

STATE OF CONNECTICUT



*AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015*

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

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AUDITORS OF PUBLIC ACCOUNTS

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September 13, 2016

AUDITORS' REPORT UNIVERSITY OF CONNECTICUT FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

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. UConn is a component unit of the University of Connecticut system, which includes UConn, the University of Connecticut Health Center (UConn Health) and the University of Connecticut Foundation, Inc. We also audit the financial statements of UConn and UConn Health and report on those audits separately.

UConn's financial statements are reflected in the state's CAFR as part of a major enterprise fund titled University of Connecticut and Health Center. This fund reflects the balances and activity of UConn and UConn Health. The University of Connecticut Foundation, Inc. is reported on separately as a component unit of the state in the CAFR; the University of Connecticut Law School Foundation, Inc. is not included in the CAFR.

The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2014 and 2015. 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.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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 contracts, grant agreements, 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 performance audits 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 UConn's management and was not subjected to the procedures applied in our audit of UConn. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of UConn.

COMMENTS

FOREWORD

UConn, 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. 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 government of the university and determines the general policies 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, 2015 were:

Ex officio members:

Dannel P. Malloy, Governor
Sanford Cloud Jr., Chairperson of the UConn Health Center Board of Directors
Steven K. Reviczky, Commissioner of Agriculture
Catherine H. Smith, Commissioner of Economic and Community Development

Dianna R. Wentzell, Commissioner of Education

Appointed by the Governor:

Lawrence D. McHugh, Middletown, Chair
Louise M. Bailey, West Hartford, Secretary
Andy F. Bessette, West Hartford
Charles F. Bunnell, East Haddam
Shari G. Cantor, West Hartford
Andrea Dennis-LaVigne, Simsbury
Marilda L. Gandara, Hartford
Juanita T. James, Stamford
Thomas E. Kruger, Stamford
Rebecca Lobo, Granby
Denis J. Nayden, Stamford
Thomas D. Ritter, Esq., Hartford

Elected by alumni:

Richard T. Carbray Jr., Rocky Hill
Donny E. Marshall, Coventry

Elected by students:

Michael K. Daniels, Plainville
Jeremy L. Jelliffe, Willimantic

Dannel P. Malloy served as Governor during the audited period.

Brien T. Buckman of Stamford; Peter S. Drotch of Framingham, Massachusetts; Lenworth M. Jacobs, M.D., of West Hartford; Wayne J. Shepperd of Danbury; and Richard Treibick of Greenwich completed their terms on June 30, 2013. They were succeeded by Andy F. Bessette of West Hartford, Charles F. Bunnell of East Haddam, Shari G. Cantor of West Hartford, Michael K. Daniels of Plainville and Andrea Dennis-LaVigne of Simsbury, effective July 1, 2013.

Francis X. Archambault, Jr., of Storrs completed his term on August 31, 2013 and was succeeded by Donny E. Marshall of Coventry, effective September 1, 2013. Rose Barham of Newington completed her term effective June 30, 2014 and was succeeded by Jeremy L. Jelliffe of Willimantic, effective July 1, 2014. Stefan Pryor served as Commissioner of Education until he was succeeded by Dianna R. Wentzell in January 2015.

Michael K. Daniels of Plainville and Juanita T. James of Stamford completed their terms on June 30, 2015. Michael K. Daniels was succeeded by David Rifkin of Glastonbury, effective July 1, 2015.

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. Susan Herbst was appointed on December 20, 2010 and serves as the 15th president of the university.

UConn's main campus is located in Storrs, Connecticut. The university maintains additional facilities and carries out programs at locations across the state. These facilities and programs include:

Avery Point:

Undergraduate and Graduate Programs at Avery Point
Connecticut Sea Grant College Program
Northeast Underwater Research, Technology & Education Center

Farmington:

UConn Health

Greater Hartford:

Undergraduate and Graduate Programs at Hartford
UConn School of Law
School of Social Work
Graduate Business Learning Center

Stamford:

Undergraduate and Graduate Programs at Stamford
Connecticut Information Technology Institute

Torrington:

Undergraduate Programs at Torrington

Waterbury:

Undergraduate and Graduate Programs at Waterbury

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

Autonomy

Statutes governing the state's constituent institutions of higher education provide UConn notable autonomy and flexibility. Public Act 91-256 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. 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 the Department of Administrative Services. Personal service agreements are not subject to the restrictions codified under Sections 4-212 through 4-219 of the General Statutes. 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 issues being an exception) directly instead of through the 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 operating fund (a civil list fund) to a Treasurer's cash management account. These advances are recorded as higher education operating expenses on the Comptroller's books. The Treasurer transfers funds from the cash management account to UConn's zero balance direct disbursement checking account on a daily basis, as needed to satisfy checks that have cleared.

All UConn payments, except for certain transactions involving student receipts, are made through the zero balance checking account. UConn's operating fund is reimbursed on a daily basis for payments made on behalf of UConn's non-civil list funds (UConn 2000 bond proceeds and UConn's special local fund); the University of Connecticut Research Foundation Fund reimburses the operating fund on a monthly basis. The reimbursements are posted to the operating fund by crediting higher education operating expenses.

Although Section 3-25 clearly states that "payments for payroll...shall be made solely by the Treasurer..." UConn pays the majority of its food service employees directly. This arrangement is discussed in more detail in the State Auditors' Findings and Recommendations 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 the faculty and other personnel needed to operate and maintain the institutions under its jurisdiction and establish the terms and conditions of employment. Section 10a-154b allows institutions of higher education to establish positions and approve the filling of 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. Subsection (c) of Section 7 of the

act, codified as Section 10a-109g subsection (c) of the General Statutes, provided that the securities issued to fund this program are to be issued as general obligations of UConn. However, the act committed the state to fund the debt service on these securities, both principle and interest, almost entirely from the resources of the General Fund. Per subsection (c) of Section 5 of the act, 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, to the extent that related debt service will be funded from the state debt service commitment, are considered to be indebtedness of the state for purposes of the bond limitation established by Section 3-21 of the General Statutes. However, they 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 through the 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, the act provided for state matching funds for eligible donations deposited into the fund, subject to specific caps. Effective July 1, 1998, Section 28 of Public Act 98-252 explicitly authorized the deposit of state matching funds in a foundation operating pursuant to Sections 4-37e and 4-37f to clarify that state matching funds could become foundation assets.

The enabling legislation for this program was subsequently amended, extending it through the fiscal year ending June 30, 2014 and modifying the matching percentage. However, Public Act 05-3, codified as Section 10a-8c of the General Statutes, effectively ended the program by providing that the matching funds are not to be disbursed unless the state’s budget reserve (rainy day fund) equals ten percent of the net General Fund appropriation for the fiscal year in progress.

Recent Legislation

Noteworthy legislation affecting UConn and UConn Health that became effective during the period under review and thereafter is presented below:

- Public Act 13-118, Section 5, 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 to the Board of Trustees of the University of Connecticut.
- Public Act 13-143 requires a report from the Board of Regents for Higher Education and the Board of Trustees for the University of Connecticut regarding administrative salaries and the ratio of administrators to faculty and students.

- Public Act 13-177, Section 1, established a process for the awarding of design-build contracts by UConn. Section 3 of the act 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.
- Public Act 14-98, Section 2, authorized the issuance of state bonds for the Comptroller for enhancements and upgrades to the Core-CT human resources system at UConn, not exceeding \$7,000,000. Section 30 of the act reduced the amount authorized for the development of a technology park at UConn from \$172,500,000 to \$169,500,000.
- Public Act 14-112 clarified the university's authority to acquire and dispose of land.
- Public Act 14-217, Section 221, makes members of UConn's police department unclassified (instead of classified) state employees, but leaves them within the bargaining unit that represents protective services employees.
- Public Act 15-1, June Special Session, Sections 2 and 21, authorized \$156,000,000 for the office of Policy and Management for information and technology capital investment program, directing that \$41,000,000 be made available for the purchase and implementation of an integrated electronic medical records system at UConn Health. It also authorizes UConn to revise, delete, or add a particular project or projects in its UConn 2000 infrastructure improvement program to finance the implementation of the electronic medical records system at UConn Health.
- Public Act 15-1, December Special Session, Section 19, directs that \$8,500,000 and \$3,000,000 be transferred from UConn and UConn Health operating funds, respectively, to the state's General Fund for the fiscal year ended June 30, 2016. Section 19 of the act also released UConn from any liability for overstated fringe benefit assessments charged to the state's General Fund in fiscal years ending June 30, 2003 to June 30, 2015, inclusive, due to an allocation error in the state's accounting system.
- Public Act 15-5, June Special Session, Section 416, allows UConn to provide health care coverage for graduate assistants and others through the partnership plan (the state-administered plan for non-state public or nonprofit employers), provided the related premiums and expenses are not charged to the state's General Fund (consistent with past practice with respect to such costs).
- Public Act 15-244, Section 49, provides that for the fiscal years ending June 30, 2016 and June 30, 2017, UConn expenditures for institutional administration, defined as system office, executive management, fiscal operations and general administration,

exclusive of expenditures for logistical services, administrative computing and development, shall not exceed three and thirty-five hundredths per cent of the annual General Fund appropriation and operating fund expenditures, exclusive of capital bond and fringe benefit funds.

UConn 2000 Authorizations

As of June 30, 2015, projects totaling \$4,619,300,000 were authorized by the legislature under the enabling legislation for the UConn 2000 program. The estimated costs do not represent spending caps at the project level or in the aggregate.

Authorizing Legislation	Cumulative Estimated Costs	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 Section 92 of Public Act 11-57, as amended by Section 30 of Public Act 14-98, of up to \$169,500,000 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 and during the preceding year.

Student Status	Fall 2012	Fall 2013	Fall 2014
Undergraduates	22,301	22,595	22,973
Graduates	6,613	6,555	6,830
Professional (School of Law and Doctor of Pharmacy)	814	782	761
Medicine – Students	359	368	384
Medicine – Other ⁽¹⁾	625	645	650
Dental – Students	169	174	171
Dental – Other ⁽¹⁾	117	114	110
Totals	30,998	31,233	31,879

(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	2013-2014			2014-2015		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$9,256	\$28,204	\$16,198	\$9,858	\$30,038	\$17,250
Graduates	11,456	29,740	20,048	12,202	31,674	21,354
School of Law	23,818	50,134	41,682	25,366	53,392	44,390

Generally, the Comptroller accounts for UConn operations in:

- General Fund appropriation accounts.
- The University of Connecticut Operating Fund.
- The University of Connecticut Research Foundation Fund.
- Accounts established in other 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 proceeds of UConn 2000 bonds and related expenditures.

UConn also maintains a special local fund that is used to account for various locally administered balances and activities. The special local fund was authorized by Governor William A. O'Neill under Section 4-31a of the General Statutes in 1987 to encompass existing local funds which had traditionally been controlled by UConn.

UConn's financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. UConn utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis.

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

UConn employment grew slightly during the audited period. UConn reported 4,757, 4,816 and 4,801 full and part-time faculty and staff (excluding adjunct faculty and other special payroll employees, graduate assistants, dining services employees and student labor) as of the Fall 2013, 2014 and 2015 semesters, respectively.

UConn's financial report for the year ended June 30, 2014 reflects the restatement of amounts presented for the fiscal year ended June 30, 2013 in accordance with the provisions of

Governmental Accounting Standards Board (GASB) Statement No. 65. The restatement decreased UConn's total net position as of June 30, 2013 by \$12,631,459 to \$1,439,421,293. The decrease reflected the change in the treatment of fees associated with issuance of long-term bonds. Previously accrued and amortized over the life of the bonds, these costs were retroactively reclassified as expenses of the year in which the bonds were issued.

UConn's total net position increased by \$4,060,893 from \$1,439,421,293 as of June 30, 2013, as restated, to \$1,435,360,400 as of June 30, 2014. It then decreased by \$437,761,126 to \$997,599,275 as of June 30, 2015. This decrease was primarily attributable to the adoption of GASB Statements No. 68 and 71, which required UConn to recognize a liability for its proportionate share of the net pension liability of the state's defined benefit pension plans in its stand-alone financial statements.

UConn recorded a prior year adjustment for pensions to its beginning total net position for the fiscal year ended June 30, 2015 of \$577,593,380. As of June 30, 2015, UConn's net pension liability, net of associated deferred outflows and inflows, was \$588,299,586. The decrease in total net position caused by the adoption of GASB Statements No. 68 and 71 was partially offset by the allocation of \$131,500,000 for the development of a technology park at UConn as authorized under Section 10a-110m of the General Statutes.

UConn's unrestricted net position balance decreased by \$22,672,034 from \$153,490,047 as of June 30, 2013, as restated, to \$130,818,013 as of June 30, 2014. It decreased again by \$560,092,561 to a deficit balance of \$429,274,548 as of June 30, 2015. The decrease of \$560,092,561 reflects UConn's recognition of its proportionate share of the net pension liability of the state's defined benefit pension plans, which was applied entirely to unrestricted net position.

UConn's cash and cash equivalents balance declined during most of the last several fiscal years. The June 30, 2011 balance of \$276,484,964 fell by \$9,690,367 to \$266,794,597 as of June 30, 2012, by \$22,008,793 to \$244,785,804 as of June 30, 2013 and by \$26,595,630 to \$218,190,174 as of June 30, 2014. It recovered slightly in the following year, increasing by \$14,761,367 to \$232,951,541 as of June 30, 2015.

UConn revenues, operating and non-operating, and other additions totaled \$1,142,545,855 and \$1,348,837,834 for the fiscal years ended June 30, 2014 and 2015, respectively. General Fund support, in the form of annual appropriations for operating expenses, in-kind fringe benefit support, the state debt service commitment for principle and interest on UConn 2000 related bonds and capital funding allocations, was UConn's largest source of revenue. It totaled \$430,485,717 (38 percent) and \$585,264,257 (43 percent) of total revenues and other additions for the fiscal years ended June 30, 2014 and 2015, respectively. The increase in the second year of the audited period was primarily attributable to the allocation of funding under Section 10a-110m of the General Statutes, 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 \$279,577,280 and \$308,174,254 for the fiscal years ended June 30, 2014 and 2015, respectively.

Sales and services of auxiliary enterprises were \$195,524,781 and \$201,065,628 for the fiscal years ended June 30, 2014 and 2015, respectively. Grant and contract revenues (federal, state and local and non-governmental) totaled \$162,623,098 and \$170,848,520 for the fiscal years ended June 30, 2014 and 2015, respectively.

UConn expenses, operating and non-operating, and other deductions totaled \$1,146,606,747 and \$1,209,005,580 for the fiscal years ended June 30, 2014 and 2015, respectively. Most were classified as operating expenses. A schedule of operating expenses by functional classification follows:

	<u>2013-2014</u>	<u>2014-2015</u>
Instruction	353,250,856	382,255,349
Research	79,483,638	73,596,010
Public Service	41,918,518	48,883,867
Academic Support	125,556,692	131,913,698
Student Services	36,787,251	36,954,846
Institutional Support	54,484,055	57,329,806
Operations and Maintenance of Plant	105,147,738	114,888,599
Depreciation	95,376,695	95,990,463
Student Aid	8,796,255	9,126,577
Auxiliary Enterprises	<u>196,934,393</u>	<u>209,633,188</u>
Total Operating Expenses	<u>1,097,736,091</u>	<u>1,160,572,403</u>

The non-operating expenses during the audited period consisted primarily of interest payments. Interest expense was \$45,955,335 and \$46,420,112 for the fiscal years ended June 30, 2014 and 2015, respectively. Most of this expense involved UConn general obligation bonds and was offset by General Fund support in the form of the state debt service commitment for interest, which was \$42,090,775 and \$46,635,328 for the fiscal years ended June 30, 2014 and 2015, respectively. As the state debt service commitment for interest is based on the payment of interest to bond holders it can differ from interest expense per se, which also reflects the amortization of bond premiums and discounts and gains/losses on refundings.

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 UConn Health. 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, net assets, revenue and support, expenses and other changes, 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, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Assets	\$489,928,000	\$482,433,000	\$21,143,701	\$22,854,584
Liabilities	53,019,000	46,651,000	6,041	2,633
Net Assets	436,909,000	435,782,000	21,137,660	22,851,951
Revenue and Support	91,426,000	53,422,000	3,940,115	3,384,953
Expenses	68,004,000	54,422,000	1,444,997	1,670,662
Other Changes	18,000	(127,000)		

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

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

SECTION 4-33A REPORTING REQUIREMENTS

Criteria: Under Section 4-33a of the General Statutes, state agencies are required to promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of state funds or breakdowns in the safekeeping of any other resources of the state or contemplated action to do the same within their knowledge. Section 4-33a requires notification in cases of proven malfeasance or breakdowns in internal control affecting the safekeeping of any state resources.

Condition: In February 2015, it came to our attention that National Science Foundation funds administered by UConn were used to purchase 15 specialized acoustic modems during April through August 2013 at a total cost of \$253,500 from AquaSeNT, a privately held company founded by UConn faculty. The transactions, which were processed as sole source purchases, were initiated by faculty that had interests in AquaSeNT.

These sole source transactions appear to have violated provisions of Section 1-84 of the General Statutes which address such conflicts of interest and 2 CFR 215.42, which prohibits the participation of individuals with an interest in the firm selected in the procurement process. Although UConn administrators were aware of the specifics of the incident, they failed to notify us as required under Section 4-33a.

Effect: Central state agencies have responsibilities with respect to the matters described in Section 4-33a. If state agencies do not promptly notify them of incidents falling under the statute, they cannot fulfill their responsibilities by responding appropriately in a timely manner.

Cause: We were unable to determine why UConn did not promptly report this matter as required.

Recommendation: The University of Connecticut should promptly report as required under Section 4-33a of the General Statutes as soon as a reasonable suspicion exists that a reportable incident has occurred. Any doubt as to whether an incident is reportable under Section 4-33a should be resolved by reporting it. (See Recommendation 1.)

Agency Response: “Over the past few years, the University has taken a number steps to improve compliance with the reporting requirement of Section 4-33a of

the General Statutes. A report of property lost, stolen or vandalized is provided to the Auditors of Public Accounts and the Comptroller on a monthly basis. A soon to be implemented policy, titled *The Prevention and Reporting of Fraud and Fiscal Irregularities*, more clearly defines faculty, staff and other community members' responsibility for protecting University assets, and reporting suspected fraud and other fiscal irregularities. This policy also formally establishes a centralized process to coordinate the identification and assessment of such matters to facilitate timely and appropriate reporting."

DEFERRED MAINTENANCE

Criteria: Section 10a-109ee of the General Statutes requires UConn to "provide that all funds allocated to UConn 2000...for the purpose of deferred maintenance...be expended for such purpose." In an October 2010 memorandum, UConn's bond counsel addressed the use of UConn 2000 deferred maintenance funding. The counsel concluded that the funds allocated for deferred maintenance cannot be used for the construction of new buildings or additions to existing buildings. The counsel referred to the statutory definition of deferred maintenance and the related federal Accounting Standards Advisory Board definitions, emphasizing that "Maintenance **excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.**"

Condition: We reviewed requests for project approval submitted to the University of Connecticut Board of Trustees in connection with 20 of the larger recent deferred maintenance projects. We noted that the primary objective of 10 of the 20 projects was to expand the capacity of, or otherwise upgrade, assets.

These 10 projects, with budgeted amounts, included:

- 901820 – \$23,000,000 to renovate Putnam Refectory in order to increase dining hall seating capacity from 400 to 700.
- 201630 – \$4,700,000 to construct an fMRI Center in the Philips Communication Sciences Building.
- 901735 – \$6,591,000 for pedestrian safety improvements that will enhance the campus.
- 901629 – \$4,000,000 for pedestrian safety improvements that will enhance the campus.
- 901726 – \$3,000,000 for pedestrian safety improvements that will enhance the campus.
- 901422 – \$2,300,000 to increase water delivery capacity by installing a new 16" water main and to bury electrical lines.

- 901757 – \$1,865,000 to renovate two existing laboratories into state-of-the-art research laboratories.
- 901812 – \$1,500,000 for site improvements at the intersection of Route 195 and Bolton Road.
- 901730 – \$1,300,000 to convert rooms in the Pharmacy/Biology Building into laboratory and office space to accommodate new faculty and relocate existing faculty and programs.
- 901368 – \$850,000 for a sludge discharge filter press to reduce disposal costs by about \$125,000 annually.

Effect: Funds allocated for deferred maintenance were used for purposes not authorized by statute. In addition to creating a condition of noncompliance with statutory provisions, this appears to have hampered efforts to reduce the backlog of actual deferred maintenance.

Cause: We could not determine why UConn used deferred maintenance funds for these projects.

Recommendation: The University of Connecticut should move ongoing projects that are not consistent with the statutory definition of deferred maintenance to different funding sources. Legislative authorization should be sought for projects that do not constitute deferred maintenance and are not otherwise named in Section 10a-109e of the General Statutes. (See Recommendation 2.)

Agency Response: “The University, like all state agencies, does not have access to sufficient funding to make all the necessary and appropriate repairs to its facilities and infrastructure. As a result, the University intentionally designs projects to repair under-maintained facilities and infrastructure up to current standards. The University views this capital planning process as an efficient and effective use of state resources generally, as well as an appropriate use of DM/Renovation funding under UCONN 2000.

We agree that Deferred Maintenance/Code/ADA Renovation funding should not be utilized to construct new buildings or to expand the footprint of existing buildings. The principal basis of any project utilizing this funding is for the repair or renovation of an under-maintained facility or infrastructure to bring it to current standards. The University has consistently reported this utilization of such funding to the legislature and other state agencies without objection.

After Deferred Maintenance/Code/ADA Renovation funding has been allocated to a project, the project may change in scope in a way that requires the University to reconsider whether such allocation remains appropriate. In these and other situations, the statutes authorize the

University to reallocate project funding to a different named-line under UCONN 2000. See Section 10a-109e(d).

Accordingly, the University will review ongoing projects, including those identified above, to determine whether any such reallocation is necessary or appropriate.

In addition, the University will consider pursuing the technical legislative changes suggested above for the sake of added clarity going forward.”

NON-COMPETITIVE PROCUREMENT

Criteria: Section 10a-151b of the General Statutes requires constituent units of the state system of higher education to solicit competitive bids or proposals by public notice, when possible, when contracting for professional services. The statutory requirement for open, competitive procurement is intended to facilitate obtaining goods and services at the lowest prices, avoiding favoritism, and awarding public contracts in an equitable manner.

In some instances, there may be only one source for goods or services. If so, competition is not possible. This type of non-competitive procurement action is commonly referred to as a sole source purchase.

Condition: In our test of selected expenditures for the 2015 fiscal year, we noted three transactions that were misclassified as sole source procurements. Documentation on file indicated that the selected vendors were chosen after a limited review of alternatives. If these procurement actions had truly been sole source procurements, there would not have been any alternatives to review. Though there was a limited review of alternatives, the procedures followed did not meet the requirements of Section 10a-151b of the General Statutes. UConn did not begin the process by soliciting competitive proposals or bids by public notice, a procedure that is critical to an open, competitive procurement process.

Misclassified transactions we noted included:

A contract for the purchase of electron microscopes from a leading technology company for an amount not to exceed \$12,000,000. As of November 2015, \$6,258,903 had been expended under this contract. Documentation on file indicates that, although UConn considered purchasing these instruments from this vendor to be the most appropriate solution, there are a number of instrument manufacturers producing competing products.

A contract for the provision of services related to the study abroad program in Italy. Expenditures under this contract totaled \$1,257,988. Documentation on file indicates that there were at least three alternatives to the vendor UConn contracted with.

A contract for the provision of services related to the study abroad program in England. Expenditures under this contract totaled \$1,036,963. Documentation on file indicates the presence of numerous alternatives.

Effect: These transactions did not comply with the provisions of Section 10a-151b. It is possible that the goods and services could have been obtained at a lower price if an open, competitive procurement process had been followed. In addition, other potential vendors were denied the opportunity to bid on the contracts. Open access to state contracts is in the public interest.

Cause: It appears UConn felt that an open, competitive procurement process was not needed for these transactions.

Recommendation: The University of Connecticut should comply with the competitive procurement requirements of Section 10a-151b of the General Statutes. Procurement actions should not be characterized as sole source purchases unless no other source exists that is capable of meeting the requirements. (See Recommendation 3.)

Agency Response: “The State Auditor recommends that “Procurement actions should not be characterized as sole source purchases unless no other source exists that is capable of meeting the requirements.” UConn acknowledges this recommendation. In the case of the electron microscopy instruments, a thorough and detailed scholarly analysis was performed.”

SEPARATION AGREEMENT AND GENERAL RELEASE

Background: A separation agreement and general release addresses the terms of an employee's separation from employment, including a release of claims against the employer, in consideration for certain separation or severance benefits the employee would otherwise not be entitled to receive. Although benefits generally accrue to both parties, these agreements are primarily designed to protect the employer.

Non-disparagement clauses are common to such agreements. Non-disparagement clauses generally specify that the departing employee will not make any negative or disparaging statements about the employer, its officers, or members of its board. Similarly, the employer usually agrees not to make any negative comments about the employee.

Restrictions such as non-disparagement clauses can have a chilling effect on the willingness of employees to report inappropriate activity. This is a serious concern, as evidenced by recent actions taken by federal agencies.

The Equal Employment Opportunity Commission (EEOC) brought an enforcement action against CVS Pharmacy (CVS), maintaining language in the company's agreement carving out the employee's right to "participate in a proceeding with any appropriate federal, state or local government agency enforcing discrimination laws" was insufficient to offset a covenant forbidding "any statements that disparage the business or reputation" of the company. The EEOC contended that this did not clearly communicate to non-attorney CVS employees that they retain the right to file a charge of discrimination.

In April 2015, the Securities and Exchange Commission (SEC) announced its first enforcement action against a company for using improperly restrictive language in confidentiality agreements with the potential to stifle the whistleblowing process. The defendant voluntarily amended its confidentiality statement by adding language making clear that employees are free to report possible violations to the SEC and other federal agencies without approval or fear of retaliation.

Criteria:

When a state agency is party to a separation agreement that contains a non-disparagement clause, the agreement should make it clear that the non-disparagement clause does not in any way restrict the employee's right to file a whistleblower complaint under Section 4-61dd of the General Statutes. The language used should be plain and unambiguous so that non-attorney employees will understand that they will not be penalized for filing a complaint even if statements included in the complaint could be viewed as disparaging. The agreement should incorporate similar disclosures addressing other actions that are protected by state or federal law or are not in the public interest to obstruct.

Condition:

As a matter of policy, managerial and confidential employees who are involuntarily separated from UConn are generally required to execute a separation agreement and general release in order to receive separation benefits. We reviewed language used by UConn in such agreements.

UConn's agreements do not inform employees that they will not be penalized for filing a whistleblower complaint, even if statements included in the complaint could be viewed as disparaging. Additionally, they do not include exceptions for statements that could be viewed as disparaging made in connection with other actions that are protected by state or federal law or are in the public interest.

One agreement executed in March 2014 provided that the employee “not make any derogatory or defamatory statements about his employment at UConn, about UConn, about any previous or current officer or employee of UConn, or any previous or current member of the UConn Board of Trustees or the University of Connecticut Health Center Board of Directors.” The only exception we noted was that implied by the statement that the employee “shall cooperate fully with UConn in connection with any investigation and/or hearing...” involving any violations that may have occurred during the employee’s term of employment and “nothing in this agreement shall be construed as limiting or influencing...cooperation or testimony in any such proceeding or investigation.”

Another executed in October 2015 provided that UConn and the employee “agree not to make any defamatory statements about each other.” Similarly, the only exception we noted was implied by the statement that the employee “fully cooperate with the University and the Office of the Attorney General in connection with any litigation or proceedings that may arise from any alleged acts or omissions” that may have occurred during the employee’s term of employment.

Effect: This condition could hinder the effective operation of the state’s whistleblower program by discouraging the reporting of inappropriate activity.

Cause: We were unable to determine why UConn did not include exceptions for complaints filed under Section 4-61dd of the General Statutes as standard language in its separation agreements.

Recommendation: The University of Connecticut should clearly state in any separation agreements incorporating non-disparagement clauses that the clause does not in any way restrict the employee’s right to file a whistleblower complaint under Section 4-61dd of the General Statutes. The agreement should incorporate similar language addressing other actions that are protected by state or federal law or are not in the public interest to obstruct. (See Recommendation 4.)

Agency Response: “The law in this area is evolving. Future non-disparagement clauses will make clear that the clause does not restrict an employee’s right to file a complaint under Section 4-61dd of the General Statutes. We will monitor developments in the law with regard to other protected activity and draft such clauses to make them compliant with applicable law.”

EXCESSIVE COMPENSATION

- Criteria:* Compensation paid should be commensurate with work performed. When a managerial employee steps down from a position, the compensation should be reduced to a level appropriate to the new job duties.
- Condition:* It came to our attention that an administrator stayed on the UConn payroll, with no reduction in his \$202,829 salary, for a year after stepping down from his management position. Per the employment agreement he was to function, essentially, as a part time consultant. The agreement stated that, though he would have access to office space, his “advisory and consultative duties will primarily be conducted off-site.”
- Effect:* The employee’s compensation during his final year of employment was not justified by the amount of work he was required to perform.
- Cause:* None of the documentation on file indicates that the employee’s decision to step down was initiated by the employee.
- Recommendation:* The University of Connecticut should compensate employees who step down from management positions at a level consistent with the work they are performing, not at a level appropriate for their former positions. (See Recommendation 5.)
- Agency Response:* “In the absence of a separation agreement, as described in the University response to the *Separation Payments* finding below, we agree that employees that step down from management positions should be compensated at a level consistent with the work they are performing, not at a level appropriate for their former positions.”

EXCESS PAYMENT FOR UNUSED VACATION ACCRUAL

- Criteria:* By policy, UConn limits vacation accruals by managerial and confidential exempt and non-represented faculty to 60 days. Exceptions to the 60-day limit are allowed with the approval of the appropriate administrator.
- However, UConn’s policy clearly provides that, irrespective of the amount accrued, payments for unused vacation accruals upon separation will be limited to a maximum of 60 days. The policy allows for modification of this limit by the board of trustees.
- Condition:* We reviewed payments for unused accumulated leave balances made to 25 employees during the period from July 2013 through January 2015. We found that one managerial employee was paid \$90,461 for 120 days of unused accrued vacation balance, twice the maximum allowable amount.

Although we were told that this payment was in accordance with an agreement between UConn and the employee, UConn was not able to provide us with a copy of this agreement when we requested it. We did note the presence of memorandums authorizing the employee to accrue more than 60 days of vacation, but there was no indication that the excess accruals would be paid out on separation.

The language of the policy indicates that board of trustees' approval would be necessary to modify this benefit. We found no indication that the board of trustees approved the payment for an additional 60 days of vacation accruals.

Effect: An unauthorized payment of \$45,230 was made to the employee.

Cause: There appeared to have been a general belief that the payment was in accordance with an agreement between UConn and the employee. However, UConn was not able to provide us with a copy of this agreement.

Recommendation: The University of Connecticut should follow its policy regarding vacation payout upon separation. The university should attempt to recover the unauthorized payment of \$45,230. (See Recommendation 6.)

Agency Response: "Upon separation from the University, managerial employees are paid for their unused accrued vacation, up to a maximum of 60 days. In unusual and unique circumstances, payment of unused vacation days in excess of 60, up to a maximum of 120, may be authorized. Going forward, the University will obtain board approval for such payments in accordance with policy. With respect to the finding above, the individual transferred to UConn from another state agency which had a higher vacation balance and payout threshold. This employee was permitted to "carryover" excess vacation days that remained on the books at the end of each calendar year. Authorization was granted from the Associate Vice President for Human Resources and Payroll Services to pay out the employee's vacation balance of 120 days when he separated from the University. The final payout was consistent with the prior state employer's accrual and payout practices."

SEPARATION PAYMENTS

Criteria: Under UConn's *Separation Policy for Unclassified Board of Trustees Exempt Managers and Confidential Employees*, management employees who are involuntarily separated from UConn for reasons unrelated to their job performance may be eligible for separation benefits. At UConn's

discretion, it may offer written notice in advance of the effective date of separation, a lump sum payment of salary in lieu of notice or a combination of the two.

Unless the relationship with an employee has deteriorated to the point that the employee's continued presence on site would be a detriment, offering notice is the fiscally prudent alternative. Because the same cost would be incurred either way, any services the employee is able to provide would be a net benefit to UConn.

Condition: During a test of employees on leave with pay, we noted six instances that constituted payment of salary in lieu of notice to managerial employees. Instead of making a single lump sum payment, UConn paid the equivalent on an installment basis by placing the employees on leave with pay for a period of time immediately prior to their separation date.

We were told that in five of the six instances, the employees were involuntarily separated for reasons unrelated to their job performance. We calculated that, based on the periods of leave with pay and the employees' rates of pay, the payments to the five employees during the periods of leave with pay totaled \$337,455.

Effect: UConn lost the opportunity to benefit from the services these employees could have provided.

Cause: We were unable to determine why UConn did not elect to provide notice instead of making separation payments.

Recommendation: The University of Connecticut should provide notice instead of making separation payments to terminating employees in instances of involuntary separation for reasons unrelated to job performance. (See Recommendation 7.)

Agency Response: "As acknowledged in the finding above, there are situations in which an employee's continued presence on site would be a detriment and offering notice may be more fiscally prudent. UConn's *Separation Policy for Unclassified Board of Trustees Exempt Managers and Confidential Employees* explicitly provides for notice, or payment in lieu of notice, to employees prior to the effective date of a layoff, position elimination or other separation not related to performance or misconduct. The policy also permits continuation of health insurance and provision of outplacement services. In most cases, a management or confidential employee that has been issued a layoff notice is expected to continue providing service to UConn in an advisory or consultative capacity to either transition their responsibilities to others or to wind down their pending tasks and projects. For a variety of business reasons, such as security concerns and other risk

management issues, UConn has adopted a policy that gives management the option to either release the employee during the notice period or have the employee work remotely. Finally, working for the full notice period with no separation payment may not be sufficient consideration necessary to enforce the required separation agreement and general release.”

Auditors’ Concluding

Comment:

In instances in which management feels that the payment in lieu of notice option is the prudent alternative because of security and/or other risk management concerns, written documentation should be prepared that evidences management’s consideration of these factors and clearly describes the basis for management’s conclusion.

FINANCIAL SYSTEM ACCESS CONTROLS

Criteria:

Logical access controls are tools used for identification, authentication, authorization, and accountability in computer information systems. They work in conjunction with physical access controls, which address interactions with hardware in the physical environment. Logical access controls need to be properly designed and implemented to safeguard critical systems, programs, processes, and information by preventing access by unauthorized users. A continuing, documented process for identifying and authorizing the appropriate access for individual employees based on business needs is the foundation that supports an organization’s access control measures.

Condition:

We reviewed 64 employees with access to Quali Financial System (KFS), UConn’s financial system. Approved access control forms were not on file for 11(17 percent) of the 64. We also reviewed 226 current or former employees whose access to KFS should have been completely disabled. We found that 11(5 percent) of the 226 still had full or partial access to the system.

Effect:

Unauthorized access to the financial system could jeopardize the integrity of the data stored on the system and the business processes it is used to carry out.

Cause:

When UConn implemented KFS, access profiles existing in the old financial system were brought forward to KFS without review. UConn has not followed up by performing review and approval processes addressing the access rights of all employees on an individual basis.

Additionally, though procedures are in place to notify information technology administrators when employees separate from UConn, they do not encompass all relevant personnel actions. Administrators are not

notified when individuals are put on administrative leave, end special payroll assignments, end affiliate assignments, end student worker assignments, or are put on leave with pay prior to termination as a form of separation payment.

Recommendation: The University of Connecticut should ensure that properly approved access control forms are on file for all individuals with access to KFS. Notification procedures intended to identify all individuals whose access should be disabled should be expanded to encompass all relevant personnel actions. (See Recommendation 8.)

Agency Response: “In May of 2012, the KFS Implementation Team reviewed the Security Overview plan for KFS with the Governance Council. This approved plan included the migration of active legacy financial system (FRS) users – who have prior authorization, into KFS with “user” level access. Management believes this was an appropriate course of action, and poses no additional risk to the University. To address this recommendation, management will investigate an electronic user access re-certification process which will recertify all current and legacy users.

Management believes that additional measures are needed to ensure that employees who separate from the University outside of the normal procedure are removed from KFS in a timely manner. Recognizing this, Finance Systems has already put in place several mitigations to identify these users and remove or limit access. These mitigations include: quarterly reviews of all KFS users to determine if identity records are still active in the University ID System, bi-weekly reviews of HR separation reports, setting duration limits of 1 year on all student and affiliate KFS access requests, and working with University Information Technology Services to receive emails when a user inactivation has been requested by Labor Relations. Management will continue to investigate other options to ensure that the access for employees who have separated or are away from the University for a prolonged period of time are promptly disabled and/or removed from KFS.”

SERVICE ORGANIZATION CONTROL REPORTS

- Criteria:* Service Organization Control (SOC) reports are used to gain assurance over outsourced operations. SOC 1 reports focus on internal control over financial reporting. SOC2 and SOC 3 reports focus on compliance or operational controls relevant to security, availability, confidentiality, processing integrity, and privacy. An effective way of managing the risk of utilizing service organizations is by obtaining and reviewing the appropriate SOC reports. Documentation of the review process should include follow-up action taken in response to any reported deficiencies.
- Condition:* UConn utilizes service organizations to perform various operations. We noted several instances in which SOC reports were available, but were not obtained and reviewed.
- Effect:* The lack of due diligence for prospective service organizations and governance oversight of current service organizations may put UConn at risk.
- Cause:* Overall responsibility for acquiring and reviewing SOC reports has not been assigned.
- Recommendation:* The University of Connecticut should develop a centralized process for monitoring and obtaining assurance over service organizations. (See Recommendation 9.)
- Agency Response:* “When available, the University will ask major technology service providers to provide their SOC reports. The University is modifying its contract language to include this requirement. It is the responsibility of each procuring department to monitor vendor performance with respect to specific terms and conditions. This will be reinforced generally as well as specifically for this additional contract language via direct interactions with central purchasing and via a general communication to the University community.”

INTERNAL CONTROL OVER EQUIPMENT

- Criteria:* In order to provide adequate internal control over equipment, the inventory control system must accurately reflect the location of the equipment and the last date it was physically inventoried.
- Condition:* UConn inventory control procedures require those responsible for equipment items to enter all movements of equipment in the financial system’s capital asset management module. However, during our annual physical inventory, we found 21 out of 74 tangible capital equipment

items selected for testing (28 percent) at a different location than that shown in the inventory records.

Furthermore, we noted that changing certain location attributes of an asset in the financial system's capital asset management module will update the last inventory date field – giving the incorrect impression that the existence and location of the equipment item has been physically verified. This condition affected at least two of the equipment items in our selection. In one instance, documentation on file indicated that the item was not at the location shown at the time the last inventory date field was updated. In the second, the item had not yet been tagged and documentation on file indicated that it was at sea on a research vessel and unavailable at the time the last inventory date field was updated.

Effect: The conditions noted above weaken internal control over equipment, increasing the likelihood that assets could be misappropriated or lost.

Cause: It does not appear that the requirement to enter all movements of equipment in the financial system's capital asset management module is being enforced. Allowing the last inventory date field to update when the existence and location of the equipment item has not been physically verified is a design flaw.

Recommendation: The University of Connecticut should enforce the existing procedural requirement that those responsible for equipment items enter all movements of equipment in the financial system's capital asset management module. The last inventory date field should only be updated when the existence and location of the equipment item has been physically verified. (See Recommendation 10.)

Agency Response: “The Inventory Control unit completes an annual physical inventory of approximately 15,600 pieces of equipment with an original cost of \$5,000 or more. Equipment within departments and buildings is mobile and, as such, is often moved from one room to another to facilitate sharing. For instance a piece of equipment may move from one lab to another lab on the same day. It is impractical to record the frequent and recurring movement of such mobile equipment. Centralized Inventory Control staff tag and cycle University equipment and also rely on departments to assist in tagging, recording the movement and the physical inventory of equipment.

The Inventory Control unit of the Controller's division does provide communication and training on the University requirement to enter movements of equipment in the financial system but cannot monitor all equipment location changes given the decentralized and mobile nature of the University's equipment. Equipment locations not updated on a daily

basis are updated in the annual physical inventory process as required by Section 4-36 of the General Statutes of Connecticut.

In addition, the last inventory date field is updated when equipment existence is verified but this verification may be done by the department itself, Inventory Control, or by electronic documents approved in the Quali Financial System. In the case of the item on a research vessel out to sea, the department had relayed to Inventory Control that they had full knowledge of the equipment being located on the research vessel before it went to sea. Thus Inventory Control staff updated the last inventory date field based on the department's representation on this piece of equipment.

The Inventory Control office must rely on departments and financial systems to assist in the effort to track University equipment.”

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 established by the 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 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 UConn 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 the 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 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 UConn employees. However, the Department of Dining Services is a unit of UConn and, therefore, of the state. Accordingly, the employees of UConn’s food service operation are employed by the state.

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

We first reported this condition in a report issued July 2, 2012, almost four years ago. We recommended that UConn seek clear statutory authorization

for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. We repeated our recommendation in subsequent reports issued August 27, 2014 and July 29, 2015. UConn's response, as included in our report issued July 29, 2015, is that it is actively investigating alternatives that will continue to meet the operational needs of Dining Services and will clarify the relationship between UConn and this workforce consistent with statutory requirements.

We appreciate that this is a difficult issue to address. However, as it is a matter of statutory compliance, we feel that UConn should make its resolution a priority.

Effect: Though there are sound operational reasons for UConn's method of compensating its food service operations employees, the legal basis for the direct payment of wages by UConn 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 11.)

Agency Response: "In response to the Auditors' concerns, the University is actively pursuing a solution that will continue to meet the operational needs of Dining Services and will clarify the relationship between the University and this workforce consistent with statutory requirements. UConn agrees it should be a priority"

CREDIT 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 standard UConn procurement processes.

Criteria: Credit card purchases are not subject to the controls established for standard UConn procurement processes. Completion and approval of a monthly purchasing card log listing all purchases for each card is a key compensating control.

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: In a report issued August 27, 2014, we noted that record managers signing off on the purchasing logs may be co-workers, subordinates, lower level staff or the cardholders themselves. We recommended that the responsibility for signing off on purchasing card logs be assigned to staff with supervisory authority over the cardholder. We repeated our recommendation in a report issued July 29, 2015. UConn responded that other controls exist, but did not explain its reluctance to require supervisory signoff on credit card purchases.

Though they can be cost effective, purchasing card programs do present a heightened risk of inappropriate procurement actions. Supervisory review of credit card usage is standard practice and an effective way to address this risk. We do not understand why UConn does not want to institute this simple and effective control.

Effect: Independent review and signoff on credit card purchases can be a valuable control. However, the effectiveness of this key control is greatly reduced when the individual reviewing and approving the purchases has no authority over, or is under the authority of, the cardholder.

Cause: It is unclear why UConn does 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 12.)

Agency Response: "The University has established robust controls and active, oversight of the PCARD Program and the reconciliation of program transactions including a daily review of all transactions. These included the re-enforcement of the separation of duties pertaining to financial activities within the system of record.

The University will work to establish a supervisory oversight control mechanism to occur after the reconciliation process by the record manager. The existing programmatic and financial system roles will remain the same, with ultimate financial approval remaining as the responsibility of the defined fiscal officer. The University anticipates this transition to occur over the next year."

ETHICS CERTIFICATIONS

- Criteria:* Per Section 4-252 of the General Statutes, entities entering into large state contracts must provide certifications, commonly referred to as ethics certifications, set forth in the statute. Furthermore, for continuing contracts, updated certifications must be submitted not later than fourteen days after the twelve-month anniversary of the most recently filed certification or updated certification. Governor M. Jodi Rell’s Executive Order 7C and Governor Dannel P. Malloy’s Executive Order 49 extended this requirement to all state contracts with value of \$50,000 or more in a calendar or fiscal year.
- Condition:* We noted problems with obtaining required ethics certifications in a report issued August 27, 2014. Similar problems were noted during our next review; we addressed them in a report issued July 29, 2015. During the current audit, we noted four instances in which annual updated ethics certifications were not obtained for periods ranging from three months to over two years after the twelve-month anniversary of the most recently filed certification or updated certification.
- Effect:* With respect to these transactions, UConn did not comply with state requirements designed to encourage ethical behavior.
- Cause:* We were told that various unrelated administrative errors caused delays in obtaining the required certifications.
- Recommendation:* The University of Connecticut should obtain updated ethics certifications within fourteen days after the twelve-month anniversary of the most recently filed certification or updated certification. (See Recommendation 13.)
- Agency Response:* “The collection of the certifications is the responsibility of multiple departments throughout the University. The University generally complies with this requirement. Due to the variability of the terms of these relationships, relative to the annual renewal requirement, it is reasonable to assume that a relative nominal number of omissions will occur. Every effort is made to comply with the requirements. In an effort to assure compliance and to address the variability of renewals, the University is exploring an annual, systemic renewal effort regardless of the expiration term.”

OUTPATIENT PAVILION

- Background:* Section 10a-109e subsection (f) of the General Statutes provides that “The University of Connecticut Health Center shall...(2) provide for

construction of a new ambulatory care center through debt or equity financing obtained from one or more private developers who contract with the university to construct such new ambulatory care center.” It appears the legislature intended that this project be pursued as a public-private partnership. Typically, a public-private partnership involves the assumption of a significant degree of risk by the private partner. Additionally, it can provide the public partner with off-balance-sheet financing.

Criteria: In its *Guidelines for Public Debt Management*, the International Monetary Fund clearly articulates the main objective of public debt management. It is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.

Condition: UConn determined that it was not feasible to fund the ambulatory care center project through debt or equity financing obtained from one or more private developers, as directed by the legislature. Accordingly, in December 2012, UConn, acting through the University of Connecticut Health Center Finance Corporation, secured a \$203,000,000 loan from TIAA-CREF to fund the project. The TIAA-CREF loan bears interest at a rate of 4.809 percent. Interest payments over the life of the loan will total \$158,595,860. In December 2012, UConn issued special revenue refunding bonds with a total interest cost of 2.480 percent. If the TIAA-CREF loan bore the same interest rate, interest payments over the life of the loan would total \$81,787,842, or \$76,808,018 less.

To provide the lender, TIAA-CREF, with assurance regarding the collectability of this loan, UConn asked the Attorney General to “confirm that: (i) the financial obligations of the Health Center under the Lease are not subject to appropriation risk; and (ii) in the extraordinary unlikely event that the Health Center were to default on its Lease obligations, these obligations would become general, unrestricted legal obligations of the State of Connecticut and unrelated to any appropriation to the Health Center.” The Attorney General concluded that “(1) although in the normal course required payments under the Lease will be made from available Health Center funds, the Lease payment obligations of the Health Center create legal obligations to the State of Connecticut; and (2) as a legal obligation of the State of Connecticut, required payments under the Lease are not subject to the risk of legislative non-appropriation for the Lease payments. Rather, like any claim against the State, a claim against the Health Center could proceed as provided by law.”

Effect: This transaction will burden the state with significant unnecessary interest costs. As the Attorney General has determined, the promissory note is a general obligation of the state. In practice, it exposes the state to the same

level of risk as would a standard bond issuance, but at a far higher interest cost.

Also, UConn Health is subsidized from the state's General Fund. Any profit or loss related to ancillary operations of UConn Health, such as the ambulatory care center, will affect the amount that must be provided from the General Fund. Therefore, excessive costs incurred by ancillary operations of UConn Health will, in the end, be borne by the state.

Additionally, issuing general obligation debt instruments may fall within the broad powers granted the University of Connecticut Health Center Finance Corporation by Section 10a-254 of the General Statutes. However, in addition to the excessive interest costs involved, the propriety of issuing this promissory note without obtaining specific legislative approval seems questionable, given the existing legislative directive to proceed in a different fashion.

Cause: When it became apparent that it was not feasible to fund the ambulatory care center project through debt or equity financing obtained from one or more private developers, UConn sought an alternative financing method. UConn determined that the TIAA-CREF loan was the lowest cost alternative it had the authority to pursue. UConn sought and obtained the approval of the state's Office of Policy and Management before it executed the promissory note.

Recommendation: The University of Connecticut should seek legislative authorization for the issuance of state bonds to refinance the TIAA-CREF loan when market conditions are appropriate. The cost savings that can be achieved will vary depending on both the state general obligation bond interest rate and, due to a yield maintenance prepayment penalty on the TIAA-CREF loan, current Treasury rates. (See Recommendation 14.)

Agency Response: "Because current state fiscal conditions have caused the Legislature to deauthorize previously approved bonding, making it highly unlikely that they would approve an additional \$200 million in new authorization for this purpose, UConn has not formally requested legislative authorization for the issuance of state bonds to refinance the TIAA CREF loan. The Legislature has been informed of this recommendation through the Auditors of Public Accounts 2012 and 2013 Departmental Report. In addition, UConn has discussed the recommendation with the Governor's Office, Office of Policy and Management and several members of the Legislative leadership. UConn agrees that it is sound policy to achieve savings whenever possible, and will further communicate to the Legislature regarding the auditor's recommendation."

MILEAGE LOGS

- Criteria:* UConn's *Driving and Motor Vehicle Policy*, revised August 22, 2012, incorporates Department of Administrative Services General Letter 115 by reference. Per UConn's Office of the General Counsel, staff is required to comply with the requirements of General Letter 115 as it is specifically referenced in the policy. General Letter 115, revised April 2012, requires that daily mileage logs be kept for all state-owned vehicles to record where the vehicle was driven.
- Condition:* We found that UConn's Transportation Services department does not require daily mileage logs for UConn vehicles. While this is not a problem with respect to utility vehicles used solely on campus, it is a potential issue with respect to vehicles that are used for off-campus travel.
- Effect:* This control procedure is designed to help prevent the inappropriate personal use of state-owned vehicles. Without it, the possibility that such inappropriate personal use could take place is increased.
- Cause:* There appeared to be confusion on the part of UConn's Transportation Services department as to the applicability of General Letter 115 to UConn.
- Recommendation:* The University of Connecticut should maintain daily mileage logs for all vehicles that are used for off campus travel. (See Recommendation 15.)
- Agency Response:* "This year, Transportation Services launched a pilot program utilizing Verizon Networkfleet as a fleet management solution for UConn vehicles. Verizon Networkfleet monitors real time GPS tracking, mileage reporting, and driver information. UConn Transportation Services is transitioning to Networkfleet tracking in all vehicles regularly operated outside of the Storrs campus, including the university's regional campuses and vehicles on university business travel. Verizon Networkfleet tracking will not be required in university utility/service vehicles. This program will provide the necessary control procedure to help prevent the inappropriate personal use of state-owned vehicles."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

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

- Seek legislative authorization for the issuance of state bonds to refinance the TIAA-CREF loan when market conditions are appropriate. This recommendation has been repeated. (See Recommendation 14.)
- Make business continuity and disaster recovery planning a priority. UConn conducted a successful disaster recovery test and continues to make business continuity and disaster recovery a priority. This recommendation is not being repeated.
- Ensure that computer hard drives are securely erased by experienced personnel after they are transferred to Central Stores. UConn has implemented this recommendation.
- Do not pay performance bonuses without first developing a structured plan with criteria for determining when bonuses should be awarded and the amounts to be paid. There were no bonus payments during the current audit. This recommendation is not being repeated.
- Seek clear statutory authority for the direct payment of wages to food service operations staff and for their participation in separate retirement plans. This recommendation is being repeated. (See Recommendation 11.)
- Track voluntary uncommitted cost sharing in the time and effort reporting system. UConn has not been able to identify a cost effective means of complying with our recommendation. This recommendation is not being repeated.
- Require supervisory approval of purchasing card logs. This recommendation is being repeated. (See Recommendation 12.)
- Comply with the competitive procurement requirements of Section 10a-151b of the General Statutes. This recommendation is being repeated. (See Recommendation 3.)
- Prepare receiving reports when advance payment is required. This issue was not noted during the current audit. This recommendation is not being repeated.

- Comply with the applicable General Statutes and executive orders of Governor M. Jodi Rell regarding ethics certifications. This recommendation is being restated and repeated. (See Recommendation 13.)
- Ensure that daily field reports always identify who conducted the review and prepared the report and formally approve project coordination meeting minutes. This issue was not noted during the current audit. This recommendation is not being repeated.

Current Audit Recommendations:

- 1. The University of Connecticut should promptly report as required under Section 4-33a of the General Statutes as soon as a reasonable suspicion exists that a reportable incident has occurred. Any doubt as to whether an incident is reportable under Section 4-33a should be resolved by reporting it.**

Comment:

Faculty with interests in a privately-held company initiated the sole source purchase of equipment costing \$253,500 from the company. These transactions appear to have violated state statutory and federal regulatory requirements. Though UConn administrators were aware of the specifics of the incident, they failed to notify APA as required under Section 4-33a.

- 2. The University of Connecticut should move ongoing projects that are not consistent with the statutory definition of deferred maintenance to different funding sources. Legislative authorization should be sought for projects that do not constitute deferred maintenance and are not otherwise named in Section 10a-109e of the General Statutes.**

Comment:

Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended. We reviewed requests for project approval submitted to the University of Connecticut Board of Trustees in connection with 20 of the larger recent deferred maintenance projects. We noted that the primary objective of 10 of the 20 projects was to expand the capacity of, or otherwise upgrade, assets rather than maintain assets. Section 10a-109ee of the General Statutes requires UConn to “provide that all funds allocated to UConn 2000...for the purpose of deferred maintenance...be expended for such purpose.”

- 3. The University of Connecticut should comply with the competitive procurement requirements of Section 10a-151b of the General Statutes. Procurement actions should not be characterized as sole source purchases unless no other source exists that is capable of meeting the requirements.**

Comment:

In our test of selected expenditures for the 2015 fiscal year, we noted three that had been misclassified as sole source procurements. Documentation on file indicated that the selected vendors were chosen after a limited review of alternatives. If these procurement actions had truly been sole source procurements, there would not have been any alternatives to review. Though there was a limited review of alternatives, the procedures followed did not meet the requirements of Section 10a-151b of the General Statutes. UConn did not begin the process by soliciting competitive proposals or bids by public notice, a procedure that is critical to an open, competitive procurement process.

- 4. The University of Connecticut should clearly state in any separation agreements incorporating non-disparagement clauses that the clause does not in any way restrict the employee's right to file a whistleblower complaint under Section 4-61dd of the General Statutes. The agreement should incorporate similar language addressing other actions that are protected by state or federal law or are in the public interest.**

Comment:

Restrictions such as non-disparagement clauses can have a chilling effect on the willingness of employees to report inappropriate activity. This is a serious concern, as evidenced by recent actions taken by federal agencies. Though a number of separation agreements we reviewed incorporated non-disparagement clauses, UConn did not include carve-outs for complaints filed under Section 4-61dd of the General Statutes.

- 5. The University of Connecticut should compensate employees who step down from management positions at a level consistent with the work they are performing, not at a level appropriate for their former positions.**

Comment:

A UConn administrator stayed on the UConn payroll, with no reduction in his \$202,829 salary, for a year after stepping down from his management position, during which period the employee was expected to work primarily off-site. The employee's compensation was not justified by the amount of work our review indicated was performed; it may have been intended to reward the employee for stepping down voluntarily.

- 6. The University of Connecticut should follow its policy regarding vacation payout upon separation. The university should attempt to recover the unauthorized payment of \$45,230.**

Comment:

UConn's policy clearly provides that, irrespective of the amount accrued, payments to managerial and confidential exempt and non-represented faculty for unused vacation accruals upon separation will be limited to a maximum of 60 days. We found that one

managerial employee was paid \$90,461 for 120 days of unused accrued vacation balance, twice the maximum allowable amount.

- 7. The University of Connecticut should provide notice instead of making separation payments to terminating employees in instances of involuntary separation for reasons unrelated to job performance.**

Comment:

We noted five instances in which UConn elected to pay separation payments to managerial employees involuntarily separated for reasons unrelated to their job performance instead of providing notice. We calculated that, based on the periods of leave with pay and the employees' rates of pay, the payments to the five employees during the periods of leave with pay aggregated \$337,455. Unless the relationship with an employee has deteriorated to the point that the employee's continued presence on site would be a detriment, offering notice is the fiscally prudent alternative. Because the same cost will be incurred either way, any services the employee is able to provide will be a net benefit to UConn.

- 8. The University of Connecticut should ensure that properly approved access control forms are on file for all individuals with access to KFS. Notification procedures intended to identify all individuals whose access should be disabled should be expanded to encompass all relevant personnel actions.**

Comment:

We reviewed 64 employees with access to Kuali Financial System (KFS), UConn's financial system. Approved access control forms were not on file for 11 (17 percent) of the 64. We also reviewed 226 current or former employees whose access to KFS should have been completely disabled. We found that 11(5 percent) of the 226 still had full or partial access to the system.

- 9. The University of Connecticut should develop a centralized process for monitoring and obtaining assurance over service organizations.**

Comment:

UConn utilizes service organizations to perform various operations. We noted several instances in which SOC reports were available, but were not obtained and reviewed. The lack of due diligence for prospective service organizations and governance oversight of current service organizations may put UConn at risk.

- 10. The University of Connecticut should enforce the existing procedural requirement that those responsible for equipment items enter all movements of equipment in the financial system's capital asset management module. The last inventory date field should only be updated when the existence and location of the equipment item has been physically verified.**

Comment:

During our annual physical inventory, we found 21 out of 74 tangible capital equipment items selected for testing (28 percent) at a different location than that shown in the inventory records. Furthermore, we noted that changing certain location attributes of an asset in the financial system's capital asset management module will update the last inventory date field – giving the incorrect impression that the existence and location of the equipment item has been physically verified. This condition affected at least two of the equipment items in our selection.

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

Comment:

Section 3-25 of the General Statutes authorizes constituent units of the state system of higher education to pay certain claims directly, rather than through the Comptroller. However, Section 3-25 specifically excludes payments for payroll. Unlike other UConn employees, food service operations employees are paid directly by UConn instead of through the Comptroller. They also participate in separate retirement plans, although there is no clear statutory authority for this. This condition, first reported in a report issued July 2, 2012, was repeated in subsequent reports issued August 27, 2014 and July 29, 2015. UConn's response, as included in our report issued July 29, 2015, is that it is actively investigating alternatives that will continue to meet the operational needs of Dining Services and will clarify the relationship between UConn and this workforce consistent with statutory requirements.

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

Comment:

We recommended supervisory approval of purchasing card logs in a report issued August 27, 2014. We repeated our recommendation in a report issued July 29, 2015. Though they can be cost effective, purchasing card programs do present a heightened risk of inappropriate procurement actions. Supervisory review of credit card usage is standard practice and an effective way to address this risk.

- 13. The University of Connecticut should obtain updated ethics certifications within fourteen days after the twelve-month anniversary of the most recently filed certification or updated certification.**

Comment:

We noted problems with obtaining required ethics certifications in a report issued August 27, 2014. Similar problems were noted during our next review; we addressed them in a report issued July 29, 2015. During the current audit, we noted four instances in which annual updated ethics certifications were not obtained for periods ranging from three months to over two years after the twelve-month anniversary of the most recently filed certification or updated certification.

- 14. The University of Connecticut should seek legislative authorization for the issuance of state bonds to refinance the TIAA-CREF loan when market conditions are appropriate. The cost savings that can be achieved will vary depending on both the state general obligation bond interest rate and, due to a yield maintenance prepayment penalty on the TIAA-CREF loan, current Treasury rates.**

Comment:

In December 2012, UConn, acting through the University of Connecticut Health Center Finance Corporation, secured a \$203,000,000 loan from TIAA-CREF. The TIAA-CREF loan bears interest at a rate of 4.809 percent. Interest payments over the life of the loan will total \$158,595,860. In December 2012, UConn issued special revenue refunding bonds with a total interest cost of 2.480 percent. If the TIAA-CREF loan bore the same interest rate, interest payments over the life of the loan would total \$81,787,842, or \$76,808,018 less. The TIAA-CREF loan is a debt instrument that the Attorney General has determined is a general obligation of the state, but bears a far higher interest rate than the state could have obtained through a standard bond issuance.

- 15. The University of Connecticut should maintain daily mileage logs for all vehicles that are used for off-campus travel.**

Comment:

We found that UConn's Transportation Services department does not require daily mileage logs for UConn vehicles. While this is not a problem with respect to utility vehicles used solely on campus, it is a potential issue with respect to vehicles that are used for off-campus travel. This control procedure is designed to help prevent the inappropriate personal use of state-owned vehicles. Without it, the possibility that such inappropriate personal use could take place is increased.

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.



Natercia Freitas
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts