

STATE OF CONNECTICUT



*AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011*

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

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AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

August 27, 2014

AUDITORS' REPORT UNIVERSITY OF CONNECTICUT FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have audited certain operations of the University of Connecticut (UConn) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The University of Connecticut is a component unit of the University of Connecticut system, which includes UConn, the University of Connecticut Health Center (UConn Health Center) and the University of Connecticut Foundation, Inc. We also audit the financial statements of UConn and the UConn Health Center and report on those audits separately. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2010 and 2011. The objectives of our audit were to:

1. Evaluate UConn's internal controls over significant management and financial functions.
2. Evaluate UConn's compliance with policies and procedures internal to the university or promulgated by other state agencies, as well as certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the university, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to financial audits or performance audits, as applicable, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our

audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the university's management and was not subjected to the procedures applied in our audit of the university.

For the areas audited, we identified (1) deficiencies in internal controls and (2) apparent noncompliance with legal provisions. The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of UConn.

COMMENTS

FOREWORD

The University of Connecticut, 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 first year of the audited period, UConn was subject to statewide policies and guidelines established by the Board of Governors of Higher Education, through which it submitted its budget.

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. Effective July 1, 2011, UConn was no longer subject to statewide policies and guidelines for constituent units of the state system of higher education and submitted its budget directly to the Office of Policy and Management.

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

Subsequently, these responsibilities were removed by Public Act 12-129 and Public Act 13-118. The authority to approve new academic programs now rests solely with the Board of Trustees of the University of Connecticut.

UConn 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 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 as of June 30, 2011 (one position was vacant), were:

Ex officio members:

Dannel P. Malloy, Governor
Gerard N. Burrow, M.D., Chairperson of the UConn Health Center Board of Directors
George A. Coleman, Acting Commissioner of Education
Steven K. Reviczky, Commissioner of Agriculture
Catherine Smith, Commissioner of Economic and Community Development

Appointed by the Governor:

Lawrence D. McHugh, Middletown, Chair
Louise M. Bailey, West Hartford, Secretary
Michael A Bozzuto, Avon
Peter S. Drotch, Framingham, Massachusetts
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:

Francis X. Archambault, Jr., Storrs
Andrea Dennis-LaVigne, Simsbury

Elected by students:

Corey Schmitt, Storrs
Adam Scianna, Newtown

M. Jodi Rell served as Governor during the first part of the audited period; she was succeeded by Dannel P. Malloy, who assumed the office on January 5, 2011. Additionally, during the first part of the audited period, Joan McDonald served as commissioner of Economic and Community Development, Mark K. McQuillan as commissioner of Education, and F. Philip Prelli as commissioner of Agriculture. They were succeeded by Catherine H. Smith in April 2011, George A. Coleman in January 2011 and Steven K. Reviczky in December 2010.

Linda P. Gatling of Southington and Ross Gionfriddo of West Hartford completed their terms June 30, 2009. Effective July 1, 2009, they were succeeded by Corey Schmitt of Storrs and Robert M. Ward of Northford, who served until he was appointed to the position of Auditor of Public Accounts in January 2011.

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, effective July 16, 2009. Philip P. Barry of Storrs completed his term August 31, 2009; he was succeeded by Francis X. Archambault, Jr., of Storrs, effective September 1, 2009. Richard Colon, Jr. of Vernon completed his term June 30, 2010; he was succeeded by Adam Scianna of Newtown, effective July 1, 2010.

Cory Schmitt of Storrs, Michael A. Bozzuto of Avon and Michael J. Martinez of East Lyme completed their terms June 30, 2011; they were succeeded by Brien T. Buckman of Stamford, Marilda L. Gandara of Hartford and Thomas E. Kruger, Stamford, effective July 1, 2011.

Pursuant to Section 10a-108 of the General Statutes, the board of trustees is to appoint a president of UConn to be the chief executive and administrative officer of the university and the board. Michael J. Hogan served as the 14th president of the university until he resigned effective June 30, 2010. Philip E. Austin, who served as president until he stepped down on September 14, 2007 and assumed the title of President Emeritus and University Professor, served as interim president until Susan Herbst was appointed as president on December 20, 2010.

UConn 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
- Graduate Programs 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 UConn Health Center are examined and reported upon separately by the Auditors of Public Accounts.

Autonomy

Statutes governing the state's constituent institutions of higher education provide the University of Connecticut 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 contractual services, execute personal service agreements or lease personal property without the approval of the Comptroller, the Secretary of the Office of Policy and Management or the Commissioner of Administrative Services. Personal service agreements are not subject to the restrictions concerning personal service agreements codified under Sections 4-212 through 4-219. As a compensating measure, personal service agreements executed by 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. UConn 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..." UConn does pay the majority of its food service employees directly. This arrangement is discussed in more detail in the Condition of Records section of this report.

UConn 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 UConn. Although subsection (c) of Section 7 of Public Act 95-230 provided that the securities issued to fund this program are to be issued as general obligations of UConn (see Section 10a-109g, subsection (c), of the General Statutes), it also committed 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, codified as Section 10a-109e, subsection (c) of the General

Statutes, “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, UConn 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, 2007; and fifteen million dollars for the fiscal years ending June 30, 2008 to June 30, 2014, inclusive, per Section 10a-109c of the General Statutes.

Furthermore, 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.

However, in accordance with the provisions of Section 10a-8c of the General Statutes, the timing of the payment of the state match is affected by the state’s financial condition. Funds are

not to be disbursed unless the state's budget reserve (rainy day fund) exceeds ten percent of the net general fund appropriation for the fiscal year in progress. That requirement has not been met since it was established by Public Act 05-3, June Special Session. As a result, approximately \$20,100,000 in state match had been earned by UConn and the UConn Health Center, but not yet disbursed, as of June 30, 2012.

In the past, the state match has been deposited in the University of Connecticut Foundation, Inc. when received, as permitted by subsection (b) of Section 19a-109I of the General Statutes. The University of Connecticut Foundation, Inc. has not recognized the outstanding amount as revenue or as an asset, as it does not meet the standards established for recognition under generally accepted accounting principles.

Recent Legislation

During the period under review and thereafter, legislation was passed by the General Assembly affecting UConn and the UConn Health Center. The most noteworthy items are presented below:

- Public Act 09-2, June 19 Special Session, Section 2, authorized a deficiency appropriation for the UConn Health Center of \$22,200,000.
- Public Act 09-3, September Special Session, Section 60, removed the requirement to maintain the UConn 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 UConn 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 new bond funding of \$207,000,000 for UConn Health Center renovations, including the construction of a new patient tower. The initiative was contingent on the award of a \$100,000,000 federal grant, which other states could compete for. 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 11-6, Section 42, provided for the funding of the UConn Health Center hospital fringe rate differential from the resources appropriated to the State Comptroller in an amount not to exceed \$13,500,000 per year for fiscal years 2011-2012 and 2012-2013. 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. Section 56 required the president of UConn 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 UConn 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 to 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 UConn.
- Public Act 11-75, modified the UConn Health Center initiative established by Public Act 10-104, increasing the authorized amount of bond funding for UConn Health Center renovations by \$262,900,000. 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 UConn Health Center contribute not less than \$69,000,000 from operations, special eligible gifts or other sources and provide for construction of a new ambulatory care center through debt or equity financing obtained from one or more private developers.
- Public Act 11-2, of the October Special Session, established the Connecticut Bioscience Collaboration program within Connecticut Innovations, Incorporated, to support the establishment of a bioscience cluster anchored by a research laboratory housed at the UConn Health Center. It directed the State Bond Commission to authorize up to \$290,685,000 for the program.
- Public Act 12-97 amended Section 10a-151b of the General Statutes to allow for non-competitive purchases for the purpose of testing any technology, product or process.
- Public Act 12-129 removed certain responsibilities of the Board of Regents for Higher Education regarding UConn, but left intact the responsibility for approving new academic programs.
- Public Act 13-118 removed the responsibility of the Board of Regents for Higher Education to approve new academic programs at UConn, leaving the authority to approve new academic programs in the hands of the Board of Trustees of the University of Connecticut.
- Public Act 13-177 established a process for the awarding of design-build contracts by UConn and amended Section 10a-151b of the General Statutes to allow for noncompetitive purchases of agricultural products in an amount of \$50,000 or less.
- Public Act 13-233 established the Next Generation Connecticut initiative as part of the UConn 2000 program, increasing the authorized amount of state bond funding by \$1,551,000,000.

UConn 2000 Authorizations

As of June 30, 2013, projects totaling \$4,619,300,000 were authorized by the legislature under the enabling legislation for the UConn 2000 program.

Authorizing Legislation	Cumulative Project Authorizations	Cumulative Funding		
		UConn Bonds	State Bonds [a]	Other
PA 95-230	\$1,250,000,000	\$962,000,000	\$18,000,000	\$270,000,000
PA 02-3	2,598,400,000	2,262,000,000	18,000,000	318,400,000
PA 10-104	2,805,400,000	2,469,000,000	18,000,000	318,400,000
PA 11-75	3,068,300,000	2,731,900,000	18,000,000	318,400,000
PA 13-233	4,619,300,000	4,282,900,000	18,000,000	318,400,000

[a] Under Section 5 subsection (b) of Public Act 95-230, the funding for UConn 2000 included \$18,000,000 in state general obligation bonds authorized under Section 1 of Public Act 95-270 and \$962,000,000 in UConn bonds authorized under Section 4 subsection (a) of Public Act 95-230.

The legislature authorized additional funding through the issuance of state general obligation bonds. These bonds are obligations of the state and are not included as debt in the UConn financial statements. Several projects were funded in this manner, the most significant was the provision, under Public Act 11-57, of up to \$172,500,000 for the development of a technology park at the university.

Enrollment Statistics

Statistics compiled by the UConn registrar present the following enrollments in the university's credit programs during the audited period.

Student Status	2009-2010		2010-2011	
	Fall	Spring	Fall	Spring
Undergraduates	21,496	20,584	21,881	20,983
Graduates	6,608	6,403	6,748	6,329
Professional (School of Law and Doctor of Pharmacy)	897	869	875	837
Medicine – Students	346	346	352	352
Medicine – Other ⁽¹⁾	585	585	591	591
Dental – Students	170	170	178	178
Dental – Other ⁽¹⁾	111	111	115	115
Totals	30,213	29,068	30,740	29,385

(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 board of trustees. The following summary presents annual tuition charges during the audited period.

Student Status	2009-2010			2010-2011		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$7,632	\$23,232	\$11,448	\$8,064	\$24,528	\$12,096
Graduates	9,450	24,534	14,184	9,972	25,884	14,976
School of Law	19,608	41,328	29,424	20,712	43,632	31,080

Generally, the State Comptroller accounts for UConn 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.

UConn maintains additional accounts that are 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.

UConn 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 trust accounts associated with UConn which, while legally controlled by the university, are not considered part of the University of Connecticut system reporting entity. These include the following university trust accounts:

- 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 UConn 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. UConn did not elect this option, which was eliminated by GASB Statement No. 61, effective for periods beginning after December 15, 2011.

The UConn 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 UConn Health Center, including the John Dempsey Hospital, and presented as an enterprise fund.

UConn employment was stable during the audited period. The university reported 4,410, 4,586 and 4,510 full and part-time faculty and staff (excluding graduate assistants, dining services employees and student labor) as of the Fall 2009, 2010 and 2011 semesters, respectively.

The UConn total net assets balance increased by \$25,082,220 from \$1,419,244,981 as of June 30, 2009, to \$1,444,327,201 as of June 30, 2010. It then decreased by \$48,971,792 to \$1,395,355,409 as of June 30, 2011. These changes did not accurately reflect fluctuations in the results of operations. They were caused by the timing of the provision of state capital appropriation support to the university.

UConn received \$61,714,293 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 in the fiscal year ended June 30, 2010. No bonds were sold in the fiscal year ended June 30, 2011. If state capital appropriation support had accrued evenly during the audited period, the university's total net assets balance would have fallen slightly in each fiscal year.

The net decrease in total net assets during the audited period was attributable to a decrease in the amount of net assets restricted for capital projects from \$88,449,046 as of June 30, 2009, to \$35,204,393 as of June 30, 2011. The UConn unrestricted net assets balance increased by \$15,558,392 from \$147,248,610 as of June 30, 2009, to \$162,807,002 as of June 30, 2010. It increased again during the following fiscal year, by \$12,566,888, to \$175,373,890 as of June 30, 2011. Similarly, the university's cash and cash equivalents balance increased by \$25,344,108 from \$241,683,392 as of June 30, 2009, to \$267,027,500 as of June 30, 2010, and again by \$9,457,464 during the following fiscal year to \$276,484,964 as of June 30, 2011.

Total UConn revenues, operating and non-operating, and other additions, were \$1,006,344,067 and \$992,165,520 for the fiscal years ended June 30, 2010 and 2011, respectively. 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 \$425,733,114 (42 percent) and \$368,929,084 (37 percent) of total revenues and other additions for the fiscal years ended June 30, 2010 and 2011, respectively. The decrease in the second year of the audited period was primarily attributable to 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 \$223,765,745 and \$233,881,176 for the fiscal years ended June 30, 2010 and 2011, respectively. Sales and services of auxiliary enterprises were \$161,779,750 and \$173,133,156 for the fiscal years ended June 30, 2010 and 2011, respectively. Grant and contract revenues totaled \$147,183,551 and \$164,554,991 for the fiscal years ended June 30, 2010 and 2011, respectively.

Total UConn expenses, operating and non-operating, and other deductions were \$981,261,847 and \$1,041,137,310 for the fiscal years ended June 30, 2010 and 2011, 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>2009-2010</u>	<u>2010-2011</u>
Instruction	271,938,477	292,202,505
Research	72,285,789	74,481,178
Public Service	35,623,219	41,469,821
Academic Support	90,592,860	98,392,707
Student Services	37,063,394	39,754,920
Institutional Support	83,175,410	88,649,671
Operations and Maintenance of Plant	66,742,254	71,365,159
Depreciation	90,038,785	90,334,794
Student Aid	4,637,480	5,490,504
Auxiliary Enterprises	145,413,739	154,516,560
Other Operating Expenses	<u>24,508,359</u>	<u>19,740,639</u>
Total Operating Expenses	<u>922,019,766</u>	<u>976,398,458</u>

The non-operating expenses during the audited period consisted primarily of interest payments. Interest expense was \$48,557,957 and \$48,823,995 for the fiscal years ended June 30, 2010 and 2011, respectively. This expense was, for the most part, offset by transfers from the state General Fund. The state debt service commitment for interest was \$38,557,064 and \$39,978,225 for the fiscal years ended June 30, 2010 and 2011, respectively. The interest charges on debt issued to finance certain projects, primarily related to student housing, were absorbed by the UConn operating fund.

Non-operating expenses also included transfers of reserves to the state General Fund. The amounts transferred were \$8,000,000 and \$15,000,000 during the fiscal years ended June 30, 2010 and 2011, respectively.

UConn did not hold significant endowment and similar fund 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 University of Connecticut Foundation, Inc. provides support for UConn and the UConn 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:

	University of Connecticut Foundation, Inc.		Law School Foundation	
	<u>Fiscal Year Ended</u>		<u>Fiscal Year Ended</u>	
	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Assets	348,244,000	396,314,000	14,646,111	16,380,941
Liabilities	13,329,000	18,207,000	10,248	4,613
Net Assets	334,915,000	378,107,000	14,635,863	16,376,328
Revenue and Support	66,289,000	83,176,000	2,140,304	3,362,561
Expenses	36,771,000	39,984,000	1,536,713	1,622,096

STATE AUDITOR'S FINDINGS AND RECOMENDATIONS

Our review of the financial records of the University of Connecticut 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. 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 UConn 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 minimum nor maximum rates have been established.
- Effect:* The compensation levels of UConn professional employees can increase indefinitely.
- Cause:* Section 10a-108 of the General Statutes gives the board of trustees the authority to fix the compensation of the faculty and other professional employees under its jurisdiction. Action has been taken to improve oversight; the board established a Committee on Compensation to address non-faculty compensation in March 2011. However, the board has not opted to establish maximum salary levels, as is standard practice for state employees.
- Recommendation:* The University of Connecticut should establish maximum salaries for all professional employees, through the collective bargaining process if necessary. The maximum salaries should not be exceeded for new hires or existing employees without specific board approval. (See Recommendation 1.)
- Agency Response:* “The University continues to recognize that a sound compensation structure is important to the effective recruitment and retention of a highly qualified workforce, as well as to support effective management of

financial resources. The University's Board of Trustees Committee on Compensation continues to monitor the salaries and compensation of university executives and management employees, and supports established guidelines by which relevant national market data from CUPA (top 20 Public Research Universities, top 50 National Research Universities, top 50 Public Research Universities) and/or a blend of corporate and not-for profit data are used to benchmark the University's executive management positions. Recent reports show that current salaries for UConn's executive management positions are generally consistent with the salaries for positions with comparable duties and responsibilities in the four markets referenced above. The University has committed to providing the Board of Trustee's Compensation Committee periodic reports to ensure compliance with these guidelines.

The compensation structure and application for university professional employees that are represented by a bargaining union are established through the collective bargaining process. Any changes to the provisions of the contract or established practices would have to be addressed through contract negotiations, which are not scheduled to begin until 2015."

*Auditors' Concluding
Comments:*

We recognize that UConn has made efforts to improve control over compensation, most notably with the establishment of the Board of Trustees Committee on Compensation to increase board oversight. The university should extend its efforts in this area by establishing maximum salaries for all professional employees, in keeping with standard state practice.

FOOD SERVICES EMPLOYEES

Background:

The Associated Student Commissaries was an association of student-operated commissaries occupying UConn 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 State Comptroller.

In 1979, the Connecticut State Board of Labor Relations was asked to determine whether 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 UConn food service employees at that time. Employees serving in the large dining halls were state employees paid through the State Comptroller.

The degree of independence and authority possessed 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 UConn 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 employees 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.

UConn filed a request for a ruling regarding the status of the 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’s authority to fix compensation does not extend to employees in state classified service. The work done by most food service operations employees appears to be of a type typically 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 approximately 500 food service operations employees at UConn 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 and, therefore, of the state. Accordingly, the employees of the university's food service operation are employed by the state.

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

In our prior audit report, we recommended that UConn seek clear statutory authority for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. The university has taken the position that this aspect of its Department of Dining Services operations is a separate entity that is not subject to Section 3-25 of the General Statutes. As we do not feel that this position is tenable, we continue to recommend that the university seek clear statutory authority to compensate its food service operations employees in this manner.

Effect: Though there are sound operational reasons for the UConn method of compensating its food service operations employees, 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: UConn did not seek clear statutory authority to compensate its dining service operations employees in this manner.

Recommendation: The University of Connecticut should seek clear statutory authority for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. (See Recommendation 2.)

Agency Response: "The General Counsel will lead the required investigation of whether the existing structure is legally supportable and an evaluation of other alternative structures which may be required or preferable. The analysis of alternatives and their viability will likely require operational and financial information obtained from others. Some of the alternatives may require legislative action. Identification of the recommended change, if any, by March 1, 2014. Time for implementation depends on the nature of the change."

RESUME AND BACKGROUND CHECKING

Criteria: Employment candidate representations regarding their work experience and professional credentials are a key factor in hiring decisions. Verification of these representations is a fundamental part of the hiring process.

Condition: In spring 2012, we reviewed 40 instances in which individuals were appointed to new positions (new hires, promotions and transfers). We found that UConn:

- Did not have institution-wide policies regarding criminal background checks, although several university departments with safety and/or security concerns requested criminal background checks on prospective employees prior to finalizing a hiring decision.
- Did not appear to obtain adequate assurance regarding the truthfulness of the claims made by job candidates concerning their experience and professional credentials.

UConn has since addressed our concern regarding criminal background checks. Beginning in fall 2013, criminal background checks will be conducted for all new regular payroll hires, with further expansion of the program to follow.

Effect: Misrepresentation of work experience and professional credentials by a job candidate can result in unfortunate hiring decisions.

Cause: The hiring process at UConn is decentralized. Confusion may exist regarding the responsibility for verification of work experience and professional credentials. Additionally, reliance was placed on candidates' electronic attestations regarding the accuracy of their representations.

Recommendation: The University of Connecticut should establish procedures for verifying the representations of job candidates regarding their work experience and professional credentials. The procedures should clearly assign responsibility for the task and be sufficient to provide adequate assurance. (See Recommendation 3.)

Agency Response: "The University agrees that verifying job candidates' work experience and professional credentials is an important component of the hiring process, and will continue to emphasize with hiring administrators their obligation and accountability to validate credentials. Given the University's decentralized hiring model, the Department of Human Resources will update the existing 'Guide to Effective Recruiting' to include specific tasks that hiring administrators should utilize to obtain assurances that the

chosen candidate possesses the required credentials for vacancies. In addition Human Resources will research the cost impact and feasibility of expanding the criminal background check program to also include credentials checks.”

Auditors’ Concluding

Comments:

It may not be cost effective to decentralize aspects of the hiring process that require specialized knowledge and training. The university should consider consolidating aspects of the hiring process under the Department of Human Resources to efficiently implement essential controls.

PAYMENTS FOR ACCRUED COMPENSATED ABSENCES

Criteria:

When employees terminate their state service, 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 certain employees (those in the state’s classified service) 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 UConn 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:

In our prior audit report, we noted that:

- In a review of payments to 20 employees for accrued compensated absences made during the period of March 2007 through April 2009, we found two errors that had not been detected by UConn, resulting in overpayments of \$1,367 and \$28,808.
- In a review of payments to 27 employees for accrued compensated absences made during the fiscal year ended June 30, 2010, we found two errors that had not been detected by UConn, resulting in underpayments of \$138 and \$3,290.
- In our report on UConn for the fiscal years ended June 30, 2006 and 2007, we noted that our review had disclosed errors, ranging from \$93 to \$835, in the calculation of five of 25 payments tested.

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

In our prior report, we recommended that UConn review payments made before the pay period ended July 15, 2010. In response, the university reviewed payments made during the fiscal year ended June 30, 2010. Since the condition that resulted in inaccurate payments was not confined to the fiscal year ended June 30, 2010, we believe the university should not have limited its review to that period.

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 of Connecticut should expand its review of payments made for accrued compensated absences during the fiscal year ended June 30, 2010, to prior periods. (See Recommendation 4.)

Agency Response: “Agree. Management enhanced its review process after the initial audit finding, including an additional payroll supervisor review, of the calculation for compensated absences of all separated employees and has corrected this condition. In addition to the payments already reviewed for Fiscal Year 2010, the University completed a thorough review of all payments made for accrued compensated absences for Fiscal Year 2009. For discrepancies noted in this review, past employees were contacted to make necessary adjustments.”

HIRE ACT

Criteria: The Hiring Incentives to Restore Employment (HIRE) Act, enacted March 18, 2010, provided employers with an exemption from the employer’s 6.2 percent share of social security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010 through December 31, 2010.

Condition: UConn did not take advantage of the HIRE Act.

Effect: UConn did not benefit from any reduction in costs that the HIRE Act could have afforded.

Cause: Responsibility for processing the UConn payroll is shared between the university and the Office of the State Comptroller. It appears that there was a breakdown in communication between the two.

Recommendation: The University of Connecticut should determine the feasibility of recovering Social Security taxes paid that, under the HIRE Act, it was not required to pay. (See Recommendation 5.)

Agency Response: “Agree. The University completed an analysis of those employees hired during the qualifying period of the Hire Act (Act). It contacted current and former employees who met the hire date criteria under the Act and asked those employees that met the eligibility requirements to complete the IRS Form W-11 attesting to their eligibility under the Act. A total of \$50,738, representing social security tax savings, was reported to the Office of the State Comptroller for inclusion in their amended 941 tax filing for calendar year 2010.”

Auditors’ Concluding Comments: We were informed that the adjustment was included in the amended 941 tax filing for calendar year 2010. As of May 2014, recovery of the \$50,738 was pending.

COST SHARING

Background: Sponsored research projects benefit the universities that carry out the research, providing important educational opportunities for students and professional development for faculty. Since universities benefit 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 commit specified resources to the projects (mandatory cost sharing) and universities may volunteer to assume a share of the cost to give their proposals a competitive advantage (voluntary committed cost sharing). Additionally, faculty may voluntarily devote additional effort over and above what has been committed because of their personal interest in the projects (voluntary uncommitted cost sharing).

Criteria: Cost sharing is commonly achieved by paying researchers out of unrestricted UConn resources (i.e., funding provided to the university from the resources of the state’s General Fund) while they work on sponsored projects. University administrators, and others with oversight responsibilities, need to know how much the university is spending to support sponsored programs in this manner in order to determine whether unrestricted resources are being used appropriately.

Condition: UConn 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.

For example, 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 70 percent was actually devoted to sponsored research. On average, the percentage of effort devoted to sponsored research was understated by unrecorded cost sharing amounting to 29 percent of total effort.

Though UConn does not track voluntary uncommitted cost sharing, and our reviews were not designed to quantify the amount of voluntary uncommitted cost sharing, it does appear that it absorbs a significant amount of unrestricted university resources.

Effect: The use of unrestricted UConn resources for sponsored research is in keeping with the university's goal of recognition as one of the nation's top-20 public research universities, according to the annual rankings produced by *U.S. News and World Report*. However, without effective monitoring of the amount of unrestricted university resources directed to sponsored research projects by researchers, the university cannot reasonably estimate the associated concomitant costs and determine whether the amount used is appropriate.

Though we acknowledge that, given the UConn environment, time and effort reporting is necessarily imprecise, we believe that tracking voluntary uncommitted cost sharing in the university's time and effort reporting system would increase the accuracy of the university's breakdowns of costs incurred by function, especially the breakdown between instruction and research. This would allow the university to better make informed financial decisions.

Cause: UConn feels that the cost of tracking voluntary uncommitted cost sharing would exceed the value of any benefits accruing from the process. We believe that it would not significantly increase costs, as researchers are already required to provide a reasonable breakdown of all their time and effort to document compliance with grantor requirements – it would only require more accurate reporting of the distribution of their time and effort between instruction and research.

Recommendation: The University of Connecticut should track voluntary uncommitted cost sharing in its time and effort reporting system. (See Recommendation 6.)

Agency Response: “The University disagrees with this finding. Faculty are paid by the University to devote a certain portion of their time to research. This includes mentoring graduate students, lab meetings, writing up research results for publication. Many faculty members get no outside funding for their research. Institutionally funded research is included in the Instruction category of the effort reports. OMB Memorandum 01-06 “Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs” dated January 5, 2001 clarifies that voluntary uncommitted cost is excluded from the effort reporting requirement of section J.8. Voluntary uncommitted cost sharing effort is defined as researcher’s effort that is over and above of what is committed in a proposal and award. Mandatory and voluntary committed cost sharing has to be reported as part of the effort certification. Voluntary uncommitted cost sharing effort is faculty-donated additional time above of what has been agreed to as part of the award and is excluded from the effort reporting requirement in section J.8. of A-21. This treatment is consistent with the guidance in section J.8.b (1).c, "Payroll Distribution," that a precise documentation of faculty effort is not always feasible, nor is it expected, because of the inextricably intermingled functions performed by the faculty in an academic setting (i.e., teaching, research, service and administration). We talked with representatives of some of our peer institutions, and none of them track voluntary uncommitted cost-share.”

Auditors’ Concluding Comments:

We agree that there is no federal requirement to document voluntary uncommitted cost sharing in the time and effort reporting system and that it may be excluded from the organized research base when calculating facilities and administrative costs. Our recommendation is not being made from a federal compliance perspective.

Our reviews indicate that voluntary uncommitted cost sharing is substantial enough to have a significant fiscal impact. Currently, voluntary uncommitted cost sharing is classified as educational expense. This exaggerates the amount spent on education and understates the amount spent on research. It would be valuable to have a better cost breakdown between the educational and research functions in order to make more informed budgetary decisions.

FINANCIAL SYSTEM SELECTION PROCESS

Background: University management determined that the UConn legacy financial system had reached the end of its useful life. Management decided that it should be replaced with a higher education specific application that would offer improved workflow, eliminate paper-based processing and provide better internal control. A new financial system based on Quali Financial System software was deployed effective July 1, 2012. As of June 30, 2013, \$10,115,520 in Quali development costs had been capitalized.

Criteria: Major software acquisitions should be subject to a formal selection process. All those whose work will be affected by the new technology should have representation in the process. Available alternatives should be comprehensively reviewed. The selection process, and the basis for the selection made, should be thoroughly documented.

Condition: We planned to review documentation of the financial system selection process to verify that UConn conducted a thorough review of available alternatives and provided a reasonable basis for the selection made.

We were unable to carry out our planned procedures, as UConn did not adequately document the selection process. The documentation that we were provided with appeared to have been created after the choice had been made and was focused on explaining the advantages of the chosen system to the university community.

We could not find any indication of a feature-by-feature comparison of competing products or any evidence that any systems other than PeopleSoft or Banner were considered.

The selection process appeared to have been driven solely by the UConn core financial management and staff. After Quali was selected, there was significant effort to educate other stakeholders as to its advantages vis-à-vis the university's existing financial system and obtain their buy-in to the decision. However, we found no evidence of significant input from the broader university community in the initial selection of Quali over other competing accounting systems.

Effect: More advantageous alternatives may have been overlooked.

Cause: It is unclear why UConn did not issue a request for proposal and conduct a formal, well documented, selection process.

Recommendation: The University of Connecticut should conduct a formal, well documented, selection process for all major acquisitions. Every functional area that will

be significantly affected should have adequate representation and input into the process. (See Recommendation 7.)

Agency Response: “We agree.”

FINANCIAL SYSTEM IMPLEMENTATION PROCESS

Criteria: To reduce risk, projects should be subjected to a comprehensive risk assessment and mitigation process, and a detailed control framework should be developed.

Condition: UConn executed a fixed-price contract with a consulting firm to assist in the implementation process. However, it does not appear that the university verified the firm had sufficient financial resources to fulfill their contractual commitments if material cost overruns were experienced and/or required a performance bond.

The contract with the consulting firm was submitted to the board of trustees for approval. Subsequently, a presentation describing the project was made to the board. However, it does not appear that the board ever approved the project, per se. A project of this magnitude should not have been initiated without board approval.

UConn licensed SciQuest purchasing software effective December 31, 2009. Annual license fees paid were \$331,500, \$305,660 and \$265,235 in the first three years of the contract period. Though significant licensing costs were incurred, the university did not make use of this software until Quali Financial System software was deployed effective July 1, 2012. This software should not have been licensed before the university was ready to make use of it.

The UConn internal audit unit found that a detailed contingency plan specifying the actions to be taken in the event the implementation failed had not been prepared. It appears that the university intended to revert to the previous financial system if necessary, but had not established decision points that would trigger this action nor documented how it would be carried out.

The internal audit unit also found that “the Quali project leadership utilized a hands-on approach in the management of the KFS project which successfully mitigated weaknesses associated with a lack of an adequate control framework.”

Effect: The successful implementation of the new financial system is a tribute to the efforts of the Quali implementation team. However, UConn incurred

risks that could have been avoided with a more deliberate approach that combined a more comprehensive risk assessment and mitigation process with the development of a more detailed control framework.

Cause: A comparable effort to implement a human resources system was abandoned 2011-2012 fiscal year, after significant delays and large cost overruns were experienced. Taking this into consideration, the Quali implementation team prioritized deployment of the new financial system within the planned timeframe.

Recommendation: The University of Connecticut should develop a structured methodology for major software implementation projects. All projects should be approved by the board of trustees before they are initiated. (See Recommendation 8.)

Agency Response: “Agree. Major IT implementation projects will be required to have BOT approval and will have a defined implementation plan that specifies key milestones or decision points. These changes will be communicated to the board at the next meeting.”

BUSINESS CONTINUITY AND DISASTER RECOVERY

Criteria: Information technology systems provide mission critical support functions. A business continuity and disaster recovery plan provides a comprehensive framework for actions to be taken in response to disruptive events in order to minimize their effect on operations. A critical first step in preparing a business continuity and disaster recovery plan is to implement an ongoing risk assessment and mitigation process.

Condition: In our previous report, we noted that, as of June 2011, the UConn Information Technology Services Department, which maintains the university’s core systems, did not have an updated disaster recovery plan on file.

We followed up on this issue in December 2012. We found that UConn had engaged a consultant to begin the process of implementing an ongoing risk assessment and mitigation process and preparing a business continuity and disaster recovery plan. However, it appeared that no significant progress had been made.

Effect: The lack of a current business continuity and disaster recovery plan could hamper the ability of UConn to respond in a timely fashion if a disaster seriously compromised its core information technology systems. If key personnel crucial to the process were unavailable, the university’s ability to recover could be severely limited.

- Cause:* The cause could not be readily determined.
- Recommendation:* The University of Connecticut should implement an ongoing risk assessment and mitigation process, and prepare a business continuity and disaster recovery plan. The plan should be continuously updated, taking into consideration changes in the systems and resources available to address potential risks. (See Recommendation 9.)
- Agency Response:* “Agree. The University has developed a Risk & Compliance Self-questionnaire. It is expected that UITs/ISO will be requesting that all Deans, Directors and Dept. Heads complete the questionnaire annually beginning with a baseline solicitation in 2013. Any risk identified as a result to the questionnaire will be evaluated and prioritized through the Information Security Office’s Risk Management Program which includes a risk tracking and mitigation framework. BCP/DR specific concerns will be mapped to the recently developed Critical Infrastructure Protection Plan (CIPP) and the associated Business Continuity Plan framework.”

INFORMATION TECHNOLOGY ACCESS CONTROLS

- Criteria:* Both physical and logical access controls need to be properly designed and implemented to safeguard critical information and processes. Physical controls protect data processing equipment and storage media by restricting physical access to authorized staff. Logical controls preserve the integrity of the data and the software used to process it by preventing unauthorized users from viewing or altering the data and/or the software.
- Condition:* We found that data center access cards were still active for individuals that had either transferred to another area within the university, retired, or were no longer employed by the university. We also noted the issuance of generic (not assigned to a specific individual) data center access cards and found that some individuals were issued multiple access cards.
- Firewall administration is decentralized at the university; there are several firewall administrators for the various systems/applications. Additionally, the current firewall policy does not cover all firewall infrastructures; it only addresses the internet firewall. The lack of centralized administration has led to an inconsistency in the application of firewall policies and procedures.
- The UConn internal audit unit found problems with access controls during a review of the Student Administration System and the associated Student Administration Data Mart. To address these problems, the internal audit unit recommended that:

- The creation, management and removal of permissions for Student Administration System user accounts be centralized to a single area.
- The access afforded by Student Administration System user accounts be reviewed at least annually by system administrators working in concert with functional leads to ensure that the users' access is in line with their business responsibilities.
- Automated processes for identifying the Student Administration System accounts of separated staff and faculty be augmented and the accounts terminated in accordance with UConn policy. Unused accounts should be removed from the system or disabled with non-student roles removed, after a reasonable period of time.
- A process for terminating access to the Student Administration Data Mart be developed that includes use of the separation and employee transfer report available from the Department of Human Resources to identify users whose access should be terminated.
- All modifications to users' access rights to the Student Administration Data Mart be reflected on properly completed and authorized access request forms, and all access request forms be stored in a single central location.

Effect: Unauthorized access to the UConn information technology systems could jeopardize the integrity of the data stored on those systems and the business processes they are used to carry out.

Cause: The cause could not be readily determined.

Recommendation: The University of Connecticut should make certain improvements to physical and logical information technology system access controls. (See Recommendation 10.)

Agency Response: “Information Technology Access Controls improvements to date include:

- Reviewed employee access to the University data center and implemented restricted access to only employees that require it.
- Implemented Firewall Rules changes alerts and periodic reviews.
- Access to the Student Admin system no longer uses shared accounts, roles and permissions are uniquely managed.
- Developed a process for terminating access to the SADM. This process uses the separation and employee transfer report available from Human Resources to identify users whose access to the SADM should be removed. Reviewed current accounts inventory and cleaned up extraneous accounts.
- Access request forms are now managed in a central location.

- Functional leads performed a review of SA roles and permissions. All unnecessary roles have been removed and the remaining roles have been documented.”

PURCHASING CARDS

Background: Under the University of Connecticut MasterCard Purchasing Card Program, cardholders can pay for goods and services using a University Purchasing Card, a credit card issued by JP Morgan Chase. This is a procurement tool that provides an alternative to the existing UConn procurement processes.

Criteria: Credit card purchases are not subject to the standard controls established for existing UConn procurement processes. Completion and approval of a monthly purchasing card log is a key compensating control. The log lists all purchases made and is signed by the cardholder and the record manager.

The cardholder signs the log, certifying that it, and by extension, the listed transactions, are consistent with UConn policies and procedures. Another staff member, designated as the record manager, then reviews and signs the report attesting to the accuracy of the cardholder’s statement.

Condition: We reviewed 25 purchasing card logs. We found that, with respect to 20 of the 25 logs reviewed, the record managers signing off on the logs were co-workers, subordinates, lower level staff or the cardholders themselves.

Effect: The effectiveness of this key control is greatly reduced when the individual reviewing and approving the purchasing card log has no authority over, or is under the authority of, the cardholder.

Cause: It is unclear why UConn procedures do not require that the responsibility for signing off on purchasing card logs be assigned to staff with supervisory authority over the cardholders.

Recommendation: The University of Connecticut should require that purchasing card logs be approved by a staff member with supervisory authority over the cardholder. (See Recommendation 11.)

Agency Response: “Partially agree. Due to the decentralized nature of the University, departmental structures and staffing levels models may not afford the ability for a direct supervisory review of the purchasing card (PCard) logs. However, a secondary review and systematic controls will be developed and deployed to ensure integrity of program intent and appropriateness of transactions. University PCard Program controls include a daily, active

review of each PCard transaction, which is in addition to random and scheduled, periodic departmental reviews. Training and program application requirements, along with existing policies and procedures, clearly define program responsibilities and participant compliance requirements.”

Auditors’ Concluding

Comments:

UConn already has a procedure in place for review and signoff on purchasing card logs. The only problem we noted with this procedure is that, in some cases, responsibility for review and signoff had not been appropriately assigned.

Though the university is decentralized, virtually all staff report to a higher level. Developing and deploying a secondary review and systematic controls appears to be an unnecessary response. Properly assigning responsibility for review and signoff should be sufficient to address this control deficiency.

CONTRACT EXECUTION

Criteria:

Contractors should not be authorized to begin work prior to execution of a contract. Formal written agreements establishing rights and responsibilities are a safeguard for all parties involved.

Condition:

We have repeatedly noted instances in which contracts were executed after work began. For example, during our testing of a sample of fiscal year 2010-2011 expenditures, we noted 14 instances in which contracts were executed by the university after the contractual start date. Delays ranged from 18 days to 10 months; contract amounts ranged from \$12,000 to \$1,391,137.

Effect:

Unforeseen liabilities may be incurred if work is started on a project before all of the key terms have been agreed to and the contract has been signed. This is a critical concern, especially if disagreements arise regarding the nature or quality of the work involved.

Cause:

Those responsible for processing the contracts did not adhere to the policies and procedures established by UConn.

Recommendation:

The University of Connecticut should not authorize contractors to begin work before contracts are executed. (See Recommendation 12.)

Agency Response:

“The University partially agrees with this finding. We agree that contracts in general should be issued and signed prior to their start dates. However, when dealing with research collaborations under grant funding, it may be

unavoidable to allow work to start prior to execution of the award document to allow for the time it takes to process the paperwork. UConn and its subawardee agree at the time of proposal in a signed document (Consortium Statement) to collaborate on the proposed project once funded. The sponsoring agency allows both prime recipient (UConn) and subawardee to start work once the award has been issued. The contractual paperwork solidifies the existing collaborative relationship established at the time of proposal. We are working on improving our processes so that the time elapsed between start date and execution date is as short as possible.”

*Auditors’ Concluding
Comments:*

Reducing the time period between start date and execution date decreases the period during which UConn is at risk, but the risk is still present. Additionally, authorizing contractors to begin work could conceivably create an implied contract without defined terms.

Contracts should be executed before work begins. If funding is not assured, payment can be made conditional on the receipt of funding.

RECEIVING REPORTS FOR PREPAYMENTS

Criteria: Payments for goods or services should be supported by a documented confirmation by a responsible party as to the satisfactory receipt of goods or services.

Condition: On August 16, 2010, UConn contracted with Columbia Artists Management LLC for a performance to be given on November 9, 2010, in the amount of \$23,375. The check was issued in advance, as is common for this type of transaction. Staff did not prepare, subsequent to the event, a receiving report to document that the vendor had fulfilled its contractual obligations.

Effect: The lack of a receiving report lessens the assurance the university can have that the services were provided in accordance with the contract.

Cause: UConn procedures do not adequately address transactions of this nature that require payment prior to or at the time services are provided.

Recommendation: The University of Connecticut should prepare receiving reports when payment is required prior to a performance to document that the vendor has fulfilled its contractual obligations. (See Recommendation 13.)

Agency Response: “Agree. While management believes there is not a significant risk that payment would be made without the completion of a performance, it will

develop new procedures. Currently, the check is handed to the performer on the day/night of the performance. New procedures will be implemented to confirm and document that the vendor has fulfilled its contractual obligations.

These procedures will include the following:

Jorgenson Auditorium and Student Activities: for performance payments made in advance through the Quali Financial System (KFS), staff from the applicable area will email performance confirmation to Accounts Payable (AP), and AP will scan and upload the confirmation into KFS so that it becomes a permanent record in KFS.”

CERTIFICATIONS

Criteria: Per Section 4-252 of the General Statutes and Governor Rell’s Executive Order 7C, paragraph 10, state contracts amounting to more than \$50,000 per year must be accompanied by a certification from the contractor regarding the provision of gifts to state officials or employees involved with or having authority over the procurement process. The state official or employee executing the contract must certify that the award was not the result of collusion, the giving of a gift or the promise of a gift, compensation, fraud or inappropriate influence from any person.

Per Section 1-101qq of the General Statutes, the contractor must affirm (1) receipt of the summary of state ethics laws developed by the Office of State Ethics pursuant to Section 1-81b and (2) that key employees of such person, contractor, subcontractor, or consultant have read and understood the summary and have agreed to comply with its provisions.

Condition: During our testing of expenditures of the 2010-2011 and 2011-2012 fiscal years, we found that the required certifications were not obtained for purchases of library materials. During our testing of expenditures of the 2011-2012 fiscal year, we found that the required certifications were not obtained for other purchases that were also handled at the department level, rather than processed through the purchasing department.

Effect: With respect to these transactions, the university did not comply with state requirements designed to encourage ethical behavior.

Cause: These purchases were handled at the departmental level by employees unfamiliar with these state requirements, rather than processed through the UConn purchasing department.

Recommendation: The University of Connecticut should process all procurement transactions through the purchasing department to ensure they are reviewed by staff familiar with the relevant state requirements. (See Recommendation 14.)

Agency Response: “Disagree. Due to the decentralized nature of the University, departmental structures and staffing level models, certain library materials acquisitions are acquired directly by library operations staff. Library material requests, when processed through the Procurement Services Department, adhere to required and relevant procurement contracting compliance certifications and documents. Additionally, Procurement Services works collaboratively with library department operations to educate library operations staff of the State and University procurement compliance and contracting requirements to ensure that directly acquired materials by the library satisfy these requirements through the establishment of a procurement certification requirements guideline with monitoring controls.”

Auditors’ Concluding Comments:

We agree that, as stated in the agency response above, library material requests, when processed through the purchasing department, adhere to the relevant requirements. Our recommendation was prompted by problems we noted with transactions that were not processed through the purchasing department.

Educating library operations staff as to the procurement compliance and contracting requirements is a positive step, as is the establishment of monitoring controls. Processing all procurement transactions through the purchasing department will ensure they are monitored by staff conversant with the relevant requirements.

ENTITIES AFFILIATED WITH THE UNIVERSITY

Criteria: Certain independent entities, such as the Roper Center for Public Opinion Research, the Avery Point Lighthouse Society and Connecticut Urban Legal Initiative, Inc., carry out operations on UConn property. They make use of university resources and potentially expose the university to liability for their actions. Prudent business practice dictates that the university establish agreements with all such organizations to define the rights and obligations of each party.

Condition: In prior audit reports, we noted that UConn did not have agreements with some of the independent entities carrying out operations on the university’s property and, furthermore, could not identify to us all such entities. It does not appear that the university has made a comprehensive effort to identify all such entities and centralize control over its relationships with them.

Effect: The lack of written agreements with organizations that carry out operations on UConn property could allow university resources to be used in a manner inconsistent with policy and could expose the university to unforeseen legal exposure.

Cause: Many aspects of UConn operations are decentralized. However, a certain level of central control over independent entities carrying out operations on UConn property is needed. Management must be able to monitor these activities and verify that proper safeguards are in place. A comprehensive, ongoing process for identifying all such entities is a necessary first step.

Recommendation: The University of Connecticut should develop a comprehensive, ongoing process for identifying all independent entities carrying out operations on university property, and monitoring to verify that appropriate written agreements are in place. (See Recommendation 15.)

Agency Response: “The University administers its property through different units. Many independent entities that carry out operations on University property are already required to execute written agreements. The University will prepare a summary of those. The University will determine whether there are entities carrying out operations on University property who are not captured by existing procedures, whether the nature of the entity and their operations warrants requiring written agreements and, if so, how to implement an appropriate procedure to obtain written agreements when such agreements are required.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

In our previous report on our audit examination of UConn, we presented 11 recommendations pertaining to university operations. The following is a summary of those recommendations and the actions taken thereon:

- Establish compensation limits – this recommendation has been restated and repeated. (See Recommendation 1.)
- Clarify authority to fix compensation – we are not repeating this recommendation, as the Board of Trustees has established a Committee on Compensation to increase board oversight in this area.
- Seek clear statutory authority for the direct payment of wages to University food service operations employees and for their participation in separate retirement plans – this recommendation has been repeated. (See Recommendation 2.)
- Review payments for accrued compensated absences – this recommendation has been restated and repeated, as the University’s review should be extended. (See Recommendation 4.)
- Not process payroll actions unless the related payroll authorization forms are properly signed – we are not repeating this recommendation, as we did not find any new instances of the condition that prompted this recommendation.
- Implement a formal process that provides for the review, approval and documentation of all cost sharing – this recommendation has been restated and repeated. (See Recommendation 6.)
- Revise procedures to ensure that all contracts, express or implied, that exceed established thresholds, are submitted to the board of trustees for approval – we are not repeating this recommendation as the University has complied with it.
- Prepare a detailed plan addressing actions to be taken in the event a disaster interrupts key information technology services – this recommendation has been restated and repeated. (See Recommendation 9.)
- Obtain and document the required approvals for changes in the scope of exigent projects that affect the cost of the project – we are not repeating this recommendation, as we did not find any new instances of the condition that prompted this recommendation.

- Modify procedures to incorporate a formal review and approval of the award process when construction project subcontracts are awarded – we are not repeating this recommendation, as the University documented an ongoing review process.
- 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 – this recommendation has been restated and repeated. (See Recommendation 15.)

Current Audit Recommendations:

- 1. The University of Connecticut should establish maximum salaries for all professional employees, through the collective bargaining process if necessary. The maximum salaries should not be exceeded for new hires or existing employees without specific board approval.**

Comment:

Normally, state employees are paid in accordance with established salary schedules. Once the employees reach the maximum salary for their positions, their base salaries only increase when the salary schedules are adjusted for inflation. However, maximum rates of pay have not been established for professional employees at UConn. The compensation levels of university professional employees can increase indefinitely.

- 2. The University of Connecticut should seek clear statutory authority for the direct payment of wages to its food service operations employees 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 UConn employees, food service operations employees are paid directly by the university instead of through the State Comptroller. They also participate in separate retirement plans, although there is no clear statutory authority for this.

- 3. The University of Connecticut should establish procedures for verifying the representations of job candidates regarding their work experience and professional credentials. The procedures should clearly assign responsibility for the task and be sufficient to provide adequate assurance.**

Comment:

In spring 2012, we reviewed 40 instances in which individuals were appointed to new positions (new hires, promotions and transfers). We found that UConn did not appear to be

obtaining adequate assurance regarding the accuracy of the claims made by job candidates concerning their work experience and professional credentials.

- 4. The University of Connecticut should expand its review of payments made for accrued compensated absences during the fiscal year ended June 30, 2010, to prior periods.**

Comment:

We noted a significant error rate in payments made for accrued compensated absences, starting with our audit of the fiscal years ended June 30, 2006 and 2007. UConn recently reviewed payments made during the fiscal year ended June 30, 2010, but did not review those made during prior periods.

- 5. The University of Connecticut should determine the feasibility of recovering Social Security taxes paid that, under the HIRE Act, it was not required to pay.**

Comment:

The Hiring Incentives to Restore Employment (HIRE) Act, enacted March 18, 2010, provided employers with an exemption from the employer's 6.2 percent share of social security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010 through December 31, 2010. UConn did not take advantage of these provisions of the HIRE Act.

- 6. The University of Connecticut should track voluntary uncommitted cost sharing in its time and effort reporting system.**

Comment:

The use of unrestricted UConn resources for sponsored research is in keeping with the university's goal of recognition as one of the nation's top-20 public research universities. However, without effective monitoring of the amount of unrestricted university resources directed to sponsored research projects by researchers, the university cannot reasonably estimate the concomitant costs and determine whether the amount used is appropriate.

- 7. The University of Connecticut should conduct a formal, well documented, selection process for all major acquisitions. Every functional area that will be significantly affected should have adequate representation and input into the process.**

Comment:

UConn did not adequately document the selection of its new financial system. We could not find any indication of a feature-by-feature comparison of competing products or any evidence that any systems other than PeopleSoft or Banner were considered. Furthermore, the initial selection process appeared to have been driven solely by the UConn core

financial management and staff. We found no evidence of significant input from the wider university community.

- 8. The University of Connecticut should develop a structured methodology for major software implementation projects. All projects should be approved by the board of trustees before they are initiated.**

Comment:

The successful implementation of the new financial system is a tribute to the efforts of the Quali implementation team. However, UConn incurred risks that could have been avoided with a more deliberate approach that combined a more comprehensive risk assessment and mitigation process with the development of a more detailed control framework.

- 9. The University of Connecticut should implement an ongoing risk assessment and mitigation process, and prepare a business continuity and disaster recovery plan. The plan should be continuously updated, taking into consideration changes in the systems and resources available to address potential risks.**

Comment:

In our prior report, we noted that, as of June 2011, the UConn Information Technology Services Department, which maintains the university's core systems, did not have an updated disaster recovery plan on file. We followed up on this issue in December 2012. We found UConn had engaged a consultant to begin the process of implementing an ongoing risk assessment and mitigation process and preparing a business continuity and disaster recovery plan. However, it appeared that no significant progress had been made.

- 10. The University of Connecticut should make certain improvements to physical and logical information technology system access controls.**

Comment:

We noted control weaknesses that need to be addressed. The UConn internal audit unit also reported access control issues.

- 11. The University of Connecticut should require that purchasing card logs be approved by a staff member with supervisory authority over the cardholder.**

Comment:

We reviewed 25 purchasing card logs. We found that, with respect to 20 of the 25 logs reviewed, the record managers signing off on the logs were co-workers, subordinates, lower level staff or the cardholders themselves.

- 12. The University of Connecticut should not authorize contractors to begin work before contracts are executed.**

Comment:

We have repeatedly noted instances in which contracts were executed after work began. For example, during our testing of a sample of fiscal year 2010-2011 expenditures, we noted 14 instances in which contracts were executed by the university after the contractual start date. Delays ranged from 18 days to 10 months; contract amounts ranged from \$12,000 to \$1,391,137.

- 13. The University of Connecticut should prepare receiving reports when payment is required prior to a performance to document that the vendor has fulfilled its contractual obligations.**

Comment:

On August 16, 2010, UConn contracted with Columbia Artists Management LLC for a performance to be given on November 9, 2010, in the amount of \$23,375. The check was issued in advance, as is common for this type of transaction. Staff did not prepare, subsequent to the event, a receiving report to document that the vendor had fulfilled its contractual obligations.

- 14. The University of Connecticut should process all procurement transactions through the purchasing department to ensure they are reviewed by staff familiar with the relevant state requirements.**

Comment:

During our testing of expenditures of the 2009-2010, 2010-2011 and 2011-2012 fiscal years, we found that the required certifications were not obtained for purchases of library materials. During our testing of expenditures of the 2011-2012 fiscal year, we found that the required certifications were not obtained for other purchases that were also handled at the department level, rather than processed through the purchasing department.

- 15. The University of Connecticut should develop a comprehensive, ongoing process for identifying all independent entities carrying out operations on university property, and monitoring to verify that appropriate written agreements are in place.**

Comment:

Many aspects of UConn operations are decentralized. However, a certain level of central control over independent entities carrying out operations on university property is needed. Management must be able to monitor these activities and verify that the proper safeguards

are in place. A comprehensive, ongoing process for identifying all such entities is a necessary first step.

CONCLUSION

We wish to express our appreciation to the staff of the University of Connecticut for the cooperation and courtesies extended to our representatives during this examination.

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



James K. Carroll
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts