

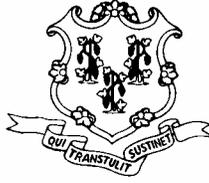
STATE OF CONNECTICUT

**AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT
HEALTH CENTER
FOR THE FISCAL YEARS ENDED
JUNE 30, 1999 AND 2000**

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

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|--|----|
| INTRODUCTION | 1 |
| COMMENTS | 1 |
| FOREWORD: | 1 |
| Recent Legislation: | 3 |
| RÉSUMÉ OF OPERATIONS: | 4 |
| Current Unrestricted Funds: | 7 |
| Hospital Funds: | 9 |
| Current Restricted Funds: | 10 |
| Endowment and Similar Funds: | 10 |
| Loan Funds: | 10 |
| Agency Funds: | 10 |
| Plant Funds: | 11 |
| PROGRAM EVALUATION: | 11 |
| CONDITION OF RECORDS | 15 |
| Execution of Contracts: | 15 |
| Board Approval of Contracts: | 16 |
| Compliance with Legally Mandated Procurement Policies: | 17 |
| Access Control: | 20 |
| General Fund Payroll: | 21 |
| Separation Payments: | 22 |
| Payroll Accountability: | 23 |
| Equipment Inventory: | 24 |
| Faculty Time and Attendance Reports: | 25 |
| Compensatory Time: | 26 |
| Late Deposit: | 27 |
| Other Audits: | 28 |
| RECOMMENDATIONS | 31 |
| INDEPENDENT AUDITORS' CERTIFICATION | 35 |
| CONCLUSION | 37 |

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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September 3, 2003

**AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT HEALTH CENTER
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

We have made an examination of the financial records of the University of Connecticut Health Center (Health Center) for the fiscal years ended June 30, 1999 and 2000. The University of Connecticut (University) and the Health Center are component units of the University of Connecticut system, which includes the University, the Health Center, the University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation). This report on that examination consists of the Comments, Recommendations and Certification that follow.

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

COMMENTS

FOREWORD:

The Health Center operates generally under the provisions of Title 10a, Chapter 185, where applicable, Chapter 185b, Part III, and Chapter 187c of the General Statutes. Together, the University and the Health Center are a constituent unit of the State system of public higher education under the central authority of the Board of Governors of Higher Education. The Health Center is governed by a Board of Trustees of the University of Connecticut, consisting of 19 members appointed or elected under the provisions of Section 10a-103 of the General Statutes.

Auditors of Public Accounts

This Board, subject to Statewide policy and guidelines established by the Board of Governors of Higher Education, makes rules for the government of the Health Center and sets policies for administration of the Health Center pursuant to duties set forth in Section 10a-104 of the General Statutes. The members of the Board of Trustees as of June 30, 2000, were:

Ex officio members:

John G. Rowland, Governor
Shirley Ferris, Commissioner of Agriculture
Theodore S. Sergi, Commissioner of Education

Appointed by the Governor:

Roger A. Gelfenbien, Wethersfield, Chairman
Louise M. Bailey, West Hartford, Secretary
William R. Berkley, Greenwich
James F. Abromaitis, Unionville
Michael H. Cicchetti, Litchfield
John R. Downey, Redding
Linda P. Gatling, Southington
Lenworth M. Jacobs, M.D., West Hartford
Claire R. Leonardi, Harwinton
Michael J. Martinez, Meriden
Irving R. Saslow, Hamden
Richard Treibick, Greenwich

Elected by alumni:

Louise S. Berry, Danielson
Frank Napolitano, Manchester

Elected by students:

Alyssa O. Benedict, Willington
James M. Donich, Colchester

June 30, 1998, marked the completion of the term of Michael H. Bellafiore of West Hartford. He was succeeded by Alyssa O. Benedict of Willington. She served until June 30, 2000, when she was succeeded by Christopher J. Albanese of Gales Ferry. Lewis C. Heist of Greenwich served until he passed away January 19, 1999. He was succeeded by Linda P. Gatling April 14, 1999. Brian J. Collins of West Hartford and Jennifer C. Smith of Farmington completed their terms effective June 30, 1999; they were succeeded by James M. Donich of Colchester and Michael J. Martinez of Meriden, respectively.

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

The Health Center's Farmington complex houses the John Dempsey Hospital, the School of Medicine, the School of Dental Medicine, and related research laboratories. The Schools of Medicine and Dental Medicine provide health care to the public through the UConn Medical

Group and the University Dentists at the Farmington campus and at offices maintained in neighboring towns.

The University of Connecticut Health Center Finance Corporation (Finance Corporation), a body politic and corporate, constituting a public instrumentality and political subdivision of the State, operates generally under the provisions of Title 10a, Chapter 187c of the General Statutes. The Finance Corporation exists to provide operational flexibility with respect to hospital operations, including the clinical operations of the Schools of Medicine and Dental Medicine.

The Finance Corporation is empowered to acquire, maintain and dispose of hospital facilities and to make and enter into contracts, leases, joint ventures and other agreements; it acts as a procurement vehicle for the clinical operations of the Health Center. The Hospital Insurance Fund (otherwise known as the John Dempsey Hospital Malpractice Fund), which accounts for a self-insurance program covering claims arising from health care services, is administered by the Finance Corporation in accordance with Section 10a-256 of the General Statutes. Additionally, Section 10a-258 of the General Statutes gives the Finance Corporation the authority to determine which hospital accounts receivable shall be treated as uncollectible.

The Finance Corporation is administered by a Board of Directors, consisting of five members appointed under the provisions of Section 10a-253 of the General Statutes. The members of the Board of Directors as of June 30, 2000, were:

Ex officio members:

Phillip E. Austin, Ph.D., President
Leslie S. Cutler, D.D.S., Ph.D., Vice President for Health Affairs
Mark S. Ryan, Secretary of the Office of Policy and Management

Appointed by the Governor:

Roger A. Gelfenbien, Wethersfield, Chairman
Claire R. Leonardi, Harwinton

Further, Benson Cohn was designated to represent the Secretary of the Office of Policy and Management as an alternate.

Jennifer C. Smith of Farmington completed her term effective June 30, 1999. She was succeeded by Claire R. Leonardi of Harwinton. Michael W. Kozlowski, as Secretary of the Office of Policy and Management, also served as an ex officio member of the Board of Directors until he was succeeded by Marc S. Ryan effective November 26, 1998.

Recent Legislation:

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

- Public Act 99-173, Section 12, amended subdivision (28) of Section 12-407 of the General Statutes and subdivision (1) of Section 12-263a of the General Statutes, excluding the John Dempsey Hospital from the definition of “hospital” for purposes of

sales and use taxes and hospitals tax, respectively. This ended the John Dempsey Hospital's participation in the disproportionate share program, effective July 1, 1999.

- Public Act 99-285, Section 11, effective July 1, 1999, amended Section 10a-151b of the Connecticut General Statutes to allow constituent units of public higher education to make purchases using competitive negotiations as well as competitive bidding. It also increased the threshold at which specified public notice is required from twenty-five to fifty thousand dollars, changed the type of notice required and increased the amount for minor purchases from two thousand dollars or less to ten thousand dollars or less.
- Special Act 00-12, effective June 1, 2000, established the University of Connecticut Health Center Review Committee, mandated the provision of certain reports by the University of Connecticut to the Committee, directed the Auditors of Public Accounts, in consultation with the Department of Higher Education, to issue a request for proposals for an independent performance audit of the Health Center, and discussed the supplementary funding for the Health Center provided for in Section 36 of Special Act 00-13.
- Special Act 00-13, effective May 5, 2000 and July 1, 2000, which made deficiency appropriations for the fiscal year ending June 30, 2000, included \$20,000,000 for the Health Center and \$500,000 to the Auditors of Public Accounts for the independent performance audit mandated by Special Act 00-12.
- Public Act 01-141, Section 11, effective July 1, 2001, increased the authorization for the endowment matching grant program for the fiscal years ending June 30, 2006 and 2007, from \$5,000,000 per year to \$10,000,000 per year, and extended the program through the fiscal year ended June 30, 2014, with \$15,000,000 per year authorized for the additional period.
- Public Act 01-173, Section 35, effective July 1, 2001, authorized the Board of Trustees of the University of Connecticut to create a Board of Directors for the governance of the Health Center and delegate such duties and authority as it deems necessary and appropriate to said board of directors. On July 24, 2001, the Board amended the *University of Connecticut Laws and By-Laws* to provide for the creation of a 17 member Board of Directors.

RÉSUMÉ OF OPERATIONS:

Over the last decade and more, changes in the statutes governing the State's constituent institutions of higher education gave the Health Center greater autonomy and flexibility. The most significant changes were effectuated by Public Act 91-256, effective July 1, 1991; subsequent legislation increased the degree of independence granted the institutions.

This independence is most notable with respect to procurement actions. Institutions of higher education may, under Section 10a-151b of the General Statutes, purchase equipment, supplies and services and lease personal property without review and approval by the State Comptroller, the Department of Administrative Services or the Office of Information and Technology.

Further, they are not subject to the restrictions concerning personal service agreements codified under Sections 4-212 through 4-219, although, as a compensating measure, personal service agreements executed by the institutions of higher education must satisfy the same requirements generally applicable to other procurement actions.

Under Section 3-25 of the General Statutes, higher education institutions may, subject to the approval of the Comptroller, pay most non-payroll expenditures (those funded from the proceeds of State bond issuances being an exception) directly, instead of through the State Comptroller. The Health Center began issuing checks directly to vendors in August 1993. The checks are drawn on a “zero balance” checking account controlled by the State Treasurer. Under the approved procedures, funds are advanced from the Health Center’s civil list funds to the Treasurer’s cash management account. The Treasurer transfers funds from the cash management account to the “zero balance” checking account on a daily basis, as needed to cover checks that have cleared.

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

Public Act 95-230, known as “The University of Connecticut 2000 Act,” authorized a massive infrastructure improvement program to be managed by the University, effective June 7, 1995. Although subsection (c) of Section 7 of Public Act 95-230 provides that the securities issued to fund this program are to be issued as general obligations of the University, the debt service on these securities is to be financed, for the most part, from the resources of the General Fund. In a departure from previous practice with respect to programs funded from the proceeds of State bond issuances, subsection (a) of Section 5 of Public Act 95-230 gave the University the authority to make payments directly, rather than process them through the State Comptroller. The Health Center is not participating in this program.

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

The amount paid was to be equal to the endowment fund eligible gifts received for the calendar year ending the preceding December thirty-first. If funds were not budgeted for this purpose, bonds were authorized to be issued to finance the match. The authority for such issuances was limited to \$10,000,000 in any one fiscal year and \$20,000,000 in the aggregate.

Effective July 1, 1997, Section 7 of Public Act 97-293 extended this endowment matching grant program through the fiscal year ending June 30, 2007, and increased the cumulative authorization for the State matching amount to \$72,500,000. Section 8 of the Act reduced the

State match to a one to two ratio (one State dollar for two private dollars) for donations involving a written commitment made on or after July 1, 1997. Section 1 of the Act specified that the program be administered by the Department of Higher Education and established the Higher Education State Matching Grant Fund to facilitate the process. Effective July 1, 2001, Section 11 of Public Act 01-141 increased the authorization for the fiscal years ending June 30, 2006 and 2007, from \$5,000,000 per year to \$10,000,000 per year, and extended the program through the fiscal year ended June 30, 2014, with \$15,000,000 per year authorized for the additional period.

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

Statistics compiled by the University’s registrar showed the following enrollments in the Health Center’s credit programs during the audited period and the preceding period.

| Student Status | 1998-1999 | | 1999-2000 | |
|----------------------|-----------|--------|-----------|--------|
| | Fall | Spring | Fall | Spring |
| Medicine - Students | 334 | 334 | 323 | 323 |
| Medicine – Residents | 529 | 529 | 520 | 520 |
| Dental – Students | 169 | 169 | 172 | 172 |
| Dental - Residents | 79 | 79 | 86 | 86 |
| Totals | 1111 | 1111 | 1101 | 1101 |

Under the provisions of Section 10a-105, subsection (a), of the General Statutes, fees for tuition were fixed by the University’s Board of Trustees. The following summary shows annual tuition charges during the 1998-1999 and 1999-2000 fiscal years.

| Student Status | 1998-1999 | | | 1999-2000 | | |
|---------------------------|-----------|--------------|----------|-----------|--------------|----------|
| | In-State | Out-of-State | Regional | In-State | Out-of-State | Regional |
| School of Medicine | \$9,100 | \$20,700 | \$13,650 | \$9,375 | \$21,320 | \$14,060 |
| School of Dental Medicine | 7,900 | 20,250 | 11,850 | 8,140 | 20,860 | 12,210 |

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

- General Fund appropriation accounts.
- The University of Connecticut Health Center Operating Fund (Section 10a-105 of the General Statutes).
- The University of Connecticut Health Center Research Fund (Section 10a-130 of the General Statutes).

- The University Bond Liquidation Fund (Special Act 67-276, Section 26, and others - used for both the University and the Health Center).
- The University Health Center Hospital Fund (Section 10a-127 of the General Statutes).
- The John Dempsey Hospital Malpractice Fund (Section 10a-256 of the General Statutes).
- Accounts established in capital project and special revenue funds for appropriations financed primarily with bond proceeds.

Though the Finance Corporation maintains a separate accounting system, virtually all the activity and balances of the Health Center are reflected in the funds listed above. As the Finance Corporation acts as an agent for the Health Center proper, the balances and transactions recorded in this separate accounting system are, for the most part, mirrored on the books of the State Comptroller. There are two activity funds associated with the Health Center, the Health Center Student Activity Fund and the Uncas-on-Thames Welfare Fund. These funds were not included in the State Comptroller's accounting system during the audited period; the Uncas-on-Thames Welfare Fund was transferred into the University of Connecticut Health Center Operating Fund October 26, 2001. The financial effect of these activity funds is negligible.

The accounting system of the Health Center reflects the accounting model in general use by colleges and universities, per the American Institute of Certified Public Accountants' industry audit guide Audits of Colleges and Universities. Under this model, the Health Center maintains separate fund groups for current unrestricted, current restricted, hospital, endowment and similar, loan and plant funds. Health Center financial statements are adjusted as necessary and incorporated in the State's Comprehensive Annual Financial Report. The Hospital is included as an enterprise fund, the remaining financial balances and activity of the Health Center is combined with those of the State's other institutions of higher education and shown using the discrete presentation format. Significant aspects of the operations of the Health Center, as shown on Agency prepared financial statements, are discussed in the following sections of this report.

Health Center employment remained relatively stable during the audited period. Health Center position summaries show that filled positions aggregated 3,486 as of June 30, 1998, 3,577 as of June 30, 1999, and 3,508 as of June 30, 2000.

Current Unrestricted Funds:

The Health Center's current unrestricted fund balance decreased by \$2,744,199 from \$7,757,093 as of June 30, 1998, to \$5,012,894 as of June 30, 1999, and then increased by \$9,704,503 to \$14,717,397 as of June 30, 2000. These fluctuations were not excessive in relation to the financial activity of the Health Center; the 1999-2000 fiscal year increase amounted to approximately 3 percent of the year's current unrestricted revenues.

However, it should be noted that the year's current unrestricted revenues included \$15,600,000 of the \$20,000,000 appropriated for the Health Center by Special Act 00-13, an act making deficiency appropriations for the fiscal year ending June 30, 2000. Recognition, as revenue, of the remaining \$4,400,000 appropriated by the Act was deferred until the following year in accordance with generally accepted accounting principles. If not for this deficiency appropriation, the Health Center's current unrestricted fund balance would have decreased by \$5,895,497, leaving a deficit balance of \$882,603 as of June 30, 2000.

The proximate cause of the decrease in the Health Center's current unrestricted fund balance was a downward trend in net patient care revenues, which began prior to the audited period. These revenues resulted primarily from the operations of the UConn Medical Group, which is accounted for in the Health Center's current unrestricted fund group, and the Hospital, which provided funding to the UConn Medical Group. The UConn Medical Group's audited financial statements show that revenues from operations exceeded operating expenses by \$10,610,506, \$4,550,685, \$4,655,746, \$1,494,391 for the fiscal years ended June 30, 1996, 1997, 1998 and 1999, and that the entity incurred an operating loss of \$2,736,716 for the fiscal year ended June 30, 2000. The Hospital transferred \$2,064,105, \$100,000, \$3,175,667, \$785,411 and \$149,685 to the UConn Medical Group during the fiscal years ended September 30, 1996, 1997, 1998, 1999 and 2000.

Documentation we reviewed, most of which was originated by the Health Center's management group and consultants engaged by the management group, indicated that the Health Center's financial difficulties were primarily due to a general downturn in the health care business environment. Pursuant to a "University Leadership Briefing Document" prepared by LarsonAllen Health Care, "more than 25% of hospitals associated with the national University Health System Consortium had negative total margins, with 40% experiencing negative operating margins in 1998." This state of affairs was attributed to, in general, funding reductions imposed by the Balanced Budget Act of 1997 and the effects of managed care.

Measures were taken to address this problem. As discussed previously, Special Acts 00-12 and 00-13 established the University of Connecticut Health Center Review Committee, mandated the provision of certain reports by the University of Connecticut to the Committee, directed the Auditors of Public Accounts, in consultation with the Department of Higher Education, to issue a request for proposals for an independent performance audit of the Health Center, and, as noted above, provided supplementary funding for the Health Center.

Operating results improved following the audited period. Though UConn Medical Group operations yielded a loss of \$3,555,042, per the entity's audited financial statements, the Health Center's current unrestricted fund balance increased by \$5,918,336 from \$14,717,397 as of June 30, 2000, to \$20,635,733 as of June 30, 2001. This was, of course, after the effect of the application of the \$4,400,000 in deficiency funding deferred from the previous fiscal year.

During the audited period, the Health Center's largest source of current unrestricted fund revenues was its General Fund appropriation. Other significant sources of current unrestricted revenues included patient revenues and payments for the services of interns and residents. Patient revenues resulted primarily from the Correctional Managed Healthcare Program and the operations of the UConn Medical Group.

Under the Correctional Managed Healthcare Program, the Health Center entered into an agreement with the Department of Correction to provide medical care to the inmates incarcerated at the State's correctional facilities. Medical personnel at the correctional facilities, formerly paid through the Department of Correction, were transferred to the Health Center's payroll. The agreement called for the Health Center to provide comprehensive medical, mental health and dental services and medical support services such as laboratory, pharmacy and radiology to Department of Correction inmates at a capitated, or fixed, cost. However, as actually implemented, the program functions on a cost reimbursement basis.

While the program is managed by the Health Center, the Commissioner of the Department of Correction retains the authority for the care and custody of inmates and has responsibility for the supervision and direction of all institutions, facilities and activities of the Department. The purpose of the program is to enlist the services of the Health Center to carry out the responsibility of the Commissioner for the provision and management of comprehensive medical care.

Under the Residency Training Program, interns and residents appointed to local health care organizations are paid through the Capital Area Health Consortium. The Health Center reimburses the Capital Area Health Consortium for the personnel service costs incurred and is, in turn, reimbursed by the participating organizations.

Hospital Funds:

The Health Center's hospital funds fund balance, as shown on audited financial statements prepared for the John Dempsey Hospital on a September 30th fiscal year end basis, decreased by \$13,139,262 from \$89,085,815 as of September 30, 1998, to \$75,946,553 as of September 30, 1999, and decreased again by \$14,018,956 to \$61,927,597 as of September 30, 2000. This was primarily attributable to operating losses of \$12,353,851 and \$13,869,271 for the fiscal years ended September 30, 1999 and 2000.

The Hospital started experiencing financial difficulties several years ago. Though the Hospital's audited financial statements showed a gain from operations of \$4,545,159 for the fiscal year ended September 30, 1996, they showed operating losses of \$5,679,326 and \$53,122 for the fiscal years ended September 30, 1997 and 1998. As discussed in more detail under the Current Unrestricted Funds caption above, the hospitals fiscal problems were attributed, primarily, to a general downturn in the health care business environment. It should be noted that the Health Center instituted cost cutting and revenue enhancement measures in response and that the Hospital's audited financial statements for the nine months ended June 30, 2001, showed a proportionately lower operating loss of \$2,594,576.

Current Restricted Funds:

Under the accounting model in general use during the audited period by colleges and universities, current restricted grants received, but not yet earned, are included under the current restricted revenues and other additions caption. The current restricted fund balance includes amounts that would be considered deferred revenues under other accounting models. Current restricted revenues are recognized at the point these amounts are earned, i.e., when the related expenditure takes place. Indirect cost recoveries are additions to and deductions from the current restricted fund balance, but are not considered current restricted revenues or expenditures.

The Health Center's current restricted fund balance increased by \$1,079,786 from \$11,187,140 as of June 30, 1998, to \$12,266,926 as of June 30, 1999. It increased again during the following fiscal year by \$1,179,252 to \$13,446,178 as of June 30, 2000.

Endowment and Similar Funds:

The Health Center's endowment and similar funds fund balance was insignificant during the audited period. It increased by \$650 from \$43,129 as of June 30, 1998, to \$43,779 as of June 30, 1999, and increased again by \$10,072 to \$53,851 as of June 30, 2000. The Health Center's endowment and similar funds fund balance is far smaller than would normally be expected for such an institution as it has been the Health Center's longstanding practice to deposit funds raised with the University of Connecticut Foundation, Inc.

The Foundation provides support for both the University and Health Center. A summary of the Foundation's assets, liabilities, support and revenue and expenses, as per its audited financial statements, follows:

| | Foundation | |
|---------------------|----------------------|----------------------|
| | Fiscal Year Ended | |
| | <u>June 30, 1999</u> | <u>June 30, 2000</u> |
| Assets | \$209,491,000 | \$263,515,000 |
| Liabilities | 8,032,000 | 14,123,000 |
| Net Assets | 201,459,000 | 249,392,000 |
| Support and Revenue | 71,584,000 | 74,896,000 |
| Expenses | 18,990,000 | 26,963,000 |

Loan Funds:

Health Center loans receivable increased by \$305,907 from \$7,352,775 as of June 30, 1998, to \$7,658,682 as of June 30, 1999. They increased again during the following fiscal year by \$202,408 to \$7,861,090 as of June 30, 2000.

Agency Funds:

Agency funds are used to account for monies held for others by an institution acting in the capacity of a custodian or fiscal agent. The Health Center held assets of \$2,478,368 and \$2,814,095 in agency funds as of June 30, 1999 and 2000.

Plant Funds:

The plant funds fund group is made up of three subgroups: unexpended plant funds, funds for retirement of indebtedness, and investment in plant. The unexpended plant funds subgroup is used to account for unexpended resources available for acquisition, renewal and replacement of physical plant. The funds for the retirement of indebtedness subgroup is used to account for resources held for the retirement of and interest on debt. The investment in plant subgroup is used to account for plant assets and related liabilities, such as indebtedness associated with funds borrowed and expended for the acquisition or construction of plant assets.

Bonds authorized by the General Assembly and the State Bond Commission provide most of the capital funding accounted for in the Health Center's plant funds fund group. General Obligation Bonds are met from general State revenues, while revenues generated by Agency operations are used to fund the debt service requirements of self-liquidating bonds. The Health Center records State capital funding when funds are allotted.

Unexpended allotments, as reported by the Health Center, decreased by \$5,277,512, from \$17,028,123 as of June 30, 1998, to \$11,750,611 as of June 30, 1999. They decreased again during the following fiscal year by \$4,438,915 to \$7,311,696 as of June 30, 2000.

The Health Center's net investment in plant increased by \$8,725,749, from \$240,150,632 as of June 30, 1998, to \$248,876,381 as of June 30, 1999. It increased again during the following fiscal year by \$3,151,316 to 252,027,697 as of June 30, 2000.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation as part of their routine audits of public and quasi-public agencies. In our prior review, we noted that the Health Center's Dental School enrolls a relatively high portion of out-of-State students. As virtually all Dental School students benefit substantially from State subsidization of the program, we recommended increased emphasis on the recruitment of State residents.

Responding to our recommendation, the Health Center stated that the State subsidy allowed the Dental School to "attract the best caliber students from all over the country thereby maintaining the highest quality classes in the country and graduating the best dentists." Further, that "many of those who have gained in-State status remain in Connecticut helping to fill the Dental School's obligation of providing the best possible dental care for the citizens of Connecticut."

However, we have not found any indication that the Legislature provided this subsidy for the purpose of increasing the number of dentists practicing in Connecticut. To the contrary, it appears the Legislature's intent was to, as set forth in Section 10a-102 of the General Statutes, facilitate "the education of youth whose parents are citizens of this state" by "promoting the liberal and practical education of the industrial classes." We continue to feel that in-State students should be the primary beneficiaries of subsidization of academic programs from the General Fund resources of the State and that current practice is not consistent with this idea. Therefore, we are repeating our recommendation.

Dental School Tuition and Fee Charges:

Criteria:

Section 10a-105 of the General Statutes gives the Board of Trustees of the University of Connecticut the authority to fix tuition and fees at the Health Center, subject to the provisions of Sections 10a-8 and 10a-126. Tuition and fees for Dental School students for the 2001-2002 fiscal year were fixed at \$12,465 for in-State students, \$16,660 for out-of-State students participating in the New England Regional Student Program and \$25,570 for other out-of-State students. The substantially higher rates established for out-of-State students are an acknowledgment that in-State students should be the primary beneficiaries of subsidization of academic programs from the General Fund resources of the State. Further, as noted above, Section 10a-102 of the General Statutes indicates that the University's, and by extension the Health Center's, reason for existing is to provide for "the education of youth whose parents are citizens of this state" by "promoting the liberal and practical education of the industrial classes."

Part II of Chapter 185 of the General Statutes sets forth criteria for the determination of student status. Generally, emancipated persons are entitled to classification as in-State students for tuition purposes after residing in the State for a period of one year.

Condition:

Most Dental School students entering the institution from other states apply for and are granted in-State status after their first year in the program.

For example, Health Center enrollment summaries show that the class of 2000 consisted of 15 in-State students, 12 out-of-State students participating in the New England Regional Student Program and 19 other out-of-State students during the 1996-1997 fiscal year, its first year. However, when the class graduated in the 1999-2000 fiscal year, it consisted of 42 in-State students, one out-of-State student participating in the New England Regional Student Program and one other out-of-State student.

Enrollment data for other classes shows a similar pattern. The class of 2005, which started in the 2001-2002 fiscal year, initially consisted of nine in-State students, 10 out-of-State students participating in the New England Regional Student Program and 25 other out-of-State students.

Effect:

After their first year, most Dental School students entering the institution from other states receive the same benefit from the subsidization of the program from the General Fund resources of

the State as students who were State residents when they began their course of studies.

Cause: Health Center administrators appear to feel that the primary reason for program subsidization is to allow the Dental School to “attract the best caliber students from all over the country,” rather than to increase educational opportunities for State residents.

Recommendation: The Health Center Dental School should increase its efforts to recruit State residents. (See Recommendation 1.)

Agency Response: “The School of Dental Medicine (SDM) continues to strive to improve its student recruitment approach to attract more Connecticut residents with an enhanced emphasis on recruitment of underrepresented minority (URM) and/or students from low income (LI) families.

On September 1, 2002, the SDM was awarded a \$1.354 million grant from the Robert Wood Johnson Foundation (RWJF) to, in part, enhance its recruitment of URM and LI students into careers in dentistry; 25% of grant funds are dedicated to this endpoint. This recruitment problem is not unique to UConn, but true for all dental schools across the country as the applicant pool for URM students into dentistry has dramatically decreased over the past 5-10 years. UConn has a particular challenge as its dental curriculum, linked with the medical curriculum, is considered to be among the most academically rigorous of US dental schools. Consequently, UConn must design its recruitment efforts to not only increase numbers of applicants but the number of highly-qualified, academically-gifted students who can succeed in this particularly rigorous curriculum.

Dental students are entitled to classification as in-State students for tuition purposes after residing in the State for a period of one year. The SDM has shown improvement in its recruitment strategy outcomes over the past year. The entering class for 2002-2003 (the Class of 2006) includes 16 CT residents as compared to nine in the previous year (the Class of 2005). Efforts to increase this number will continue with the goal to recruit CT residents with high academic qualifications for its future entering classes. New or ongoing efforts include:

- ‘Orienting’ programs in area junior-high and high schools (URM/LI emphasis).
- Mentorship and pre-dental preparation programs for college level students considering dentistry as a career (URM/LI emphasis).

- Creation of a dual BS/DMD program at UConn-Storrs which guarantees admission to the SDM through student maintenance of certain pre-determined academic outcomes.
- Dean's entrance scholarships for promising CT students
- Low interest or forgivable loans for URM/LI students via RWJF grant support.
- Enhanced communication and interaction with Pre-Med/Pre-Dent program advisors at four year colleges in Connecticut and New England.”

CONDITION OF RECORDS

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

Execution of Contracts:

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

Condition: We reviewed 24 personal service agreements issued directly by the Health Center during the 2000-2001 fiscal year and 28 contracts issued through the Finance Corporation for clinical services (primarily physician's services) during that year to determine if contractors were allowed to begin working prior to execution of a contract. We defined execution as the signing of the contract by both the Health Center and the contractor.

We found that all 24 of the personal service agreements issued directly by the Health Center were signed after the contract start date. Delays ranged from 44 to 623 days; the average lag time was 300 days. Twenty-five of the 28 contracts issued through the Finance Corporation were signed after the contract start date. Delays ranged from one to 303 days; the average lag time was 69 days.

Effect: Considering the length of the time lags between the start of work and finalization of the related contracts and that delays were ubiquitous; we concluded that the lack of timely contract execution constituted an internal control deficiency. As this internal control deficiency could be construed to be a breakdown in the safekeeping of resources of the State, we reported it to the Governor and other State officials on October 10, 2001, as required by Section 2-90 of the General Statutes.

Cause: Those responsible for initiating the process did not allow sufficient lead-time. The magnitude of the time lags involved indicates that, in at least some instances, initiation of the process may have been delayed until the need to process payments to contractors became apparent (payments are not processed until a contract is in place).

Recommendation: The Health Center should not authorize contractors to begin work prior to the execution of a contract. (See Recommendation 2.)

Agency Response: "Following the report detailing the above mentioned findings, management addressed the issue immediately by creating detailed policies and procedures to be followed for all contracts that the

Health Center enters into. Our focus in creating these policies was on the timely execution of contracts. Proposed personal services agreements would have to be developed and approved internally; and sent to contractors for signature prior to the intended start date of the agreement. We then notified individuals throughout the institution that the new policies and procedures are to be followed without exception and management would be monitoring these contracts closely.”

Board Approval of Contracts:

Criteria: Purchasing policies and procedures are generally designed to encourage a strong element of competition. Free market forces, acting in an open and competitive environment, are a key element of an efficient and cost effective procurement process. In some instances, such as emergencies or under special market conditions, solicitation of competitive bids or proposals may not be practical. In these instances, procurements need to be subject to strong compensating controls in order to deter waste or abuse.

Condition: When contracting directly for professional services, the University of Connecticut Health Center is required to follow a State mandated competitive solicitation process. When acting through the Finance Corporation, the Health Center is not bound by the constraints imposed by this process. Instead of requiring formal solicitation and consideration of competing proposals, the purchasing and contracting policies adopted by the Finance Corporation in accordance with Section 10a-255 of the General Statutes simply call for contracts for professional or technical services to “when practicable, be entered into after consideration of more than one contractor.”

The Finance Corporation policies provide greater flexibility, but also increase the risk that the Health Center could enter into disadvantageous contracts. To minimize this risk, the Finance Corporation policies require that “Contracts for professional or technical services in excess of two hundred and fifty thousand dollars ... be approved by the board of directors prior to execution.” It appears that the requirement for Finance Corporation Board of Directors approval was intended to prevent the incurrence of obligations exceeding \$250,000 in amount without Board approval. However, our review indicated that the Health Center's management group has concluded that such obligations may be incurred prior to Board approval, as long as Board approval, is obtained before payment is made.

Effect: The requirement that contracts in excess of \$250,000 be approved by the Board prior to execution provides a counterbalance to the

Finance Corporation's flexibility with respect to competitiveness. The idea that Board approval is required prior to payment of amounts in excess of \$250,000 - but not to performance by the vendor - significantly lessens the value of this control. It would be difficult for the Board to refuse to allow payment after the vendor has, with the approval of Health Center management, done the work. As this internal control deficiency could be construed to constitute a breakdown in the safekeeping of resources of the State, we reported this to the Governor and other State officials on August 11, 2000, as required by Section 2-90 of the General Statutes.

Cause: At the Health Center, there appears to be a focus on controlling disbursements. As discussed previously in this report, contractors providing professional services are often allowed to begin work before all of the required approvals have been obtained, though payments are not processed until approved contracts are in place. The Health Center has designed and implemented appropriate control procedures, but they need to be carried out earlier in the procurement process.

Recommendation: The Health Center should obtain Board of Directors' approval, where required, before issuing contracts through the Finance Corporation. (See Recommendation 3.)

Agency Response: "The Health Center understands and complies with the requirement that contracts in excess of \$250,000 be approved by the board prior to execution. There are some instances where a contract is entered into at an amount lower than \$250,000 only to be altered at a later date due to an increase in the scope of services requested, which brings the amount of the contract above the \$250,000 threshold. When it is determined that the expenditures will total greater than \$250,000, the matter is brought to the Board for approval."

Compliance with Legally Mandated Procurement Policies:

Criteria: Section 10a-151b of the General Statutes requires constituent units of the State system of public higher education to utilize a formal competitive process when contracting for services. Proposals must be solicited in a public manner; mandatory procedures include contacting prospective suppliers directly, posting notice on a public bulletin board and advertising in publications.

Condition: During our audit of the Health Center we noted several instances in which the Agency contracted for professional services without following these procedures. Specifically, we found that contracts were awarded to Hebrew Home and Hospital and Hartford Hospital on a non-competitive basis. Additionally, though

documentation on file indicated that there was an element of competition when contracts were awarded to Larson, Allen, Weishair & Co., LLP and its wholly owned subsidiary Tranxition Management, LLC, the Health Center did not solicit competitive bids in the manner specified by Section 10a-151b.

Effect:

An open and competitive procurement process is intended to facilitate the acquisition of services at the lowest cost to the State and to help deter improprieties. These instances of non-compliance with State mandated procurement policies might have caused the Agency to incur higher than necessary costs. We reported this instance of noncompliance to the Governor and other State officials on June 20, 2001, as required by Section 2-90 of the General Statutes.

Cause:

It was implied to us that the legislature intended a portion of the funds appropriated for the operating expenses of the Health Center by Special Act 97-21 to be used for a contract award to Hebrew Home and Hospital. However, absent specific mention in the budget act, there is no indication that it was the collective intent of the legislature that this contract be awarded on a noncompetitive basis.

The contract information sheet prepared for the agreement with Hartford Hospital stated that competitive bids or alternative proposals were not sought, as there were no other vendors. Though the circumstances under which this contract was awarded may be such that it could legitimately be considered a sole source contract, the documentation made available to us does not provide sufficient justification for such a determination.

It was suggested to us, and documentation on file supports the contention, that the Health Center did not solicit competitive bids in the manner specified by Section 10a-151b for the other contracts because the Agency initially intended to let them through the Finance Corporation. Though documentation on file supports this contention, it does not affect the applicability of the Section 10a-151b requirements to these contracts.

Recommendation:

The Health Center should solicit competitive proposals in the manner legally mandated by Section 10a-151b of the General Statutes when contracting for professional services. (See Recommendation 4.)

Agency Response:

“We agree that the Health Center should solicit competitive proposals in the manner legally mandated by Section 10a-151b of the General Statutes when contracting for professional services. Directly in response to the Hebrew Home issue, the contract was

initially executed in response to the original 1995-97 biennial budget adopted by the General Assembly. The original budget provided for \$400,000 for geriatric training in each year of the biennium; Health Center staff assumed that, given its geographic proximity and unique licensure status (chronic disease hospital) in the region, there was an expectation that the program would build upon the then-existing relationship with the Hebrew Home and Hospital. When the funding was deleted in the following year as part of the revision of the budget for FY 97, the contractual relationship continued, in part because of the difficulty of changing intern/resident/fellow placements on short notice. The back-of-the-budget language for FY 97-99 specifically provided that ‘The University of Connecticut Health Center provide \$200,000 from existing resources for the establishment of a contract between the Travelers Center on Aging located at the Health Center and the Hebrew Home of West Hartford for the purpose of geriatric training for healthcare professionals.’ Believing this language to underscore the previously mentioned expectation, Health Center staff continued the contractual relationship without pursuing a bid process. Please note that language regarding the contract with the Hebrew Home reappears in the biennial 2001-03 budget.

The agreement with the Hebrew Home and Hospital has been in place since 1995. The Hebrew Home and Hospital has provided and continues to provide geriatric training for healthcare professional students and residents in a unique setting. The size of the facility, coupled with its number of full time geriatricians, position it to provide unusually high quality geriatric training to our students and residents.

Notwithstanding the above explanation of the history of the contractual relationship, the Health Center recognizes the concern raised by the audit and will ensure that a bid process is undertaken going forward. It is important to note two points, however. First, the audit’s recommendation regarding the need to solicit competitive proposals ‘when contracting for professional services’ is broadly drawn and may present some challenges if all student/intern/resident/fellow placements are deemed to be ‘contracting out for professional services.’ We do not believe that the Health Center’s partnership with area health care providers in providing educational experiences is strictly analogous to, for example, the traditional contracting for consultant services. Second, while one might draw a technical distinction between statutory language and back-of-the-budget language in the state budget book produced by the General Assembly’s Office of Fiscal Analysis, it does not follow that agencies can easily ignore the latter.”

Auditors' Concluding Comments:

The quotation regarding funding for the Hebrew Home and Hospital included in the Health Center's response was not incorporated in the final (Connecticut State Budget 1997-99 Revisions) State budget book. The tentative insertion and subsequent removal of this language gives the impression that the legislature did not intend to direct funding to the Hebrew Home and Hospital. More importantly, there is more than a technical distinction between statutory language and explanations of legislative intent presented in the budget book.

"Back-of-the-budget" is a term often used to describe items included in the latter part of the budget act, after the appropriation breakdown by agency. Such inclusions can provide legal authorization to disburse funds as directed, independently of preexisting requirements.

However, "back-of-the-budget," as used by the Health Center, refers to explanatory notes purporting to describe the intent of the legislature with respect to issues not specifically addressed in enacted legislation. Though such notes can be very helpful in clarifying ambiguities, they do not – even when incorporated in "official" publications such as the budget book produced by the General Assembly's Office of Fiscal Analysis – have the force of law. Funds cannot be directed to a specific vendor unless they are expressly designated for such use in the budget act as approved.

Access Control:

Criteria: Employees should be given access to automated processing systems only to the extent they need it to perform their assigned functions.

Condition: The Health Center makes extensive use of automated data processing. We reviewed, on a test basis, selected aspects of two such systems, HRS (the personnel/payroll system) and FRS (procurement and accounting). We noted some instances where employees had access privileges that they did not need.

Effect: The instances we noted appeared relatively minor and did not seriously compromise the integrity of the systems reviewed. However, it is prudent to limit access to resources to the minimum needed to allow an organization to function efficiently and effectively. Even if security administrators see no clear and present danger in allowing unneeded access, allowing any unnecessary access to critical systems such as HRS and FRS has the potential to weaken internal control.

Cause: Administrators familiar with assigned staff and their access needs did not regularly review the templates.

Recommendation: Administrators familiar with assigned staff and their access needs should regularly review access control templates established for automated data processing systems. (See Recommendation 5.)

Agency Response: “We perform modifications to the system as the need arises. Major staff changes or work loads require fine tuning or relaxing of the screen access as various department needs change. The Health Center takes the necessary steps when setting up employee access to limit access to the minimum needed to allow the organization to function efficiently and effectively.”

General Fund Payroll:

Criteria: Accounting systems and procedures are intended to provide accountability and meet the informational needs of management and other concerned parties. They should be as simple as they can be and still provide the required accountability and information. Unnecessary complexity is inefficient and increases the likelihood that errors will occur.

Condition: Currently, the University of Connecticut transfers monies appropriated from the General Fund for personnel service costs into its operating funds, instead of charging payroll expenditures directly to its General Fund appropriation, as was done in the past. This practice increases costs at the Agency level by the amount of the fringe benefit assessment on the payroll expenditures, as fringe benefits are not assessed on payroll expenditures charged directly to General Fund appropriations. To compensate, equivalent amounts are transferred from the General Fund fringe benefit recovery account into the operating fund.

The Health Center continues to charge payroll expenditures directly to its General Fund appropriation. This greatly increases the number of accounts the institution must maintain (separate departmental accounts are maintained for each area funded). Additionally, to obtain maximum advantage from the General Fund’s exemption from fringe benefit assessments, the Health Center must continually monitor and adjust which employees are charged directly to its General Fund appropriations.

Effect: The process of separately budgeting, accounting and maintaining the General Fund accounts unnecessarily limits the management flexibility of the Health Center and takes staff time and fiscal resources that could better be devoted elsewhere.

Cause: The Health Center has historically handled its General Fund appropriations in this manner.

Recommendation: The Health Center should transfer its General Fund appropriation into its operating fund to eliminate inefficiencies resulting from the maintenance of separate General Fund accounts. (See Recommendation 6.)

Agency Response: “The Health Center agrees with the above recommendation and is in the process of reviewing the process of separately budgeting, accounting and maintaining the General Fund accounts. If it is found that our current process unnecessarily limits the management flexibility of the Health Center and takes staff time and fiscal resources that could better be devoted elsewhere, we will proceed with the necessary steps to transfers monies appropriated from the General Fund for personnel service costs into the operating funds.”

Separation Payments:

Criteria: The University of Connecticut Board of Trustees established a policy that authorized separation payments for managerial/confidential employees laid off from the University of Connecticut Health Center (Health Center) on November 11, 1994. The Board approved policy called for each terminated employee to receive “two weeks salary for each year of credited Health Center service to a maximum of twenty-six weeks, with a minimum of four weeks salary.” The Board of Trustees authorization expired on June 30, 1996; in December 1995 the Health Center's management group extended this benefit indefinitely without obtaining Board approval.

Condition: Unauthorized separation payments were made after the explicit expiration of the Boards' authorization. Additionally, the Health Center's management interpreted the policy as granting the employee “two weeks salary for each year or partial year of credited Health Center service to a maximum of twenty-six weeks, with a minimum of four weeks salary.” There is no indication that the Board intended to consider partial year service as equivalent to an additional year of service.

We noted, that, in our sample of 25 terminated employees, three individuals were granted full credit for partial years of service. One individual, after his termination date was adjusted twice in an attempt to justify paying him for an additional year of service, had exactly twelve years and one day; he was given credit for thirteen years of service.

Effect: Unauthorized benefits were provided to employees. Also, adjusting termination dates to increase payments raises questions regarding the cutoff point for such adjustments as, if such adjustments are made arbitrarily, inequities may result. As these unauthorized payments could be construed to constitute a breakdown in the safekeeping of resources of the State, we reported this to the Governor and other State officials on June 28, 2001, as required by Section 2-90 of the General Statutes.

Cause: The Health Center's management appears to have inaccurately interpreted the policy. With respect to the adjustment of termination dates, we were told that the Health Center routinely adjusts them to avoid penalizing an employee who is close to qualifying for benefits.

Conclusion: The Board of Trustees approved a separation policy for managerial/confidential employees on November 16, 2001. The practice of making payments for partial years of service was discontinued.

Agency Response: "Management agrees with the above."

Payroll Accountability:

Criteria: One control generally applicable to payroll processing is the comparison of actual payroll costs with expected payroll costs. Generally, the effect of approved changes made during the current pay period is applied to costs as per the preceding payroll to develop control totals for the current payroll. Significant deviations from projected costs indicate that unauthorized changes were made to the payroll and/or processing errors occurred.

Maintaining this internal control can be time consuming, as it requires that approved changes be applied both to the payroll system itself and to the control totals. Supervisory review of changes made to the payroll system may be more cost effective, especially if the payroll system is automated and can readily produce a listing of changes for review.

Condition: The Health Center does not project expected payroll costs and compare them with actual payroll costs. Instead, it relies on supervisory review of changes made. Review of a report listing changes to the payroll is intended to be part of this control process. A supervisory level Human Resources staff member is to sign off on the report to evidence that the review has taken place and that all changes were approved. However, when we checked a sample of 20 reports generated during fall 2001, we noted that only seven of the 20 had been so approved.

Effect: Under these circumstances, supervisory review of changes is a key control over payroll processing. If this control is not operating properly, it increases the danger that unauthorized changes could be made and/or processing errors occur.

Cause: It was indicated to us that Human Resources staff members checked the reports but that resource constraints hampered the supervisory review process.

Recommendation: Changes to the payroll should be reviewed and signed off on by a supervisory level Human Resources staff member. (See Recommendation 7.)

Agency Response: “A new procedure has been put in place to ensure that the supervisor responsible for the changes made to the payroll system review and sign the report on a regular basis. The control process going forward will be followed.”

Equipment Inventory:

Criteria: Reconciliation of the amount expended for equipment to the change in the inventory record balance is an important control with respect to the maintenance of accurate inventory records.

Condition: The Health Center’s inventory control procedures have improved significantly in recent years, as evidenced by the results of our test basis physical inventories. However, though the Health Center performs an item-by-item comparison of equipment purchases per the accounting system with additions to the automated inventory control listing, it does not prepare an overall annual summary reconciliation of the amount expended for equipment to the change in the aggregate value of capitalized equipment per the inventory control listing. Additionally, the item-by-item comparison is not always done in a timely manner.

Effect: The lack of such a reconciliation increases the likelihood that erroneous data could accumulate in the inventory control listing. While the tracing of individual transactions certainly provides a significant degree of assurance that capital items have been accurately added to the inventory control listing, an overall summary reconciliation helps insure that items have not been overlooked and forces consideration of other changes (disposals, donations, etc.).

Cause: The preparation of a reconciliation was not afforded sufficient priority.

Recommendation: The Health Center should prepare an overall summary reconciliation of the amount expended for equipment to the change in the aggregate value of capitalized equipment per the inventory control listing. (See Recommendation 8.)

Agency Response: “The Materials Management and Fiscal Service departments have been working on implementing policies and procedures over tagging and tracking of inventory that would include the above mentioned reconciliation.”

Faculty Time and Attendance Reports:

Criteria: Centralization of time and attendance recordkeeping improves control and enhances accountability.

Condition: Non-faculty Health Center employees submit time and attendance reports to the Payroll Department on a biweekly basis. As has been discussed in prior audit reports, though many faculty members accumulate compensated absences (vacation), most of those faculty members do not submit any report of attendance or leave to the Payroll Department. The official records of faculty vacation balances are “calendars” submitted to the Dean’s offices on an annual basis.

The degree of control exercised in this area by employing departments varies. Some apparently place the responsibility for maintaining leave records solely on the faculty members themselves, requiring them to complete and submit “calendars” on an annual basis. When a faculty member retires, the appropriate Dean’s office informs the Personnel Department of the faculty member’s accumulated balance. After reviewing a faculty member’s vacation leave record, the Human Resources Department then directs the Payroll Department to pay the faculty member for the unused time. We have been informed that this procedure would apply even to those faculty members that do regularly submit time and attendance reports to the Payroll Department. The “calendars” are considered the official records for these employees, not the centralized time and attendance records.

Effect: The lack of a uniform control structure mandating regular reporting of time and attendance for recording in a centralized recordkeeping system lessens the assurance the Health Center can have that amounts paid are correct. Additionally, as “calendars” are submitted on a calendar year basis, the Health Center’s liability for faculty members’ compensated absences at fiscal year end must be based on an estimate of accumulated balances.

Cause: The Health Center has historically accounted for faculty members' compensated absences in this manner.

Recommendation: The Health Center should require all employees that accumulate compensated absences to submit biweekly attendance reports to the Payroll Department. (See Recommendation 9.)

Agency Response: "A change in the current procedure for tracking compensated absences is not recommended at this time. The Health Center will continue to collect this data through the Dean's offices where they are recorded and sent to payroll for payment."

Auditors' Concluding Comments:

Our review indicates that requiring all employees that accumulate compensated absences to regularly report the use of leave time in a consistent manner would yield significant benefits in terms of internal control, accountability and accuracy in reporting. We do not see any reason to continue with the current patchwork system; the Agency's response does not cite any obstacles to converting.

Compensatory Time:

Criteria: Compensatory time is intended to provide management with a useful tool for dealing with relatively short term workload fluctuations. The existence of large balances that are not used in a timely fashion may be indicative of staffing problems.

Additionally, the Fair Labor Standards Act (FLSA) sets certain maximum accrual limits for compensatory time earned in lieu of overtime (as defined under FLSA, i.e., overtime earned by actually physically working in excess of 40 hours per week) that do not apply to other forms of compensatory time.

Condition: We noted that some Health Center employees had accumulated large compensatory time balances. Further, the number of employees with large accumulations appears to be increasing. In our prior review, we found that five employees had compensatory time balances of 400 hours or more as of May 25, 2000. In our current review, we found that 15 employees had balances of 400 hours or more as of March 27, 2002.

Also, the Health Center's current time and attendance system does not allow for the maintenance of separate accrued time balances for compensatory time earned in lieu of overtime (as defined under FLSA) and other forms of compensatory time. The Health Center is planning to adopt a new human resources software package; the need to track compensatory time subject to FLSA limitations should be addressed when the system is implemented.

Effect: Large compensatory time balances that are increasing over time may be indicative of staffing problems. Compliance with FLSA requirements cannot be assured if accrued leave balances subject to those requirements are not tracked separately.

Cause: The accumulation of large compensatory time balances may reflect staffing problems. The Health Center's current time and attendance system is quite limited as to the number of different types of accrued compensated absences it can track; the maximum number is already being tracked.

Recommendation: The Health Center should improve control over compensatory time by addressing the accumulation of large balances and FLSA compliance issues. (See Recommendation 9.)

Agency Response: "A new time and attendance system, Kronos, has recently been purchased by the Health Center in addition to a new human resource system, PeopleSoft. As we work through implementations, we will address and review the accumulation of compensatory balances and FLSA compliance issues. With a new automated system, we will work toward a corrective action."

Late Deposit:

Criteria: Section 4-32 of the General Statutes generally requires an agency to deposit and account for monies it receives within 24 hours of receipt.

Condition: When we attempted to trace Norwich State Tuberculosis Sanitarium Trust income to evidence of deposit by the Health Center in March 2000, we were initially unable to verify two payments. Responding to our inquiries, Agency personnel located a \$280 check dated June 29, 1999, in an employee's desk drawer. The other check, in the amount of \$265 and dated March 29, 1999, had been deposited by the Health Center, but to an incorrect account. We reported this instance of noncompliance to the Governor and other State officials on September 6, 2000, as required by Section 2-90 of the General Statutes.

Effect: Receipts were not promptly deposited as required. This requirement was established to help properly safeguard State resources.

Cause: Responsibility for accounting for the income was assigned to an employee whose main focus was on other duties.

Conclusion: Responsibility for accounting for the income was reassigned.

Agency Response: “Management agrees with the above.”

Other Audits:

The John Dempsey Hospital, the Finance Corporation and the UConn Medical Group were audited by public accounting firms during the audited period. The John Dempsey Hospital and the Finance Corporation were audited on a September 30th fiscal year end basis and the UConn Medical Group was audited on a June 30th fiscal year end basis.

It does not appear that the auditors issued a management letter as a result of their audits of the periods ending June 30, 1999 and September 30, 1999. A combined management letter was issued communicating the recommendations developed as a result of the audits of the UConn Medical Group for the fiscal year ended June 30, 2000, and the John Dempsey Hospital and Finance Corporation for the fiscal year ended September 30, 2000. They recommended the following:

- Implement a contract management system to improve control over medical receivables.
- Improve segregation of duties in the Hospital’s accounts receivable department.
- Align the fiscal year ends of the John Dempsey Hospital to June 30th.
- Consider the costs and related benefits of expanding the resources and function of the Internal Audit department.
- Prepare formal written contracts documenting the terms and conditions of all business interactions with related parties and update them periodically or as necessary.
- Improve control over the John Dempsey Hospital’s supply inventory.
- Update the general ledger fixed assets balances on a monthly, rather than annual, basis to improve the accuracy of interim reporting.
- Update cash balances to properly reflect the accurate reconciled amounts by adjusting for immaterial outstanding reconciling items.
- Exclude agency accounts from the range of accounts used for the UConn Medical Group to facilitate financial reporting.
- Continue to move towards compliance with the Health Insurance Portability and Accountability Act of 1996; consider utilizing a third party reviewer to periodically assess progress and/or status on compliance.
- Begin the evaluation process antecedent to the implementation of a cost accounting system.

Additionally, as noted earlier in this report, Special Act 00-12, effective June 1, 2000, required the Auditors of Public Accounts to enter into a contract for an independent performance audit of the Health Center. The contractor was expected to perform an independent performance audit of the Health Center, including each of its component parts, in accordance with Government Auditing Standards promulgated by the Comptroller General of the United States (commonly called “Yellow Book” standards) and in accordance with Section 4(a) of the Special Act. After a competitive bidding process, we contracted with a public accounting firm to perform this audit. The first of three interim performance reports submitted to the Review Committee established by Section 3 of Special Act 00-12 was dated December 20, 2000. The other two reports were dated April 6 and September 28, 2001, respectively.

The first report presented 67 recommendations resulting from the auditors’ examination and assessment of the financial and programmatic aspects of Health Center operations that they contracted to review. The majority of the auditors’ recommendations dealt with the importance of improving reporting systems to make available adequate information for informed decision-making.

In many respects the first report supported a positive outlook for the Health Center. The auditors acknowledged recent improvements in many areas and recommended that current management initiatives be continued and expanded upon.

However, it also expressed concern regarding the fiscal viability of the Health Center. The report discussed the Health Center’s recent identification of four “Signature Programs” (multidisciplinary clinical endeavors in areas that it considers to represent its core competencies), noted the Health Center’s assumption that these Signature Programs would significantly enhance clinical and research revenues and implied that management’s revenue projections might be unduly optimistic.

The auditors expressed reservations with respect to the other side of the revenue/expense equation as well noting that, “It is important to remember as the Hospital continues to look at future cost savings opportunities, most of the easier savings have been achieved.” Staffing was a key issue; the auditors emphasized the need to recruit new personnel and concomitantly recommended downsizing – stressing the importance of a staff with the right skill set for the Health Center’s planned endeavors. The auditors recognized that this could present difficulties, stating “The employment of tenured faculty poses a challenge to the Health Center in those instances when individuals are not as productive as benchmarks or goals would indicate.”

The auditors did not present any new recommendations in their second report, though they did prioritize existing recommendations. They identified the “Health Center’s greatest challenges” as “successful implementation of the Signature Programs [and] Research Strategic Plan II as well as achieving meaningful financial reporting to accurately monitor operational results.” They advised, “a concerted focus on the action plans related to these initiatives particularly those that establish monitoring and reporting of progress against plans and achievement of meaningful financial and budgetary reporting.”

The second report included synopses of the recommendations and management responses presented in the first report and of the related status updates from the Summarized Action Plans document, together with an auditor's comments on the status updates. The auditors appear to be generally satisfied with the Health Center's response to their recommendations; most of the auditors' comments on the status updates consist of the phrase "Management's action plan appears reasonable." This does not necessarily mean that the auditors believed that management had successfully dealt with the problems that prompted the recommendations – just that what had been done so far in terms of planning, etc. was reasonable. As the auditors noted in their report, solutions to many of the more serious problems will "require long-term timeframes for full implementation."

The auditors indicated that management's fiscal year 2002 cost reduction/revenue enhancement targets were realistic, stating, "Revenue enhancement and expense savings projections noted in the draft FY02 Cost Improvement Plan appear reasonable." They did not express the same level of confidence in the recruitment efforts undertaken in support of the Health Center's Signature Programs initiative; stating only that "Management expects that most of this fiscal year's recruitment goals will be achieved."

The third, and final, report did not include any significant new material. The auditors did not present any additional recommendations. Instead, they provided relatively minor updates on progress made since the issuance of the second. This was in accordance with their proposed plan of action, which called for an intensive initial review and less extensive follow-up work. The auditors did caution that careful consideration be given to the degree of participation by the Health Center in the State's implementation of PeopleSoft's financial software package, as it might not effectively support the Health Center's unique business requirements.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

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

- Increase efforts to recruit State residents into the Dental School – this recommendation has been repeated.
- Improve control over equipment inventory – this recommendation has been restated to acknowledge that control has improved significantly.
- Execute contracts before authorizing contractors to begin work – this recommendation has been repeated.
- Improve practices and recordkeeping related to compensated absences – this recommendation has been restated in light of changed conditions.
- Enforce existing policies calling for timely submission of travel vouchers – we are not repeating this recommendation as compliance has improved.
- Improve control over warehouse inventory – we are not repeating this recommendation as the Health Center has implemented a new system that provides better control.
- Establish reasonable reimbursement limits for costs incurred in connection with “working meals” – we are not repeating this recommendation, as a policy was established effective October 1, 1999.
- Increase control over Hospital receivables by improving segregation of duties – we are not repeating this recommendation as segregation of duties was improved.

Current Audit Recommendations Addressing Health Center Operations:

1. The Health Center Dental School should increase its efforts to recruit State residents.

Comment:

Substantially higher rates have been established for out-of-State students, an acknowledgment that in-State students should be the primary beneficiaries of subsidization of academic programs from the General Fund resources of the State. Further, Section 10a-102 of the General Statutes indicates that the University’s, and by extension the Health Center’s, reason for existing is to provide for “the education of youth whose parents are citizens of this state” by “promoting the liberal and practical education of the industrial classes.”

However, most Dental School students enter the institution from other states. They apply for and are granted in-State status after their first year in the program, allowing them to benefit from the lower in-State rates. For example, Health Center enrollment summaries show that the class of 2000 initially consisted of 15 in-State students and 31 out-of-State students. Yet, when the class graduated in the 1999-2000 fiscal year, it consisted of 42 in-State students and two out-of-State students. Enrollment data for other classes shows a similar pattern. The class of 2005 initially consisted of nine in-State students and 35 out-of-State students.

2. The Health Center should not authorize contractors to begin work prior to execution of a contract.

Comment:

We reviewed 24 personal service agreements issued directly by the Health Center during the 2000-2001 fiscal year and 28 contracts issued through the Finance Corporation for clinical services (primarily physician's services) during that year to determine if contractors were allowed to begin working prior to execution of a contract. We defined execution as the signing of the contract by both the Health Center and the contractor.

We found that all 24 of the personal service agreements issued directly by the Health Center were signed after the contract start date. Delays ranged from 44 to 623 days; the average lag time was 300 days. Twenty-five of the 28 contracts issued through the Finance Corporation were signed after the contract start date. Delays ranged from one to 303 days; the average lag time was 69 days.

3. The Health Center should obtain Board of Directors' approval, where required, before issuing contracts through the Finance Corporation.

Comment:

Finance Corporation procurement policies require that "Contracts for professional or technical services in excess of two hundred and fifty thousand dollars ... be approved by the board of directors prior to execution." It appears that the requirement for Finance Corporation Board of Directors approval was intended to prevent the incurrence of obligations exceeding \$250,000 in amount without Board approval. However, our review indicated that the Health Center's management group has concluded that such obligations may be incurred prior to Board approval, as long as Board approval, is obtained before payment is made.

4. The Health Center should solicit competitive proposals in the manner legally mandated by Section 10a-151b of the General Statutes when contracting for professional services.

Comment:

During our audit of the Health Center we noted several instances in which the Agency contracted for professional services without following these procedures. Specifically, we

found that contracts were awarded to Hebrew Home and Hospital and Hartford Hospital on a non-competitive basis. Additionally, though documentation on file indicated that there was an element of competition when contracts were awarded to Larson, Allen, Weishair & Co., LLP and its wholly owned subsidiary Tranxition Management, LLC, the Health Center did not solicit competitive bids in the manner specified by Section 10a-151b.

5. Administrators familiar with assigned staff and their access needs should regularly review access control templates established for automated data processing systems.

Comment:

The Health Center makes extensive use of automated data processing. We reviewed, on a test basis, selected aspects of two such systems, HRS (the personnel/payroll system) and FRS (procurement and accounting). We noted some instances where employees had access privileges that they did not need.

6. The Health Center should transfer its General Fund appropriation into its operating fund to eliminate inefficiencies resulting from the maintenance of separate General Fund accounts.

Comment:

The process of separately budgeting, accounting and maintaining the General Fund accounts unnecessarily limits the management flexibility of the Health Center and takes staff time and fiscal resources that could better be devoted elsewhere.

7. Changes to the payroll should be reviewed and signed off on by a supervisory level Human Resources staff member.

Comment:

Health Center policy calls for review and signoff, by a supervisory level Human Resources staff member, on a report that lists changes to the payroll. However, when we checked a sample of 20 reports generated during fall 2001, we noted that only seven of the 20 had been signed.

8. The Health Center should prepare an overall summary reconciliation of the amount expended for equipment to the change in the aggregate value of capitalized equipment per the inventory control listing.

Comment:

Reconciliation of the amount expended for equipment to the change in the inventory record balance is an important control with respect to the maintenance of accurate inventory records. Though the Health Center performs an item-by-item comparison of

equipment purchases per the accounting system with additions to the automated inventory control listing, it does not prepare an overall annual summary reconciliation of the amount expended for equipment to the change in the aggregate value of capitalized equipment per the inventory control listing.

9. The Health Center should improve practices and recordkeeping related to compensated absences.

Comment:

The Health Center should:

- Require all employees that accumulate compensated absences to submit biweekly attendance reports to the Payroll Department.
- The Health Center should improve control over compensatory time by addressing the accumulation of large balances and Fair Labor Standard Act compliance issues.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the University of Connecticut Health Center (Health Center) for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Health Center's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Health Center's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Health Center are complied with, (2) the financial transactions of the Health Center are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Health Center are safeguarded against loss or unauthorized use. The financial statement audits of the Health Center for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

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

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Health Center is the responsibility of the Health Center's management.

As part of obtaining reasonable assurance about whether the Health Center complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Health Center's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of the laws, regulations, contracts and grants. However, an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Health Center is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Health Center. In planning and performing our audit, we considered the Health Center's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a

material or significant effect on the Health Center's financial operations in order to determine our auditing procedures for the purpose of evaluating the Health Center's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Health Center's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Health Center's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Health Center's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: authorizing contractors to begin work before execution of contracts, entering into contracts before obtaining the required Finance Corporation Board of Directors approval, lack of compliance with legally mandated procurement policies, the lack of a reconciliation of the amount expended for equipment to the change in the inventory record, and a decentralized recordkeeping system for faculty compensated absences.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Health Center's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Health Center may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Health Center's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: authorizing contractors to begin work before execution of contracts.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

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

James K. Carroll
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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