendments and change orders, evaluating the proposals submitted for amendments and change orders, approving the price of amendments and change orders and approving the work performed under amendments and change orders as being done in an acceptable manner.

*Effect:* The lack of segregation increases the risk transactions may be processed in a manner not consistent with University intentions.

*Cause:* The University apparently felt that the limited role of the University’s Office of Capital Project and Contract Administration was enough to ensure that transactions were executed in a manner consistent with the University’s intentions.

*Recommendation:* The University should increase the segregation of duties in the areas of requests for construction contract modifications and the pricing of such construction contract modifications. (See Recommendation 6.)

*Agency Response:* “The University Architectural and Engineering Services (AES),

Unit, while important to the evaluation and approval of a contract change (change order), is no longer the sole approval or authorizing entity prior to final change order approval and follow on payment. Pursuant to the implementation in late 2005 of a new project delivery procedures manual and changed organizational reporting relationships in 2006 (Capital Projects and Administration now reports to the Associate Vice President of Operations through the Executive Director of Procurement and Logistical Services, the basic approval and authorization steps are:

1. Construction Manager verifies the reason, scope, cost and schedule.
2. Project architect and/or engineer verifies construction cost, scope, pricing and compliance with contract documents (drawings and specifications).
3. AES reviews scope, cost and reason as well as impact on project budget.
4. Plant Accounting reviews and verifies impact on project budget and authorizes change for payment.
5. Capital Project and Contract Administration provides contract compliance and final review for payment.”

**Failure to Establish Scope When Contracting with Design and Engineering Professionals:**

*Criteria:* Cost is a major consideration in any procurement process. An important objective in negotiating with design and engineering professionals is to reach a complete and mutual understanding of the scope of services to be provided as well as the compensation for such services.

*Condition:* We noted the following instances in which original contract amounts for design and engineering services were significantly exceeded:

- On April 19, 2000, the University entered into a contract for \$62,000 with Dahlen, Berg & Co. Dahlen Berg was to provide consulting services related to the University’s Cogeneration facility. From September 19, 2000 to October 24, 2005, the contract with Dahlen Berg was amended eleven times, in amounts ranging from \$21,000 to \$982,000, with the total amount under the contract with Dahlen Berg currently valued at \$3,283,300.
- On December 7, 1999, the University entered into a contract for

\$2,464,400 with Cannon Design Inc. Cannon Design was to provide architectural services related to the new Student Union. From July 24, 2000 to November 8, 2005, the contract with Cannon Design was amended twenty times, in amounts ranging from \$2,000 to \$1,861,236, with the total amount under the contract with Cannon Design currently valued at \$5,827,125.

- On February 18, 1999, the University entered into a contract for \$2,757,500 with Davis, Brody Bond LLP to provide architectural services related to the new Pharmacy/Biology building. From June 30, 1999 to July 11, 2005, the contract with Davis, Brody Bond was amended sixteen times, in amounts ranging from \$26,000 to \$2,929,822, with the total amount under the contract with Davis, Brody & Bond currently valued at \$8,803,217.

*Effect:* The University's approach in establishing the scope and price of design and engineering services makes establishing firm budgets difficult, increases the risk of misunderstandings and may be rewarding the design and engineering professionals for increases in construction materials if any component of their fee is based on a percentage of total project cost.

*Cause:* The University apparently did not know the extent of services desired prior to establishing the contractual relationship.

*Recommendation:* The University should establish the scope and price of services prior to establishing contractual relationships with design professionals and engineers. In those instances in which the scope of a project significantly changes due to unforeseen circumstances consideration should be given to soliciting new proposals in an open and competitive process. (See Recommendation 7.)

*Agency Response:* "The auditors' observations and comments are correct, and the University needs to establish a specific and comprehensive scope of services earlier in the process of defining and negotiating a scope of services with the entire project architectural team. The University will be addressing this issue during the review and expansion of AES policies and procedures. The review and update process will be initiated in early September 2006 with outside technical assistance and is scheduled for completion by December 1, 2006."

**Violation of UConn 2000 Bond Indenture:**

*Criteria:* Pursuant to Section 10a-109g of the Connecticut General Statutes, the University has executed a General Obligation master bond indenture relating to the issuance of UConn 2000 bonds. The

indenture is a legal contract with bond holders and establishes and governs the material terms of the bond issue including amounts authorized to be expended for each project.

The UConn 2000 General Obligation bond indenture requires Board of Trustee approval if expenditures for a given project are increased or decreased in an amount that exceeds five percent authorized for such project.

*Condition:* We noted several instances in which expenditures were incurred for projects in amounts in excess of five percent of authorizations as specified in the UConn 2000 General Obligation indenture. University personnel did not request approval from the Board of Trustees to revise the indenture and exceed authorized amounts until after the expenditures had been incurred.

*Effect:* The University has violated the intent of the bond indenture as it relates to changes in authorized amounts.

*Cause:* Unknown

*Recommendation:* For those projects, for which it is anticipated that expenditures will exceed authorized amounts, the University should seek the approval of the Board of Trustees to revise the General Obligation indenture and increase authorized amounts, prior to actually incurring the expenditures. (See Recommendation 8.)

*Agency Response:* “We agree that the Board of Trustees approval is required if expenditures for a given project are increased or decreased in an amount that exceeds by 5 percent the budget authorized for such project. Relevant materials have been provided to the Auditors of Public Accounts, from the February 3, 2005, June 21, 2005 and June 20, 2006 meetings of the Board of Trustees, which materials include the capital budgets and a number of indenture revisions. These materials provide ample evidence of procedures to ensure adherence to the above-referenced requirement. We are committed to securing such approval in advance of incurring expenditures, and hence are in full agreement with your recommendation that, “For those projects for which it is anticipated that expenditures will exceed authorized amounts, the University should seek approval of the Board of Trustees to revise the General Obligation indenture and increase authorized amounts, prior to actually incurring the expenditure.” We do note your use of the word “anticipated.” It is possible, although not likely, that a post-closeout audit of a project may recommend an adjustment (such as with the changes we have made moving allocations from deferred maintenance to named projects) that would, by definition, require an indenture amendment after the fact. While we do not expect

any further adjustments of that sort, we cannot predict what recommendations might result from project audits and wish to be on record regarding that eventuality.”

**Competitive Bidding:**

*Criteria:* Section 10a-151b of the General Statutes requires that when possible a formal competitive process should be used when contracting for services.

*Condition:* In 1996, after having engaged in a formal competitive process, the University selected an insurance broker, Sedgwick James (subsequently bought out by Marsh & McLennan), for administration of its Owner Controlled Insurance Program (OCIP). In 1999 the University ended its relationship with Sedgwick James/Marsh McLennan and entered into a contract for the administration of its OCIP program with Acordia Northeast without engaging in a competitive selection process. The approximate annual consulting fee payable to Acordia was \$300,000 per year. In 2004 the University ended its relationship with Acordia and entered into a contract for the administration of its OCIP program with Academic Risk Resources & Insurance, LLC, a newly formed insurance broker, without engaging in a competitive selection process. The approximate annual consulting fee payable to Academic Risk Resources & Insurance was also \$300,000 per year.

*Effect:* The University has not complied with Section 10a-151b of the General Statutes.

*Cause:* Certain personnel of Sedgwick James/Marsh McLennan whom the University considered key employees in the administration of the OCIP program left Sedgwick James/Marsh McLennan for employment with Acordia Northeast. The University felt it was appropriate to follow the key employees to the new employer. These same key employees went on to form their own insurance brokerage company and again the University felt it was appropriate to follow the key employees.

*Recommendation:* The University should solicit competitive bids or proposals in those instances in which it is estimated that an expenditure will exceed \$50,000. (See Recommendation 9.)

*Agency Response:* “The University agrees with the recommendation and simply offers the following explanation for the actions taken in this instance.

After Sedgwick's merger with Marsh McLennan in 1998/99, the brokers handling the University's account moved to Acordia. Members of the University's original selection committee asked both firms to present arguments for retaining the account. With the attendance of outside counsel to monitor the process, the committee elected to remain with a brokerage team that had developed and were deemed to have capably served the program.

Acordia subsequently was acquired by Wells Fargo. In the fall of 2004, the OCIP team at Acordia subsequently left to found a new firm, Academic Risk Resources, Inc. (ARRI) specializing in higher education. As the UCONN 2000 engagement was drawing to a close, the University moved its account to ARRI to ensure continuity of service. It is noteworthy that all of this brokerage team's Acordia clients chose to move to ARRI.

The University's broker does not receive commissions on policies placed. This requirement has been a condition of service from the outset. The University pays a fixed annual fee for all brokerage services, plus the cost of a safety program administrator and enrollment coordinator, working on site but employed by the broker. The initial charge was \$255,000 annually. At the time of transition to Acordia, the fee was increased to \$300,000 annually and remains unchanged to the present.

The University has since discontinued the OCIP program."

**Listing of Professional Positions Provided to the Commissioner of Administrative Services:**

- Criteria:* Section 10a-108 of the General Statutes requires that the University annually submit to the Commissioner of Administrative Services a list of positions it has designated as professional staff.
- Condition:* During our test of payroll we noted that the University has not been submitting to the Commissioner of Administrative Services a list of positions which it has designated as professional staff.
- Effect:* The University is not in compliance with Section 10a-108 of the General Statutes.
- Cause:* We were informed that no routine process existed in which a list of professional staff positions was being provided to the Commissioner of Administrative Services.
- Recommendation:* The University should annually submit a list of professional staff positions to the Commissioner of Administrative Services. (See Recommendation 10.)

*Agency Response:* “It was brought to the University of Connecticut’s attention in August 2005 that the University had not been providing the Commissioner of Administrative Service a list of positions which it had designated as professional, in accordance with Section 10a-108 of the General Statutes. The University’s Department of Human Resources has since developed a process by which an electronic list of professional positions will be submitted to the Director of Human Resource Management in the Office of the Commissioner of Administrative Services January 1<sup>st</sup> of each year. The first such list was forwarded to Dr. Pamela Libby, Director of HR Management/DAS on February 14, 2006.”

**General Journal Entries:**

*Criteria:* An accounting system’s general journal entries should be adequately documented and subject to supervisory review and approval before they are posted.

*Condition:* We found numerous examples in which journal entries transferring construction costs were prepared without sufficient backup to support the reason for the entry. We also noted instances in which journal entries were not reviewed by a supervisor.

*Effect:* Ready determination as to the rational of a journal entry may be dependent on the presence of the employee that originated the entry.

*Cause:* Reducing documentation and supervisory approval allows for more efficient processing of journal entries.

*Recommendation:* All non-routine journal entries should be subject to supervisory review to assure that adequate backup exists to support the entry. (See Recommendation 11.)

*Agency Response:* “The University agrees with this recommendation. Prior to the current Chapter Two of the Capital Project Delivery Process manual (Spring 2005), Architectural and Engineering Services calculated and maintained all supporting documentation for journal entries with respect to construction projects. This decentralized accounting continued until the Plant Funds unit of the Accounting Office was asked to provide oversight in July 2005. Chapter Two includes checklists and new approval procedures for making changes, and other internal controls. Procedures currently require approval of all journal entries including cost allocations. It is at the approval point that backup and support for the allocation

method is reviewed for appropriateness. Accounting/Finance receives supporting documentation on all allocations. Additionally, procedures were instituted over non-construction entries in fiscal year 2006 requiring a second review and signature for journal entries.”

### **Dependent Tuition Waivers for Non-University Employees**

*Criteria:* Tuition revenue is a major source of income for the University and as such the University has an obligation to collect tuition revenue.

Internal Revenue Code Section 117(d)(2) allows for the exclusion from gross income tuition waivers granted to dependents of employees of the University. Dependent tuition waivers granted to non-employees are presumably subject to the informational reporting requirements established by the Internal Revenue Service.

*Condition:* We noted instances in which the University had granted dependent tuition waivers to employees of the University of Connecticut Foundation Inc., a separate non-profit corporation.

*Effect:* By granting dependent tuition waivers to employees of the University of Connecticut Foundation Inc., the University has forsaken tuition revenue.

Further, the University may not have complied with the reporting requirements of the Internal Revenue Code since an informational return (IRS Form 1099) was not filed for the dependent tuition waivers granted to employees of University of Connecticut Foundation Inc.

*Cause:* Unknown

*Recommendation:* The University should not grant dependent tuition waivers to non-university employees. (See Recommendation 12.)

*Agency Response:* “The University agrees with this recommendation.

Pursuant to Section 4-37e et seq. of the Connecticut General Statutes, the University of Connecticut and the University of Connecticut Foundation, Inc. entered into a written agreement, appropriately approved by the Board of Trustees, on December 1, 1994. At the time of the agreement, University employees engaged in fundraising became part of the Foundation structure, although they remained University employees. Given the side-by-side nature of this relationship to Foundation employees, it was deemed appropriate to extend the tuition waiver benefit to

Foundation employees as well. The tuition waiver for dependents of exempt employees of the Foundation is the same as that available to faculty, professional/UCPEA, and management/confidential University employees. University Labor Relations evaluates applications for such waivers from eligible Foundation employees via procedures identical to those used in processing waivers for University employees. Upon further review of the original 1994 agreement, and subsequent annual memoranda of understanding, we have found that the tuition waiver policy was not explicitly referenced until the July 1, 2006 agreement.

In keeping with the provisions of Section 4-37e et seq. C.G.S., the University has determined that it will no longer, as part of the consideration paid to the Foundation for its services, provide in-kind tuition waivers to Foundation employees. As of January 1, 2007 there were no tuition waivers in effect for employees of the Foundation.

#### **Payments made to the University's Former Athletic Director**

- Criteria:* Sound financial management practice dictates that the University not make payments to outside parties who have outstanding liabilities to the University.
- Condition:* During our analysis of payments made to employees separating from service with the University, we noted that the University's former Athletic Director was paid \$130,000 for unused vacation time. We further noted that in a negotiated settlement relating to the former Athletic Director's early departure from the University, the former Athletic Director agreed to pay the University \$100,000.; but rather than netting this liability with unused vacation time, the University allowed the former Athletic Director to make four payments of \$25,000 over a period of four years.
- Effect:* The University has forsaken potential interest income and assumed the additional risk of non-payment associated with any accounts receivable.
- Cause:* No procedure exists that would allow personnel responsible for authorizing payments for unused vacation time to know that a separating employee had an outstanding liability with the University.
- Recommendation:* The University should not make payments to outside parties who have liabilities to the University. (See Recommendation 13.)
- Agency Response:* "The University will in the future assure that when employees leave service with a financial liability to the institution, this is

appropriately noted on standard separation forms, with payment plan information appended. In the case of the Athletic Director, three of the four payments have been made according to schedule. The final payment is due next June (2007) and at that point the full \$100,000 liability will be satisfied. The payment schedule was determined as part of a negotiated settlement that the University does not regard as precedent for any subsequent personnel action involving University employees.”

**Sale of University Land:**

*Background:* In our audit report of the University of Connecticut dated September 19, 2001, we noted that the University was selling real property without the approval of the Secretary of the Office of Policy and Management and the State Properties Review Board. Such sales may not be in compliance with Sections 4b-21(b), 4b-21(c) 2(A) and 4b-21(c)2(B) of the Connecticut General Statutes.

We recommended that the University seek a formal opinion of the Attorney General to determine if approval of the Secretary of the Office of Policy Management and the State Properties Review Board is needed to sell real property. The University has yet to receive a formal opinion from the Attorney General on this matter.

*Criteria:* Prudent business practice dictates that when selling University property the University should receive in exchange at least the fair market value of the property.

*Condition:* In December of 2003 and January of 2004, the University had three appraisals performed on the property known as 88 Gurleyville Road, Mansfield, Connecticut. The average value of the land at 88 Gurelyville Road, consisting of 5.29 acres, was established at \$127,333 by these appraisals. On August 27, 2004 the University sold the 5.29 acres at 88 Gurleyville Road for \$90,000 to the University’s former provost.

*Effect:* Upon the sale of 88 Gurleyville Road, the University received \$37,333 less than the apparent fair market value of the land.

*Cause:* University personnel negotiating the terms of the sale of 88 Gurleyville Road apparently felt that the \$90,000 received was the most the University could expect under the circumstances.

*Recommendation:* The University should require that any contract relating to the sale of University property have as a component of such contract a requirement that the University receive at least the fair market value of the property. (See Recommendation 14)

*Agency Response:* “The University agrees with the recommendation and generally follows it when conveying real property by sale or lease.

The University acknowledges that it accepted less than market value (as established by appraisal) in this instance. At the time of the sale, the property was encumbered by a ground lease previously granted by the University. A private residence had been constructed over the ground lease. For economic and policy reasons, the University opted not to exercise its right-of-first-refusal to purchase the residential improvements. At the time, the improvements were valued in excess of \$800,000 and the residence was not in keeping with the other, more moderately priced residential properties maintained by the University for short-term rentals for relocating employees. The underlying ground lease adversely impacted the marketability of the property and residential improvements, subjecting the University to uncertainty with respect to the valuation and timing of extinguishing its ground lease interest.

The University has sought the legal opinion requested by the Auditors. While not applicable in this case, the University, may from time-to-time agree to convey real property pursuant to economic terms at a discount from those derived by an independent appraisal to achieve important University or state policies and objectives.”

**Inappropriate Treatment of Funds for Deposit and Retention in State Accounts:**

*Criteria:* Section 4-37g, subsection (a), of the Connecticut General Statutes defines “funds for deposit and retention on state accounts” as funds or other things of value received through proposals or other means with an obligation for service primarily to the donor by the State agency.

*Condition:* During our analysis of revenue we noted payments received from the University of Connecticut Foundation Inc. (Foundation) to the University of Connecticut. These payments were related to \$1,987,600 in funds received by the Foundation from the Bill and Melinda Gates Foundation for a grant program entitled “State Challenge Grant Program”. The application for this grant was prepared by a University employee. The budget contained within the grant application listed five University employees as expected to work on the grant. The grant application also listed matching funds to be provided by the University of Connecticut Neag School of Education as well as the Connecticut State Department of Education Division of School Improvement.

*Effect:* Funds which should have been deposited in State/University

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accounts and subject to State/University control procedures were instead deposited into the Foundation.

*Cause:* Unknown.

*Recommendation:* The University should inform employees that funds received in exchange for obligations of service by University employees must be deposited in State/University accounts. (See Recommendation 15.)

*Agency Response:* “The University agrees with the recommendation that “the University should inform employees that funds received in exchange for obligations of service by University employees must be deposited in State/University accounts.” The University’s Revenue Classification memorandum of July 10, 2002 (provided to the Auditors of Public Accounts), serves that function. The memorandum clearly states that the “NACUBO Guide to Distinguishing Between Contracts and Contributions” shall serve as the basic standard for deliberations of whether income is a philanthropic gift/ philanthropic grant or a fee for service/exchange transaction. This memorandum also designates a team of individuals who analyze unusual circumstances when the classification is unclear. Note that this memorandum was distributed to the Deans, Directors, Department Heads and Foundation Senior Management Staff by the Provost, VP & CFO and Senior VP of the Foundation.

With regard to the specific case mentioned above, the University believes that the philanthropic grant was properly deposited at the Foundation. In response to the State Auditors comments, and in keeping with the classification procedures cited above, the grant was recently reviewed. The review concluded that the Gates Foundation received no goods or services from the University or Foundation in exchange for its contribution. It was noted that the Foundation did appropriately provide stewardship reports to the Gates Foundation for the purpose of enabling the Gates Foundation to monitor that their philanthropic intent was being met. Therefore, under Sec. 4-37g C.G.S., the grant funds are not “funds for deposit or retention in state accounts” because they were not received “with an obligation for service primarily to the donor by the State Agency.”

The donor, the Bill and Melinda Gates Foundation (the “Gates Foundation”), is philanthropic in purpose, with its stated mission to improve the general welfare of the public. The Gates Foundation funds were designated to the Foundation pursuant to a written agreement between the Gates Foundation and the Foundation for the purpose of supporting the University’s outreach

initiatives. Specifically, the funds benefited a University program to provide superintendents and principals, from public and private schools, access to quality leadership development focused on whole systems change and technology integration. The Foundation provided a written receipt to the Gates Foundation, indicating it had received the funds as a charitable contribution for the benefit of the University.

Clearly University personnel participated in the development of the proposal submitted to the Gates Foundation. We believe it is appropriate for University personnel to engage in collaborative activity for the purpose of securing philanthropic support for University initiatives, based on the 1995-012 Formal Opinion of the Attorney General of the State of Connecticut. None of the University or Foundation employees identified on the proposal provided goods or services to the Gates Foundation. All disbursements made by the Foundation from the Gates Foundation proceeds were approved by authorized University signatories.

The proposal to the Gates Foundation did indicate that other “matching funds” would be designated to support the same initiative for which the Gates Foundation’s philanthropic support was being sought. These “matching funds” were to be provided by the University’s Neag School of Education and the Connecticut State Department of Education Division of School Improvement as well as other private entities. No “matching funds” derived from state sources were deposited in the Foundation.

The Gates Foundation grant provided for a 10% administrative fee allowance. We note that the grant was charged this administrative fee with the resulting funds transferred to the Neag School of Education for its general purposes. The Foundation also credited the grant proceeds with interest on its unspent balances. Therefore, the Foundation received no financial benefit of any kind related to the acceptance of the Gates Foundation philanthropic grant.

*Auditors’ Concluding  
Comments:*

No evidential matter was provided to us that allowed us to conclude that the funds provided by the “State Challenge Grant Program” were deposited in a manner consistent with Section 4-37g, subsection (a), of the Connecticut General Statutes.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

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

#### Recommendations addressing University operations:

- The Purchasing Card Program Administrator should notify Cardholders, in writing, of the consequences of purchasing card misuse. The departments Reporting Authority should also be informed of any misuse of a purchasing card by a Cardholder/Record Manager. The recommendation is not being repeated.
- Formal action should be taken by the Purchasing Administrator against Cardholders that consistently fail to complete the reconciliation and reallocation process within the timeframes specified by the University. Monthly bank credit card statements should be date stamped when received at the department. Also, the Purchasing Card Log should be revised to include a space for recording the total amount of purchases made during the monthly cycle in order to improve the reconciliation process. The recommendation is not being repeated.
- 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. This recommendation is being repeated. (See Recommendation 4.)
- The University should use UCONN 2000 bond funds in the manner specified in Section 10a-109e, subsection (a), of the General Statutes. We did not find any additional instances in the current audit which also had the condition upon which this recommendation was based. Therefore, the recommendation is not being repeated.
- The University should develop a comprehensive Construction Policies and Procedures Manual. The University has put forth a significant effort towards implementing this recommendation. The recommendation is not being repeated.
- The University should enhance competition by publicly soliciting open competitive bids on construction projects after finalizing project design details. Recent legislation, as well as changes implemented by the University has mitigated our concerns in this area. Accordingly, this recommendation is not being repeated.
- In order to strengthen internal control, the University should consider having the

administrative heads of the Payroll Department and the Accounts Payable Department report to the Vice President and Chief Financial Officer. The University has asserted that alternative controls have been designed and put in place which provides adequate internal control. We found no evidence to refute the University's assertion. The recommendation is not being repeated.

- The University should re-establish the Human Resources Department as an integral component of the control environment. We did not find the conditions upon which this recommendation was based in the current audit. The recommendation is not being repeated.
- The University should hire personnel with the required abilities and at an appropriate compensation level rather than rely on outside consultants. We did not find the conditions upon which this recommendation was based in the current audit. The recommendation is not being repeated.
- The University should make a list of any known uncollectible accounts receivable and submit such list to the Secretary of the Office of Policy and Management requesting that they be cancelled. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should pay employees in accordance with contractual mandates. We did not find the conditions upon which this recommendation was based in the current audit. 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. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should inform departments of the criteria and process to follow prior to transferring University resources. The University has implemented this recommendation. The recommendation is not being repeated.

*Current Audit Recommendations:*

- 1. The University should centralize control over the vehicle fleet by allocating the necessary resources to the Transportation Department and develop a comprehensive motor vehicle policy and procedures manual.**

Comment:

We noted a lack of centralized oversight of the University's fleet of vehicles and the lack of a comprehensive policies and procedures manual.

- 2. In those instances in which the lowest proposal is not selected the University should prepare documentation that provides evidence of the rational for their decision.**

Comment:

We noted that the University did not select the lowest proposal for the new cogeneration facility. Our analysis of available information left us concerned as to why the lowest proposal was not selected.

- 3. In those instances in which fundamental terms upon which a contract was awarded have changed, the University should take steps to ensure that the new contract is awarded in an open and competitive process.**

Comment:

The University incurred a contractual obligation in which a major party was selected in a less than transparent fashion.

- 4. The University should assign the responsibility for developing procedures to identify entities affiliated with the University and should enter into formalized agreements with these entities.**

Comment:

We found the University's procedures for the monitoring of non-profit entities operating on the University's campuses to be inadequate.

- 5. The University should publicly advertise to solicit competition for projects that have not previously been publicly advertised and for which less than three bids have been received.**

Comment:

We found the instances in which competition for certain construction contracts had been restricted to less than the traditional three bid minimum.

- 6. The University should increase the segregation of duties in the areas of requests for construction contract modifications and the pricing of such construction contract modifications.**

Comment:

The University's Architectural and Engineering Unit initiates requests for construction amendments and change orders, evaluates the proposals for such amendments and change orders, negotiates the price for such change orders and amendments and approves the work performed under such amendments and change orders.

- 7. The University should establish the scope and price of services prior to establishing contractual relationships with design professionals and engineers. In those instances in**

**which the scope of a project significantly changes due to unforeseen circumstances consideration should be given to soliciting new proposals in an open and competitive process.**

Comment:

We noted several instances in which the final contract amount for design and engineering services was significantly higher than the original contract amount.

- 8. For those UCONN 2000 projects for which it is anticipated that expenditures will exceed authorized amounts, the University should seek the approval of the Board of Trustees to revise the General Obligation indenture and increase authorized amounts, prior to actually incurring the expenditures.**

Comment:

In several instances UCONN 2000 construction expenditures exceeded existing Board of Trustees authorizations.

- 9. The University should solicit competitive bids or proposals in those instances in which it is estimated that an expenditure will exceed \$50,000.**

Comment:

The University failed to seek competitive bids or proposals for a contract involving the administration of their Owner Controlled Insurance Program. Such contract had a value of at least \$300,000.

- 10. The University should annually submit a list of professional staff positions to the Commissioner of Administrative Services.**

Comment:

The University has not submitted an annual list of professional staff positions to the Commissioner of Administrative Services as required by Section 10a-108 of the General Statutes.

- 11. All non-routine journal entries should be subject to supervisory review to insure that adequate backup exists to support the entry.**

Comment:

We noted instances in which the reason for making journal entries was not adequately documented.

- 12. The University should not grant dependent tuition waivers to non-university employees.**

Comment:

We noted instances in which the University had granted dependent tuition waivers to employees of the University of Connecticut Foundation Inc. a separate non-profit corporation.

**13. The University should not make payments to outside parties who have liabilities to the University.**

Comment:

The University made payments of \$130,000 to a former employee who owed the University \$100,000.

**14. The University should require that any contract relating to the sale of University property have as a component of such contract a requirement that the University receive at least the fair market value of the property.**

Comment:

The University sold land for less than fair market value to a former employee.

**15. The University should inform employees that funds received in exchange for obligations of service by University employees must be deposited in State/University accounts.**

Comment:

Funds which should have been deposited in State/University accounts and subject to State/University control procedures were instead deposited into the Foundation.

## **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, 2004 and 2005. 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 year ended June 30, 2004 and 2005, is included as a part of our Statewide Single Audit 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 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, 2004 and 2005, 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 two 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. These findings are the inappropriate treatment of funds for deposit and retention in state accounts; and the violation of the UConn 2000 Bond Indenture.

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: the lack of segregation of duties between requests for contract modification and negotiation of price for contract modifications; the lack of documentation supporting contractor selection; the inadequate support of general journal entries; and the lack of competitive bidding.

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 none 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