

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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July 2, 2012

**AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009**

We examined the financial records of the University of Connecticut (University) for the fiscal years ended June 30, 2008 and 2009. The University is a component unit of the University of Connecticut system, which includes the University, the University of Connecticut Health Center (Health Center) and the University of Connecticut Foundation, Inc. (Foundation). This report on that examination consists of the Comments, Recommendations and Certification that 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'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, a constituent unit of the state system of higher education, operates generally under the provisions of Title 10a, Chapter 185b, Part III, of the General Statutes. During the audited period, the University was subject to statewide policy and guidelines established by, and submitted its budget through, the Board of Governors of Higher Education.

The Board of Governors of Higher Education was eliminated effective July 1, 2011, when the state system of higher education was reorganized under Public Act 11-48. The University is no longer subject to statewide policy and guidelines for constituent units of the state system of higher education and now submits its budget directly to the Office of Policy and Management.

However, certain responsibilities of the Board of Governors of Higher Education regarding the University were transferred to the newly established Board of Regents for Higher Education. Most notably, the University is required to submit recommendations for the establishment of new academic programs to the Board of Regents for Higher Education for approval.

The University is governed by the Board of Trustees of the University of Connecticut, consisting of 21 members appointed or elected under the provisions of Section 10a-103 of the General Statutes. The Board of Trustees of the University of Connecticut makes rules for the government 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 as of June 30, 2009, were:

Ex officio members:

M. Jodi Rell, Governor  
Joan McDonald, Commissioner of Economic and Community Development  
Gerard N. Burrow, M.D., Chairperson of the Health Center's Board of Directors  
F. Philip Prelli, Commissioner of Agriculture  
Mark K. McQuillan, Commissioner of Education

Appointed by the Governor:

John W. Rowe, M.D., New York, Chair  
Louise M. Bailey, West Hartford, Secretary  
Michael A Bozzuto, Avon  
Peter S. Drotch, Framingham, Massachusetts  
Linda P. Gatling, Southington  
Lenworth M. Jacobs, M.D., West Hartford  
Rebecca Lobo, Granby  
Michael J. Martinez, East Lyme  
Denis J. Nayden, Stamford  
Thomas D. Ritter, Hartford  
Wayne J. Shepperd, Danbury  
Richard Treibick, Greenwich

Elected by alumni:

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

Elected by students:

Richard Colon, Jr., Vernon  
Ross Gionfriddo, West Hartford

June 30, 2007, marked the completion of the term of Salmun Kazerounian of Storrs; he was succeeded by Ross Gionfriddo of West Hartford effective July 1, 2007. Ronald F. Angelo, Jr. served as Acting Commissioner of Economic and Community Development until Joan McDonald was appointed to the position effective May 9, 2007. Michael J. Nichols of Hartford served until June 30, 2008; he was succeeded by Richard Colon, Jr. of Vernon effective July 1, 2008.

June 30, 2009, marked the completion of the term of Linda P. Gatling of, Southington; she was succeeded by Robert Ward of Northford, effective July 1, 2009. John W. Rowe of New York resigned at the end of the 2008-2009 fiscal year; he was succeeded by Lawrence D. McHugh of Middletown.

Pursuant to Section 10a-108 of the General Statutes, the Board of Trustees of the University of Connecticut is to appoint a president of the University to be the chief executive and administrative officer of the University and the Board of Trustees. Philip E. Austin served as president until he stepped down on September 14, 2007, and assumed the title of President Emeritus and University Professor. Michael J. Hogan became the 14th president of the University on that date.

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  
Connecticut Sea Grant College Program  
National Undersea Research Center

**Farmington:**

University of Connecticut Health Center

**Greater Hartford:**

University of Connecticut at Hartford  
University of Connecticut School of Law  
School of Social Work  
Graduate Business Learning Center

**Stamford:**

University of Connecticut at Stamford  
Graduate Programs at Stamford

**Torrington:**

University of Connecticut at Torrington

**Waterbury:**

University of Connecticut at Waterbury  
Graduate Programs at Waterbury

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

**Autonomy:**

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 and the University's Ballard Institute and Museum of Puppetry is designated the State Museum of Puppetry by Section 10a-112m.

Statutes governing the state's constituent institutions of higher education provide the University notable autonomy and flexibility. The most significant changes were effectuated by Public Act 91-256, which greatly expanded certain limited authorities granted by Public Act 90-201. Subsequent legislation increased the degree of independence granted the institutions.

This independence is most notable with respect to procurement actions. Institutions of higher education may, under Section 10a-151b of the General Statutes, purchase equipment, supplies and services, and lease personal property without review and approval by the State Comptroller, the Department of Administrative Services or the Department of Information Technology. Further, they are not subject to the restrictions concerning personal service agreements codified under Sections 4-212 through 4-219, although, as a compensating measure, personal service agreements executed by the institutions of higher education must satisfy the same requirements generally applicable to other procurement actions.

Under Section 3-25 of the General Statutes, higher education institutions may, subject to the approval of the Comptroller, pay most non-payroll expenditures (those funded from the proceeds of state bond issuances being an exception) directly, instead of through the State Comptroller. The University issues checks that are drawn on a zero balance checking account controlled by the State Treasurer. Under the approved procedures, funds are advanced from the University's civil list funds to the Treasurer's cash management account. The Treasurer transfers funds from the cash management account to the zero balance checking account on a daily basis, as needed to satisfy checks that have cleared.

Though Section 3-25 clearly states that "payments for payroll...shall be made solely by the Treasurer..." the University does pay the majority of its food service employees directly. This situation is discussed in more detail in the Condition of Records section of this report.

The University also enjoys a significant degree of autonomy with respect to personnel matters. Section 10a-108 of the General Statutes grants the Board of Trustees the authority to employ professional employees and establish the terms and conditions of employment. Section 10a-154b allows institutions of higher education to establish positions and approve the filling of all position vacancies within the limits of available funds.

#### **UConn 2000:**

Public Act 95-230, known as The University of Connecticut 2000 Act, authorized a massive infrastructure improvement program to be managed by the University, effective June 7, 1995. Although subsection (c) of Section 7 of Public Act 95-230 provides that the securities issued to fund this program are to be issued as general obligations of the University, it also commits the state to fund the debt service, both principle and interest, on these securities, for the most part, from the resources of the General Fund. Per subsection (c) of Section 5 of Public Act 95-230, "As part of the contract of the state with the holders of the securities secured by the state

debt service commitment and pursuant to section 21 of this act, appropriation of all amounts of the state debt service commitment is hereby made out of the resources of the general fund and the treasurer shall pay such amount in each fiscal year, to the paying agent on the securities secured by the state debt service commitment or otherwise as the treasurer shall provide.”

These securities are not considered to be a state bond issue as referred to in Section 3-25 of the General Statutes. Therefore, the University is able to make payments related to the program directly, rather than process them through the State Comptroller.

Subdivision (1) of subsection (b) of Section 9 of Public Act 95-230 established a permanent endowment fund, the net earnings on the principal of which are to be dedicated and made available for endowed professorships, scholarships and programmatic enhancements. To encourage donations, subparagraph (A) of subdivision (2) of subsection (b) of Section 9 of the act provided for state matching funds for eligible donations deposited into the fund, limiting the total amount matched to \$10,000,000 in any one year and to \$20,000,000 in the aggregate. It specified that the match, which was to be financed from the General Fund, would be paid into the fund during the fiscal years ending June 30, 1998, 1999 and 2000.

Effective July 1, 1998, Section 28 of Public Act 98-252 authorized the deposit of state matching funds in the University or in a foundation operating pursuant to Sections 4-37e and 4-37f consistent with the deposit of endowment fund eligible gifts. This provision was made to clarify the issue of whether state matching funds could become foundation assets or must be deemed assets of the associated constituent unit of higher education.

The enabling legislation for this program was subsequently amended to extend it through the fiscal year ending June 30, 2014; the state’s maximum commitment was set as an amount not exceeding ten million dollars for the fiscal year ending June 30, 1999, seven million five hundred thousand dollars for each of the fiscal years ending June 30, 2000, June 30, 2002, June 30, 2003, June 30, 2004, and June 30, 2005, five million dollars for the fiscal year ending June 30, 2001, ten million dollars for the fiscal years ending June 30, 2006, and June 30, 2008, and fifteen million dollars for the fiscal years ending June 30, 2009, to June 30, 2014, inclusive, per Section 10a-109c of the General Statutes.

Further, the amending legislation, codified in Section 10a-109i of the General Statutes, reduced the state match, from a one-to-one ratio to a one-to-two ratio (one state dollar for two private dollars) beginning with the fiscal year ended June 30, 1999, except for eligible gift amounts certified for the fiscal years ended June 30, 1999 and 2000, for which written commitments were made prior to July 1, 1997. The ratio was further reduced to a one-to-four ratio beginning with the fiscal year ended June 30, 2008; similar caveats were established providing for a one-to-two match for gifts made during the period from January 1, 2005 to June 30, 2005, and multi-year commitments for periods beginning prior to December 31, 2004, but ending before December 31, 2012.

The timing of the payment of the state match is affected by the state’s financial condition. As of February 2010, the outstanding amount of the state match due for calendar years 2005-2009 was \$16,200,000.

**Recent Legislation:**

During the period under review, and thereafter, legislation was passed by the General Assembly affecting the University. The most noteworthy items, including certain items that primarily affect the Health Center, but are important to the University due to their impact on the University of Connecticut system as a whole, are presented below:

- Public Act 07-1, June Special Session, Section 123, authorized a deficiency appropriation for the Health Center of \$22,100,000.
- Public Act 07-3, June Special Session, Section 55, prohibited the use of tuition and student fee revenue for repairs performed solely to correct code violations for certain projects completed prior to January 1, 2007.
- Public Act 07-7, June Special Session, Section 100, gave the State Bond Commission the authority to authorize up to \$20,000,000 for parking facilities related to University activities.
- Special Act No. 08-1, June 11 Special Session, Section 2, authorized a deficiency appropriation for the Health Center of \$21,900,000.
- Public Act 09-2, June 19 Special Session, Section 2, authorized a deficiency appropriation for the Health Center of \$22,200,000.
- Public Act 09-3, September Special Session, Section 60, removed the requirement to maintain the University of Connecticut Health Center Medical Malpractice Trust Fund on a sound actuarial basis.
- Public Act 09-7, September Special Session, Section 103, transferred \$10,000,000 from the University of Connecticut Health Center Medical Malpractice Trust Fund to the General Fund for fiscal years 2009-2010 and 2010-2011.
- Public Act 10-3, Section 16, transferred \$8,000,000 and \$15,000,000 from the University of Connecticut operating reserve account to the General Fund for fiscal years 2009-2010 and 2010-2011, respectively.
- Public Act 10-104, authorized \$362,000,000 to renovate the John Dempsey Hospital and construct a new patient tower (\$332,000,000, see Section 5) and provide various benefits for other area health care organizations. The initiative was contingent on the award of a \$100,000,000 federal grant, which other states could compete for. The remaining \$262,000,000 was to be funded from general state tax revenues. Per Section 5 of the enabling legislation, the initiative was to terminate if the \$100,000,000 was not obtained through the grant, or from other sources, by June 30, 2015.
- Public Act 10-179, Section 82, modified Public Act 10-104, increasing the amount of funding designated to be used for the purpose of providing various benefits for other area health care organizations by \$3,000,000, increasing total planned expenditures to \$365,000,000.
- Public Act 11-6, Section 44, capped expenditures for institutional administration at 3.13 percent and 3.1 percent of the annual General Fund appropriation plus operating fund expenditures, for fiscal years 2011-2012 and 2012-2013, respectively.
- Public Act 11-6, Section 56, requires the president of the University to submit recommendations for cost savings to the General Assembly by January 1, 2012.

- Public Act 11-48 eliminated the Board of Governors of Higher Education, removing the requirement for the University to comply with statewide policy and guidelines of constituent units of the state system of higher education and providing for the University to submit its budget directly to the Office of Policy and Management. Certain responsibilities of the Board of Governors of Higher Education regarding the University, most notably the responsibility for approving new academic programs, were transferred to the newly established Board of Regents for Higher Education. The act also requires the constituent units of the state system of higher education to use their best efforts fully utilize CORE-CT and to initiate the process of determining consistent classification and compensation for employees not represented by an employee organization, as defined in Section 5-270 of the General Statutes.
- Public Act 11-57, Section 92, gave the State Bond Commission the authority to authorize up to \$172,500,000 for the development of a technology park at the University.
- Public Act 11-75, modified the initiative established by Public Act 10-104, increasing the authorized amount of state bond funding by \$254,900,000. It also increased the scope of the project, incorporating existing renovation projects funded for \$73,000,000 and adding a provision for the construction of a new ambulatory care center to be financed through \$203,000,000 in debt or equity financing from one or more private developers. It removed the requirement to obtain \$100,000,000 in grant or other funding before expending state bond funds for the project, replacing it with the requirement that the Health Center contribute not less than \$69,000,000 from operations, special eligible gifts or other sources. Total planned expenditures increased from \$365,000,000 to \$864,900,000.

**Enrollment Statistics:**

Statistics compiled by the University’s registrar present the following enrollments in the University’s credit programs during the audited period.

Student Status	2007-2008		2008-2009	
	Fall	Spring	Fall	Spring
Undergraduates	20,846	19,908	21,372	20,313
Graduates	6,425	6,294	6,583	6,343
Professional (School of Law and Doctor of Pharmacy)	919	882	925	891
Medicine – Students	323	323	331	331
Medicine – Other <sup>(1)</sup>	585	585	585	585
Dental – Students	164	164	172	172
Dental – Other <sup>(1)</sup>	109	109	121	121
Totals	29,371	28,265	30,089	28,756

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

**RÉSUMÉ OF OPERATIONS:**

Under the provisions of Section 10a-105, subsection (a), of the General Statutes, fees for tuition are fixed by the University's Board of Trustees. The following summary presents annual tuition charges during the audited period.

Student Status	2007-2008			2008-2009		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$6,816	\$20,760	\$10,224	\$7,200	\$21,912	\$10,800
Graduates	8,442	21,924	12,672	8,910	23,130	13,374
School of Law	17,520	36,960	26,280	18,480	38,976	27,744

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.
- Accounts established in capital project and special revenue funds for appropriations financed primarily with bond proceeds.

The University maintained additional accounts that were not reflected in the state's civil list financial system. The most significant relate to the UConn 2000 infrastructure improvement program. They are used to account for the revenue from the issuance of UConn 2000 bonds and related expenditures.

The University also maintains a Special Local Fund that is used to account for endowments, scholarships and designated funds, loans, agency funds and miscellaneous unrestricted balances. The Special Local Fund was authorized by Governor William A. O'Neill under Section 4-31a, subsection (b), of the General Statutes in 1987 to encompass existing local funds which had traditionally been under University control.

Additionally, there are certain activity funds associated with the University which, while legally controlled by the University, 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
- 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 financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. The University utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, states that proprietary activities may elect to apply the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. The University has not elected this option.

The University's financial statements are adjusted as necessary and incorporated in the state's Comprehensive Annual Financial Report. The financial balances and activity of the University are combined with those of the Health Center, including the John Dempsey Hospital, and presented as an enterprise fund.

University employment fell slightly during the audited period. The University reported 4,555, 4,631 and 4,410 full and part-time faculty and staff as of the Fall 2007, 2008 and 2009 semesters, respectively. This decrease resulted from the 2009 retirement incentive program, which provided certain benefits for eligible employees if they retired effective June 1, or July 1, 2009.

The University's total net assets balance decreased by \$39,552,708 from \$1,417,649,558 as of June 30, 2007, to \$1,378,096,850 as of June 30, 2008. It then increased by \$40,381,626 to \$1,418,478,476 as of June 30, 2009. These changes did not reflect fluctuations in the results of operations, which remained relatively stable. They were caused by the timing of the provision of state capital appropriation support to the University. In the fiscal year, ended June 30, 2008, the University received \$8,000,000 in state capital appropriations. In the following year, the state received \$104,000,000 in state capital appropriations in the form of the state debt service commitment for principle attendant on the sale of bonds in connection with the UConn 2000 infrastructure improvement program.

The University's unrestricted net assets balance increased by \$13,936,979 from \$121,847,247 as of June 30, 2007, to \$135,784,226 as of June 30, 2008. It increased again during the following fiscal year, by \$11,464,385, to \$147,248,611 as of June 30, 2009. Similarly, the University's cash and cash equivalents balance increased by \$22,784,208 from \$196,457,960 as

of June 30, 2007, to \$219,242,168 as of June 30, 2008, and again by \$22,441,226 during the following fiscal year to \$241,683,394 as of June 30, 2009.

Total University revenues and other additions, operating and nonoperating, were \$898,420,119 and \$1,026,028,944 for the fiscal years ended June 30, 2008 and 2009, respectively. State General Fund support, primarily in the form of annual appropriations for operating expenses, in-kind fringe benefit support and the state debt service commitment for principle and interest on UConn 2000 related bonds, was the University's largest source of revenue. It totaled \$375,761,644 (42 percent) and \$470,504,640 (46 percent) of total revenues for the fiscal years ended June 30, 2008 and 2009, respectively. The large increase in the second year of the audited period reflected the timing of the provision of state capital appropriation support to the University, as discussed above.

Other significant sources of revenue included student tuition and fees, sales and services of auxiliary enterprises, and grant and contract revenues. Student tuition and fees were \$199,720,598 and \$215,641,536 for the fiscal years ended June 30, 2008 and 2009, respectively. Sales and services of auxiliary enterprises were \$133,471,934 and \$149,500,934 for the fiscal years ended June 30, 2008 and 2009, respectively. Grant and contract revenues totaled \$121,264,203 and \$132,577,163 for the fiscal years ended June 30, 2008 and 2009, respectively.

Total University expenses and other deductions, operating and nonoperating, were \$937,972,827 and \$985,647,318 for the fiscal years ended June 30, 2008 and 2009, respectively. Most were classified as operating expenses. A schedule of operating expenses by functional classification, as presented in the University's financial statements for the audited period follows:

	<u>2007-2008</u>	<u>2008-2009</u>
Instruction	\$279,086,991	\$284,054,407
Research	60,345,206	64,028,438
Public Service	33,854,891	37,128,819
Academic Support	81,513,934	87,046,815
Student Services	36,006,579	36,711,365
Institutional Support	72,314,553	83,169,130
Operations and Maintenance of Plant	64,110,720	71,478,092
Depreciation	100,186,738	89,556,846
Student Aid	4,009,588	3,917,207
Auxiliary Enterprises	135,061,206	144,375,731
Other Operating Expenses	<u>16,491,610</u>	<u>30,579,207</u>
Total Operating Expenses	<u>\$882,982,016</u>	<u>\$932,046,057</u>

The only material nonoperating expenses during the audited period were interest payments. Interest expense was \$51,246,898 and \$48,915,717 for the fiscal years ended June 30, 2008 and 2009, respectively. This expense was, for the most part, offset by transfers from the state General Fund. The state debt service commitment for interest was \$39,525,537 and \$37,843,218 for the fiscal years ended June 30, 2008 and 2009, respectively. The interest charges on debt issued to finance certain projects, primarily related to student housing, were absorbed by the University's operating fund.

The University did not hold significant endowment and similar funds balances during the audited period, as it has been the University's longstanding practice to deposit funds raised with the University of Connecticut Foundation, Inc. or the University of Connecticut Law School Foundation, Inc. The Foundation provides support for the University and the Health Center. Its financial statements reflect balances and transactions associated with both entities, not only those exclusive to the University. A summary of the two foundations' assets, liabilities, support, and revenue and expenses, as per those audited financial statements, follows:

	Foundation		Law School Foundation	
	Fiscal Year Ended		Fiscal Year Ended	
	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>
Assets	\$396,802,000	\$322,142,000	\$16,538,000	\$14,034,000
Liabilities	16,801,000	16,745,000	2,000	2,000
Net Assets	380,001,000	305,397,000	16,536,000	14,032,000
Revenue and Support <sup>(1)</sup>	32,758,000	(31,337,000)	297,000	(1,241,000)
Expenses	45,696,000	43,267,000	1,692,975	1,263,000

(1) A decline in the value of investments held due to the late 2000s financial downturn resulted in negative net revenue and support for the fiscal year ended June 30, 2009.

## CONDITION OF RECORDS

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

### **Compensation Limits:**

*Criteria:* Compensation levels for state employees are normally determined by established salary schedules with set minimums and maximums. Employees generally receive annual increases, advancing within the schedules until they reach the maximum salary for their positions. Once employees reach the maximum salary for their positions, their base salaries only increase when the salary schedules are adjusted for inflation.

*Condition:* Compensation for University employees that fall under one of the standard state collective bargaining agreements is in accordance with the practice described above. However, though the University has established hiring salary guidelines for employees that fall under the University of Connecticut Professional Employees Union, it has not established maximum rates of pay for such employees. For employees that fall under the American Association of University Professors collective bargaining agreement (primarily faculty), only minimum rates have been established. For other non-classified employees, such as managers and confidential employees, neither minimums nor maximums have been established.

*Effect:* The compensation levels of University professional employees are not constrained within salary ranges established by an analysis of market conditions.

*Cause:* Section 10a-108 of the General Statutes states, "The board of trustees may employ the faculty and other personnel needed to operate and maintain the institutions under its jurisdiction. Within the limitation of appropriations, the board of trustees shall fix the compensation of such personnel, establish terms and conditions of employment and prescribe their duties and qualifications." The Board of Trustees has not opted to establish formal constraints on compensation levels.

*Recommendation:* The University's Department of Human Resources should establish salary ranges for all professional employees that are based on an analysis of market conditions. The ranges should not be exceeded for new hires or existing employees without specific board approval. (See Recommendation 1.)

*Agency Response:* “The University acknowledges that a sound compensation structure is important to effective recruitment and retention of a highly qualified workforce and supports effective management of financial resources.

The compensation structures for UCPEA and AAUP were established in the 1980’s through the collective bargaining process and may be modified through that process. The University’s Board of Trustees established a special committee on executive compensation in April of 2011. This committee is reviewing the compensation structure for managerial staff to determine what methodology will best support the interests of the institution, in compliance with the Board’s statutory obligations. In the meantime, the University will continue to utilize benchmark data to establish appropriate compensation levels consistent with industry norms.”

**Authority to Fix Compensation:**

*Criteria:* Under Section 10a-108 of the General Statutes, the Board of Trustees has the authority to “employ the faculty and other personnel needed” and “fix the compensation of such personnel.” Though the statute does not prohibit the board from delegating this authority, there appear to be some limitations on its ability to do so. Addressing similar legislation regarding the authority of the Connecticut State University Board of Trustees, the Attorney General expressed the opinion that the delegation of certain responsibilities was improper. When authority is delegated, the delegation should be fully and clearly expressed, leaving nothing implied.

*Condition:* In 1989, the Board of Trustees voted to “delegate the authority to approve compensation packages of employees to the President” and provided that this authority is “conditioned upon the requirement that the President report all compensation arrangements to the board on an annual basis.” Though the president does not appear to be reporting all compensation arrangements to the Board of Trustees on an annual basis, this action does, at least, provide explicit delegation of the Board of Trustees’ authority to establish pay rates to the president.

In 1995, the University adopted a strategic plan titled “Beyond 2000: Change” which identified the allocation of resources as a primary strategic goal. The University addressed this goal by implementing an allocation model built on a block grant philosophy with decision making decentralized to as great a degree

as possible. This resulted in the effective delegation of the authority to establish pay rates to the departmental level.

This further delegation of the Board of Trustees' authority to the departmental level appears to have occurred as an indirect consequence of the University's efforts to decentralize. We did not find any documentation on file that clearly established the Board of Trustees' intentions in this area.

*Effect:* It is clear that the Board of Trustees intended to set responsibility for allocating budgeted amounts between personal services and other expenses at the department level. However, it is not clear whether or not the Board of Trustees intended to delegate the authority to establish pay rates in the same manner.

*Cause:* It could not be readily determined why this was not addressed.

*Recommendation:* The University should establish, and submit to the Board of Trustees for approval, policies that clearly specify which administrators have the authority to approve staff salaries and define the limits of those administrators' authority in this area. The authority to set the salaries of high level managerial personnel, such as University vice presidents and similar level executives, should be retained by the board. (See Recommendation 2.)

*Agency Response:* "The intent of the Board of Trustees was to delegate hiring decisions to the President. Implicit in that delegation is the responsibility to decide how best to set appropriate salaries for such hires at the departmental level. The move to decentralization was known by the Board and it has relied on the President to establish appropriate salary levels. In general, the President has tasked Human Resources to work in collaboration with the hiring departments in this effort. The University's Board of Trustees established a special committee on executive compensation in April of 2011. This committee is reviewing the compensation structure for managerial staff to determine what methodology will best support the interests of the institution, in compliance with the Board's statutory obligations. This compensation committee will also review the practice of the decentralization of salary decisions and make a recommendation to the Board to clearly establish its intent. It will also review the 1989 policy and make a recommendation as to whether or not it should be modified."

### **Food Services Employees:**

*Background:* The Associated Student Commissaries was an association of student-operated commissaries occupying University residences

that was formed to provide central administrative services for the member commissaries. It operated as an activity fund established under the authority of Section 4-53 of the General Statutes, in accordance with procedures prescribed by the Comptroller.

In 1979, the Connecticut State Board of Labor Relations was asked to determine if the employer of cooks and kitchen assistants in the member commissaries was the Associated Student Commissaries or the individual member commissaries. The Board of Labor Relations concluded that they were employed by the individual student commissaries, as the power to hire, discharge and discipline the kitchen employees as well as to control the wages, hours, and other conditions of employment was vested in the individual commissaries, not in the Associated Student Commissaries.

Employees of the member commissaries comprised only a portion of the University's food service employees at that time. Staff serving in the large dining halls were state employees paid through the Comptroller.

The degree of independence and authority enjoyed by the member commissaries gradually eroded over time. Eventually, the smaller dining halls formerly controlled by the member commissaries closed and the Associated Student Commissaries activity fund effectively ceased operations.

Currently, students are served by several large dining halls operated by the Department of Dining Services of the Division of Student Affairs. The power to hire, discharge and discipline staff and to control the wages, hours, and other conditions of employment rests with University administrators. However, most of the food service operations employees staffing these large dining halls are now paid directly by the University in a manner similar to the way the former employees of the member commissaries were compensated.

Most food service operations staff are not members of the State retirement system. Instead, they are eligible to participate in two other retirement plans, the Department of Dining Services Money Purchase Pension Plan or the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

The University filed a request for a ruling regarding the status of Department of Dining Services pension plans on May 17, 1999. In a ruling dated February 24, 2000, the Internal Revenue Service agreed that the food service operations employees are employees

of an agency or instrumentality of the state and that the plans are governmental plans.

*Criteria:* Under Section 10a-108 of the General Statutes, the Board of Trustees has the authority to “employ the faculty and other personnel needed” and “fix the compensation of such personnel.” The Board of Trustees’ authority to fix compensation does not extend to employees in state classified service. The work done by most food service operations staff appears to be of a type normally performed by employees in state classified service. Section 10a-108 does not address participation in retirement plans.

Section 3-25 of the General Statutes authorizes constituent units of the state system of higher education to pay certain claims directly, rather than through the State Comptroller. However, Section 3-25 specifically excludes payments for payroll.

*Condition:* The University’s food service operations staff are generally referred to as Dining Services employees to distinguish them from other University employees. However, the Department of Dining Services is a unit of the University of Connecticut and, therefore, of the state. Accordingly, the University’s food service operation staff are employed by the state.

Unlike other University staff, they are paid directly by the University instead of through the State Comptroller. Additionally, as noted above, they participate in separate retirement plans.

*Effect:* Though there are sound operational reasons for the University’s method of compensating its food service operations staff, the legal basis for the direct payment of wages by the University is unclear, as is the participation of these employees in separate retirement plans.

*Cause:* The University did not seek clear statutory authorization to pay its food service operations staff in this manner.

*Recommendation:* The University should seek clear statutory authorization for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. (See Recommendation 3.)

*Agency Response:* “As part of a 2010 review of the status of these Dining Services employees by the Auditors of Public Accounts, the University reported that because the Internal Revenue Service determined the operation to be a 501(c)(3) non-profit organization, (1983) and the Connecticut Board of Labor Relations has determined that the

employees are “non-state employees,” (1979) the University considered the operation to be a separate entity, and we continue to be of that opinion. However, the University will revisit the statutory framework to assess what modifications may be appropriate.”

*Auditors’ Concluding  
Comments:*

The opinions cited by the University in its response applied to the Associated Student Commissaries, an association of student operated commissaries occupying University residences which ceased operations a number of years ago. They do not apply to food service employees employed by the University. Accordingly, they do not provide any support for the University’s current practice of paying its food services employees directly, instead of through the State Comptroller as required by law.

**Payments for Accrued Compensated Absences:**

*Criteria:*

When employees terminate, they are entitled to be paid for unused vacation leave in accordance with the provisions of Section 5-252 of the General Statutes, subject to certain contractual limitations. When employees retire, they are also entitled to be paid for unused sick leave at the rate of one-fourth of their salary up to a maximum payment equivalent to sixty days pay, in accordance with the provisions of Section 5-247 of the General Statutes. These unused leave balances are referred to as accrued compensated absences.

Additionally, certain University managers are paid for their accumulated vacation leave when they change status and become members of the faculty bargaining unit. This is a University policy established under the authority of Section 10a-108 of the General Statutes.

*Condition:*

We reviewed payments to 20 employees for accrued compensated absences made during the period from March 2007 through April 2009. We noted two errors that had not been detected by the University, resulting in overpayments of \$1,367 and \$28,808.

We reviewed payments to 27 employees for accrued compensated absences made during the fiscal year ended June 30, 2010. We noted two errors that had not been detected by the University, resulting in underpayments of \$138 and \$3,290.

We found similar errors in previous periods. In our report on the University for the fiscal years ended June 30, 2006 and 2007, we noted that our review had disclosed errors, ranging from \$93 to \$835 in amount, in the calculation of five of 25 payments tested.

Effective with the pay period ended July 15, 2010, the University improved control in this area. All payments for accrued compensated absences are now audited for accuracy by a payroll supervisor on a biweekly basis.

*Effect:* We reviewed only a test sample of payments made. It is likely that other errors occurred and remain uncorrected.

*Cause:* Prior to the pay period ended July 15, 2010, payments for accrued compensated absences were not subject to routine supervisory review.

*Recommendation:* The University should review payments made for accrued compensated absences made prior to the pay period ended July 15, 2010. (See Recommendation 4.)

*Agency Response:* “As noted in Vice President Munroe’s March 2011 response ... , additional steps have been taken to mitigate against calculation errors, including supervisory review of all separation payments. Corrective action was taken earlier on the two overpayments referenced in this finding, and the University was made whole on 9/1/09 and 11/6/09 respectively. Additionally, corrective action was taken on the two underpayments on 4/7/11. The Payroll Department agrees with the recommendation to review separation payments made during FY10, and will take corrective action where appropriate.”

*Auditors’ Concluding Comments:* The two overpayments we noted during the period of March 2007 through April 2009, occurred in April 2007 and September 2008. As the condition that resulted in inaccurate payments for compensated absences was not confined to the 2010 fiscal year, we believe that the University should not limit its review of separation payments to that period.

**Approval of Payroll Authorizations:**

*Criteria:* University policy calls for payroll authorizations to be signed, generally, by two individuals authorized to sign such documents, neither of which is the employee whose salary is being authorized. Only one signature is required if the signatory is that of the president, the provost, or any of the vice presidents. Authority to sign is established at the departmental level; it is documented in the University’s online Administrative Task Authorization Tool.

- Condition:* We reviewed salary payments supported by 81 payroll authorizations. We noted eight instances where the payroll authorization was not signed by two individuals identified as authorized to sign such documents for the department in the University's online Administrative Task Authorization Tool. In one of the eight instances, there was only one signatory and the signatory was not authorized to sign for the department.
- Effect:* This requirement was established to enhance control over payroll actions. If the requirement is not enforced by the payroll department, the effectiveness of the control is compromised.
- Cause:* This requirement was not enforced.
- Recommendation:* The payroll department should not process payroll actions unless the related payroll authorization forms are properly signed. (See Recommendation 5.)
- Agency Response:* "The University agrees with this recommendation and the Payroll Department will take appropriate steps to more closely monitor the signatures on payroll authorizations."

**Cost Sharing:**

- Background:* Sponsored research projects obviously benefit the organizations that fund them, as they act to further the purposes of those organizations. Sponsored research projects also benefit the universities that carry out research. In addition to financial support, they provide important educational opportunities for students and professional development for faculty.
- It is generally recognized that, as a matter of equity, universities should contribute to sponsored research projects. Because they reap a portion of the benefits ensuing from the projects, it is reasonable for them to share in the costs of the projects by funding a portion of those costs from their own unrestricted resources.
- Grantors may require universities to assume a share of the costs as a condition when giving or donating a grant. Universities may volunteer to assume a share of the costs if they perceive it will provide an advantage when competing for grants. Additionally, faculty may voluntarily devote additional effort over and above what has been committed because of their personal interest in the projects. Universities need to track and monitor the unrestricted resources they devote to sponsored projects to make sure they are proportionate to the concomitant benefits.

*Criteria:*

Cost sharing occurs when the University bears a portion of the costs of a sponsored project (charges the costs to unrestricted funds instead of billing the sponsor). When cost sharing occurs, the University forfeits not only the recovery of the direct cost but also the recovery of the associated facilities and administrative cost.

If cost sharing is required by the sponsor, it is referred to as mandatory committed cost sharing. If cost sharing is not specifically required by the sponsor but is set forth and quantified in the proposal documentation, it is referred to as voluntary committed cost sharing. Voluntary uncommitted cost sharing occurs when researchers devote extra time and effort beyond that required by the sponsor or set forth and quantified in the proposal.

Cost sharing is commonly effectuated by paying researchers out of unrestricted University resources (i.e., funding provided to the University from the resources of the state General Fund) while they work on sponsored projects. This allocation of resources, whether mandatory or voluntary, should be evaluated and approved at the appropriate level.

*Condition:*

The University tracks mandatory and voluntary committed cost sharing in its time and effort reporting system. It does not track voluntary uncommitted cost sharing. Our reviews indicate that there is a significant amount of voluntary uncommitted cost sharing at the University.

In connection with a review of time and effort reports conducted as part of Connecticut's federal Statewide Single Audit, we questioned 35 researchers as to the accuracy of their Fall 2009 time and effort reports. We found that 25 of the reports appeared to overstate the percentage of effort devoted to instruction and understate the percentage of effort devoted to sponsored research.

One researcher's time and effort report showed 100 percent of effort devoted to instruction, but the researcher informed us that only 30 percent was actually devoted to instruction. The remaining 70 percent was devoted to sponsored research. On average, the percent of effort devoted to sponsored research was understated by unrecorded cost sharing amounting to 29 percent of total effort. A separate review of the key personnel compliance requirement yielded similar results.

The total amount of University cost sharing cannot be readily calculated. The University does not track voluntary uncommitted cost sharing, and our reviews were not designed to quantify the amount of voluntary uncommitted cost sharing. However, it does

appear that cost sharing absorbs a significant amount of unrestricted University resources.

*Effect:* Researchers can effectively direct unrestricted University resources to sponsored research projects without going through a formal review and approval process.

*Cause:* The University's goal is to be recognized as one of the nation's top-20 public research universities. In keeping with that goal, research is considered a central task for members of the faculty and the University allocates resources to further that goal.

State funding provided to the University has been sufficient to allow the University to both fulfill its instructional responsibilities and devote significant resources to research. As resources were adequate and faculty participation in research encouraged, it was not considered necessary to establish a formal review and approval process for all cost sharing on sponsored research projects. However, this policy needs to be reevaluated, considering current constraints on state funding.

*Recommendation:* The University should implement a formal process that provides for the review, approval and documentation of all cost sharing. (See Recommendation 6.)

*Agency Response:* "We understand the point being raised by the auditor, although we are not in complete agreement with the specifics of the finding and recommendation. However, we still believe the approval and tracking of voluntary uncommitted cost share is problematic in the context of "the inextricably intermingled functions performed by the faculty in an academic setting (i.e., teaching, research, service and administration)" [see clarification memo by the Office of Management and Budget (OMB), dated January 5, 2001]. In that memo OMB also acknowledges that "The reporting burdens on universities and their faculty associated with detailed recording of voluntary uncommitted cost sharing may be providing a disincentive for the Universities to contribute additional time to the research effort.

Given the complexity of the issues related to cost-sharing, we have decided to establish a committee to review our current practices. This review will include an examination of best practices at peer institutions to ensure that our practices do not place the University at a competitive disadvantage in the context of federal funding in the current budgetary climate. In addition, we will start requiring a level of effort on all sponsored projects for the Principal

Investigator and key personnel that is consistent with project objectives.”

**Board Approval of Contracts:**

*Criteria:* Section 10a-151b of the General Statutes empowers the Board of Trustees to adopt procurement policies for the institution. University policy in effect prior to February 18, 2010, mandated approval for all contracts with a value of \$500,000 or more. That threshold was increased to \$1,000,000, effective February 18, 2010. In order to determine whether Board of Trustees approval is required, it is necessary to consider the total maximum value, not just the annual cost, of a contract. This policy helps ensure that the Board of Trustees is provided with the necessary information to fulfill its oversight responsibilities.

*Condition:* The University and the University of Connecticut Foundation, Inc. (Foundation) entered into an agreement dated December 1, 1994, under which the Foundation assumed primary responsibility for development efforts for the benefit of the University and management of the University’s endowment funds. In accordance with this agreement, the University, including the Health Center, executed a memorandum of understanding with the Foundation effective July 1, 2009, calling for both entities to pay the Foundation not less than \$8,584,000 (including \$1,030,000 from the Health Center).

The \$8,584,000 was intended to reimburse the Foundation for the costs it incurred in the course of raising funds for the University – costs that the University would have had to incur if the Foundation was not handling development efforts for the University. The memorandum was subsequently amended to provide an additional \$2,500,000 to support the Foundation’s proposed purchase of a fundraising database system.

When we asked for documentation to substantiate that the Board of Trustees had approved this contract, we were told that, though it had approved the original 1994 agreement, the Board of Trustees has not been approving the annual memorandums of understanding. As these contracts far exceed the threshold for approval, they should have been approved by the Board of Trustees in accordance with established policy.

We also noted that library subscription payments included in our test sample made to two vendors aggregated \$1,300,000 to one vendor and \$1,429,259 to the other. These procurement actions were not submitted to the Board of Trustees for approval.

*Effect:* These procurement actions appear to have been for legitimate University business purposes. However, the Board of Trustees cannot fulfill its oversight responsibilities if it is not provided with the necessary information by management.

*Cause:* These instances of non-compliance with established policy appear to reflect procedural errors. The Foundation is a related party. The library subscriptions are non-competitive. Accordingly, the mechanisms that would result in the submission of regular vendor contracts of this magnitude to the Board for approval were not engaged.

*Recommendation:* The University should revise its procedures to ensure that all contracts, express or implied, that exceed established thresholds, are submitted to the Board of Trustees for approval as required by the University's legally adopted policy. (See Recommendation 7.)

*Agency Response:* "We believe the Board of Trustees's approval of the 1994 Master Agreement between the Foundation and the University and the Board's approval of the University's budget allows for the University to enter into the MOU with the Foundation without further review from the Board of Trustees. A master agreement between the Foundation and the University was executed on December 1, 1994 which outlines the relationship between the two entities and the responsibilities of the foundation with respect to performing development, investment and other services for the University. The Foundation is also a 501C (3) organization that exists solely to support the University. The 1994 agreement states: "The University designates the Foundation as the primary fund raising entity for the University and it agrees to reimburse the Foundation for reasonable cost of fund raising services that the Foundation provides. All University fundraising shall be coordinated through the Foundation. Annually, the University and the Foundation shall sign a memorandum of understanding which outlines the fund raising goals and objectives that the University and the Foundation have agreed upon and the respective financial arrangement between the two parties to accomplish these goals." Based on the master agreement the University identifies funding for the Foundation in the University Budget which is approved by the Board of Trustees and solidified in the annual MOU's, usually completed sometime after the approved budget. This has been the University's practice for the last seventeen years.

The library expenses in question are recurring expenses for library subscriptions that are part of "doing business" as a research university. The University purchases library media and books each

year as set forth in Section 10a-151a of the state statutes and, in effect, the Board of Trustees approves the continuation of these ongoing library subscriptions as part of the line item for library collections of \$7 million that is part of the overall University budget.”

*Auditors’ Concluding  
Comments:*

The 1994 Master Agreement formalizes a structural relationship between the University and the Foundation. The annual memorandums of understanding, which are signed by representatives of both institutions and approved as to form by a representative of the Attorney General, establish the fiscal details and the specifics of other aspects of that relationship. As they are essential components of the contractual relationship between the University and the Foundation, they should be subject to review and approval by the Board of Trustees.

Budgetary approval of spending levels is not equivalent to approval of specific contracts. The University’s policy of requiring Board of Trustees approval of significant contracts is a critical aspect of the University’s internal control. The memorandums of understanding between the University and the Foundation and the library subscription arrangements should be subject to this control.

**Disaster Recovery Plan:**

*Criteria:*

Information technology systems provide mission critical support functions. A disaster recovery plan provides a step-by-step framework for actions to be taken in response to a disaster that affects these systems. Preparing a comprehensive plan can significantly reduce response time, minimizing the disruptive effect of a serious, unexpected impairment of data processing services on ongoing operations.

*Condition:*

As of June 2011, the University Information Technology Services department, which maintains the University’s core systems, did not have an updated disaster recovery plan on file.

*Effect:*

The lack of a current disaster recovery plan could seriously hamper the University’s ability to respond in a timely fashion if a disaster seriously compromised its core information technology systems, especially if key personnel necessary to the decision making process are temporarily unavailable.

*Cause:*

The cause could not be readily determined.

*Recommendation:* The University should prepare a detailed plan addressing actions to be taken in the event a disaster interrupts key information technology services. The plan should be continuously updated, taking into consideration changes in the systems and in the resources available to deal with potential outages. (See Recommendation 8.)

*Agency Response:* “We agree with this recommendation. Management made disaster planning a priority over the next six months. We started updating all existing disaster recovery plans and will publish an updated disaster recovery plan by the end of June 2012. Currently system level recovery plans do exist and some are already updated, however, they are not assembled in a single location with consistent quality and format. By December we will have electronic and paper copies of our disaster recovery plan stored on-site and off-site. Our efforts over the next 6 months will include identifying future improvements in our ability to recover from a catastrophic disaster and seek resources to implement an alternate recovery site for critical systems (within budget limitations). We are also taking steps to reduce the risk of system failure in our existing data centers.”

**Changes in the Scope of Exigent Projects:**

*Criteria:* At its March 23, 2004 meeting, the Board of Trustees established a category of projects, titled exigent projects, requiring immediate action. The Board of Trustees authorized the University administration to negotiate with any qualified contractor currently under contract and working at the University on other, unrelated projects, to work on exigent projects.

Exigent projects were to be approved by the vice president for operations, who also had the authority to approve changes in scope that affect the cost of the project. The vice president for operations reported to the vice president and chief operating officer. Effective November 2004, the position of vice president for operations was eliminated.

*Condition:* In August 2007, President Austin approved an exigent project for code remediation work projected to cost \$492,869. Subsequent changes in scope increased the projected cost to \$2,558,060. We were unable to locate documentary evidence that the changes in scope were approved by an individual with the requisite degree of authority.

*Effect:* It does not appear that the changes in scope were properly approved.

- Cause:* We were unable to readily determine why the required authorizations were not obtained.
- Recommendation:* University administrators should obtain and document the required approvals for changes in the scope of exigent projects that affect the cost of the project. (See Recommendation 9.)
- Agency Response:* “The University agrees with this finding. Going forward, the University will endeavor to make sure that the individual with requisite degree of authority signs off on all exigent requests.”

**Construction Program Subcontracts:**

- Criteria:* Section 10a-109n, subsection (c), part (9), requires general contractors to “invite bids and give notice of opportunities to bid on project elements, by advertising, at least once, in one or more newspapers having general circulation in the state ... Each bid shall be kept sealed until opened publicly at the time and place as set forth in the notice soliciting such bid. The construction manager at-risk shall, after consultation with and approval by the university, award any related contracts for project elements to the responsible qualified contractor, who shall be prequalified pursuant to section 4a-100, submitting the lowest bid in compliance with the bid requirements ... .”
- Condition:* We reviewed three construction manager at risk projects. We did not find documentary evidence that all subcontracts were publicly let. Furthermore, for those subcontracts where documentation was on file, the documentation did not include evidence that the award process was reviewed by the University.
- Effect:* It is unclear whether all subcontracts were publicly let and the award processes properly reviewed.
- Cause:* University procedures do not provide for a formal review and sign-off on the award processes for subcontracts.
- Recommendation:* University procedures should be modified to incorporate a formal review and approval of the award process when construction project subcontracts are awarded. (See Recommendation 10.)
- Agency Response:* “The University currently uses AIA Document A133 as its form of agreement between the University (Owner) and the Construction Manager. An excerpt from Article 2 of this contract form follows which identifies the obligations of the parties:

The Construction Manager shall submit to the Owner a proposed process for pre-qualifying subcontractors, soliciting bids from subcontractors, and awarding subcontracts, on each of the elements of the Work, and implement that process upon approval by the University and in accordance with such modifications, conditions and procedures as the University may require. Once subcontractors for each such element of the Work have been pre-qualified, the Construction Manager shall submit a list of those pre-qualified to the Architect and Owner. The Owner shall reply in writing to the Construction Manager indicating its approval or disapproval of those listed to submit bids.

“The Construction Manager shall invite bids from and give notice of opportunities to bid on project elements to those subcontractors pre-qualified pursuant to the Construction Manager’s approved process referred to above, to the extent such subcontractors have been approved by the Owner. Invitations to Bid shall be made and Notice of opportunities shall be given, by advertising, at least once, in one or more newspapers having general circulation in the State of Connecticut. Each bid shall be kept sealed until opened publicly at the time and place set forth in the notice soliciting such bid. The Construction Manager will analyze all bids and proposals to verify that the proposals are complete and that no unacceptable qualifications are made. The Construction Manager shall, after consultation with and approval by the Owner, award any related contracts for Project elements to the responsible, qualified, approved subcontractor submitting the lowest bid in compliance with the bid requirements.

The University has policies, procedures and documentation within the office of Capital Projects and Contract Administration (CPCA) that conform to the Owner’s obligations within. CPCA will review and modify existing documentation procedures to ensure better documentation of the efforts initiated and controlled by the Construction Manager.”

*Auditors’ Concluding  
Comments:*

In the instances described above, we did not find documentary evidence that required procedures were actually carried out. We believe that a formal review and sign-off on the award process for all subcontracts is needed.

**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:* In prior audit reports we noted certain 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.

The University has made some effort to identify those non-profit organizations operating in some manner at the University and put agreements in place. However, documentation provided us did not evidence a comprehensive review. Additionally, we were able to identify additional organizations that did not appear to have been addressed.

*Effect:* The lack of written agreements with affiliated organizations could allow University resources to be used in a manner inconsistent with University policy or expose the University to potential legal liabilities.

*Cause:* We were unable to readily determine why this issue has not been addressed.

*Recommendation:* The University should develop a comprehensive, centralized process for identifying affiliated organizations, determining the nature of the University's interaction with the organizations and verifying that the appropriate written agreements are in place. (See Recommendation 11.)

*Agency Response:* "The University agrees that continued additional effort is required in this area, given its increasingly expansive scope. During the past two years, the University continued to concentrate its efforts on identifying non-profits physically located at the University or not, and ensuring that proper lease or other agreements were in place to the extent possible. (e.g. Roper Center for Public Opinion Research).

Previously, the University assigned this responsibility to the Office of Real Estate and Risk Management. That office discovered a broad array of affiliations, many of which do not involve a physical presence at the University. Accordingly, the University will develop a comprehensive, centralized process for identifying the full array of affiliated entities and ensure that the proper written agreements are in place."

**Prompt Deposit:**

*Criteria:* Per Section 4-32 of the General Statutes, monies in the amount of \$500 or more are to be deposited within twenty-four hours of

receipt. Daily 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:* During a review of cash advances, we noted that ten of 13 checks issued by advance holders to return unused portions of advances were not deposited in a timely manner. The checks ranged from \$3 to \$12,959 and were deposited from one to six months late.

*Effect:* These incidents constituted a violation of the provisions of Section 4-32 of the general statutes and evidenced a breakdown in internal control.

*Cause:* We were informed that an individual staff member, subsequently reassigned, did not carry out this function properly.

*Conclusion:* It is our understanding that this matter has since been addressed by the Accounts Payable and Travel Offices and that it is departmental policy to deposit any checks over \$500 within 24 hours of receipt, and all checks as soon as possible.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

In our previous report on our audit examination of the University, we presented 12 recommendations pertaining to University operations. The following is a summary of those recommendations and the actions taken thereon:

- Take greater care in safekeeping important documents related to the UConn 2000 infrastructure improvement program – we did not find any instances of the condition that prompted this recommendation during our latest review.
- Increase oversight over employees on the special payroll – the Department of Human Resources implemented an electronic workflow system (SPAR) to support centralized review and action on special payroll.
- Enter into comprehensive and current agreements with nonprofit entities affiliated with the University – this recommendation has been restated and repeated. (See Recommendation 11.)
- Subject payments made to temporary part-time employees to additional scrutiny – this recommendation addressed payments made on the special payroll; the Department of Human Resources has increased oversight of the special payroll.
- Require documentation of extenuating circumstances when University personnel use premium airfare – the University has informed us that the Office of Travel Services now requires documentation of extenuating circumstances, and an exception to policy, when University personnel use premium airfare.
- Limit use of negative receiving to invoice amounts of a reasonable dollar value – no deficiencies were found in our latest review.
- Obtain the required gift and campaign certifications at contract signing, as well as during the required annual updates – new procedures were implemented; no deficiencies were found in our latest review.
- Discontinue the practice of providing paid leave time to certain unionized employees before they are eligible – the University addressed this condition.
- Transfer excess Student Organization Fund checking account cash balances to an appropriate interest bearing investment – the University did not maintain excess Student Organization Fund checking account cash balances during the audited period.
- Consider transferring responsibility for the Accounts Payable and Payroll departments to the vice president and chief financial officer to improve segregation of duties – responsibility for the Accounts Payable department was transferred to the vice president

and chief financial officer; the University decided not to transfer responsibility for the Payroll department.

- Limit the use of emergency or exigent purchasing procedures to those circumstances in which true emergency conditions exist – we did not find any new instances of the condition that prompted this recommendation.
- Exercise greater care when calculating payments for accrued compensated absences – new controls were implemented effective with the pay period ended July 15, 2010; payments made prior to that pay period should be reviewed. (See Recommendation 4.)

*Current Audit Recommendations:*

- 1. The University’s Department of Human Resources should establish salary ranges for all professional employees that are based on an analysis of market conditions. The ranges should not be exceeded for new hires or existing employees without specific board approval.**

Comment:

Compensation for University employees that fall under one of the standard state collective bargaining agreements is in accordance with sound practice. However, though the University has established hiring salary guidelines for employees that fall under the University of Connecticut Professional Employees Union, it has not established maximum rates of pay for such employees. For employees that fall under the American Association of University Professors collective bargaining agreement, primarily faculty, only minimum rates have been established. For other non-classified employees, such as managers and confidential employees, neither minimums nor maximums have been established.

- 2. The University should establish, and submit to the Board of Trustees for approval, policies that clearly specify which administrators have the authority to approve staff salaries and define the limits of those administrators’ authority in this area. The authority to set the salaries of high level managerial personnel, such as University vice presidents and similar level executives, should be retained by the board.**

Comment:

In 1995, the University adopted a strategic plan titled “Beyond 2000: Change” which identified the allocation of resources as a primary strategic goal. The University addressed this goal by implementing an allocation model built on a block grant philosophy with decision making decentralized to as great a degree as possible. This resulted in the effective delegation of the authority to establish pay rates to the departmental level.

The further effective delegation of the Board of Trustees' authority to the departmental level appears to have occurred as an indirect consequence of the University's efforts to decentralize. We did not find any documentation on file that clearly established the Board of Trustees' intentions in this area.

- 3. The University should seek clear statutory authorization for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans.**

Comment:

Section 3-25 of the General Statutes authorizes constituent units of the state system of higher education to pay certain claims directly, rather than through the State Comptroller. However, Section 3-25 specifically excludes payments for payroll. Unlike other University staff, food service operations staff are paid directly by the University instead of through the State Comptroller. They also participate in separate retirement plans, though there is no clear statutory authorization for this.

- 4. The University should review payments made for accrued compensated absences made prior to the pay period ended July 15, 2010.**

Comment:

The University improved controls over payments for accrued compensated absences effective with the pay period ended July 15, 2010. However, we noted an unacceptable number of errors when we reviewed samples of payments made prior to that pay period.

- 5. The payroll department should not process payroll actions unless the related payroll authorization forms are properly signed.**

Comment:

We reviewed salary payments supported by 81 payroll authorizations. We noted eight instances where the payroll authorization was not signed by two individuals identified as authorized to sign such documents for the department in the University's online Administrative Task Authorization Tool. In one of the eight instances, there was only one signatory and the signatory was not authorized to sign for the department.

- 6. The University should implement a formal process that provides for the review, approval and documentation of all cost sharing.**

Comment:

In connection with a review of time and effort reports conducted as part of Connecticut's Federal Statewide Single Audit, we questioned 35 researchers as to the accuracy of their fall 2009 time and effort reports. We found that 25 of the reports appeared to understate

the percentage of effort devoted to sponsored research. A separate review of the key personnel compliance requirement yielded similar results. Our reviews indicated that the University may be devoting significant resources to undocumented voluntary cost sharing. All voluntary cost sharing should be subjected to a review and approval process and should be properly documented.

- 7. The University should revise its procedures to ensure that all contracts, express or implied, that exceed established thresholds, are submitted to the Board of Trustees for approval as required by the University's legally adopted policy.**

Comment:

We noted that University contracts with the University of Connecticut Foundation, Inc. and library subscription payments were not approved by the Board of Trustees. These contracts should have been approved by the Board of Trustees in accordance with established policy.

- 8. The University should prepare a detailed plan addressing actions to be taken in the event a disaster interrupts key information technology services. The plan should be continuously updated, taking into consideration changes in the systems and in the resources available to deal with potential outages.**

Comment:

As of June 2011, the University Information Technology Services department, which maintains the University's core systems, did not have an updated disaster recovery plan on file.

- 9. University administrators should obtain and document the required approvals for changes in the scope of exigent projects that affect the cost of the project.**

In August 2007, President Austin approved an exigent project for code remediation work projected to cost \$492,869. Subsequent changes in scope increased the projected cost to \$2,558,060. We were unable to locate documentary evidence that the changes in scope were approved by an individual with the requisite degree of authority.

- 10. University procedures should be modified to incorporate a formal review and approval of the award process when construction project subcontracts are awarded.**

Comment:

We reviewed three construction manager at risk projects. We did not find documentary evidence that all subcontracts were publicly let. Further, for those subcontracts where documentation was on file, the documentation did not include evidence that the award process was reviewed by the University.

- 11. The University should develop a comprehensive, centralized process for identifying affiliated organizations, determining the nature of the University's interaction with the organizations and verifying that the appropriate written agreements are in place.**

Comment:

The University has made some effort to identify those non-profit organizations operating in some manner at the University and put agreements in place. However, documentation provided us did not evidence a comprehensive review. Additionally, we were able to identify additional organizations that did not appear to have been addressed.

## **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 for the fiscal years ended June 30, 2008 and 2009. This audit was primarily limited to performing tests of the University's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the University are complied with, (2) the financial transactions of the University are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the University are safeguarded against loss or unauthorized use. The financial statement audits of the University of Connecticut for the fiscal years ended June 30, 2008 and 2009, are reported upon separately and are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the University of Connecticut complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements, and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

Management of the University of Connecticut is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the University of Connecticut's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing 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 grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of University of Connecticut's internal control over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the University's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the University's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the University of Connecticut complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

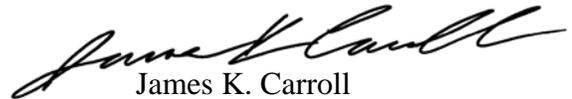
The University of Connecticut's responses to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the University of Connecticut's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of University management, 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.

State Auditor Robert M. Ward recused himself from reviewing and signing the audit report in order to avoid the appearance of a conflict of interest. Mr. Ward served on the UConn Board of Trustees for the period of July 1, 2010 through January 5, 2011.

  
James K. Carroll  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts