

STATE OF CONNECTICUT



*AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT HEALTH CENTER
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

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

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AUDITORS OF PUBLIC ACCOUNTS

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December 30, 2015

AUDITORS' REPORT UNIVERSITY OF CONNECTICUT HEALTH CENTER FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014

We have audited certain operations of the University of Connecticut Health Center (UConn Health) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2013 and 2014. The objectives of our audit were to:

1. Evaluate UConn Health's internal controls over significant management and financial functions;
2. Evaluate UConn Health's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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

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

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

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from UConn Health's management and was not subjected to the procedures applied in our audit of UConn Health. For the areas audited, we identified

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

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

COMMENTS

FOREWORD

The University of Connecticut and the University of Connecticut Health Center operate primarily under the provisions of Title 10a, Chapter 185, where applicable, Chapter 185b, Part III, and Chapter 187c of the General Statutes. The university and health center are governed by the Board of Trustees of the University of Connecticut, consisting of 21 members appointed or elected under the provisions of Section 10a 103 of the General Statutes.

The board of trustees makes rules for the governance of the university and health center and sets policies for the administration of the university and 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, 2014, were:

Ex officio members:

Dannel P. Malloy, Governor
Steven K. Reviczky, Commissioner of Agriculture
Catherine H. Smith, Commissioner of Economic and Community Development
Stefan Pryor, Commissioner of Education
Sanford Cloud, Jr., Chairperson of UConn Health's Board of Directors

Appointed by the Governor:

Lawrence D. McHugh, Middletown, Chair
Louise M. Bailey, West Hartford, Secretary
Marilda L. Gandara, Hartford
Thomas E. Kruger, Stamford
Rebecca Lobo, Granby

Denis J. Nayden, Stamford
Thomas D. Ritter, Hartford
Andy F. Bessette, West Hartford
Charles F. Bunnell, Uncasville
Shari G. Cantor, West Hartford
Andrea Dennis-LaVigne, Bloomfield
Juanita T. James, Norwalk

Elected by alumni:

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

Elected by students:

Michael K. Daniels, Storrs
Rose A. Barham, Norwalk

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

Peter S. Drotch, Framingham, Massachusetts
Lenworth M. Jacobs, M.D., West Hartford
Wayne J. Shepperd, Danbury
Richard Treibick, Greenwich
Francis X. Archambault, Jr., Storrs
Brien T. Buckman, Stamford

Section 10a-104 subsection (c) of the General Statutes authorizes the Board of Trustees of the University of Connecticut to create a board of directors for the governance of UConn Health and delegate such duties and authority as it deems necessary and appropriate to said board of directors. The members of the board of directors as of June 30, 2014, were:

Ex officio members:

Susan Herbst, President, University of Connecticut
Robert Dakers, designee of the Secretary of the Office of Policy and Management
Jewel Mullen, Commissioner, Department of Public Health

Appointed by the Chair of the Board of Trustees:

Sanford Cloud Jr., Chairperson, Farmington
Andy F. Bessette, West Hartford
Richard T. Carbray Jr., Rocky Hill

Appointed by the Governor:

Kathleen Woods, Avon
Teresa Ressel, Stamford

Members at Large:

Francis X. Archambault, Jr., Storrs
Richard Barry, Avon
Francisco L. Borges, Farmington
Cheryl Chase, Hartford
John Droney, Farmington
Timothy A. Holt, Glastonbury
Wayne Rawlins, Hartford
Robert T. Samuels, West Hartford
Charles W. Shivery, Hartford

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

Wayne J. Shepperd, Danbury
Karen Christiana, West Hartford

Pursuant to Section 10a-108 of the General Statutes, the Board of Trustees of the University of Connecticut appoints a president of the university and health center to be the chief executive and administrative officer of the university, health center and the board of trustees. Susan Herbst served as the president of the University of Connecticut during the audited period.

The University of Connecticut Health Center Farmington complex houses the John Dempsey Hospital, the school of medicine, the school of dental medicine, and related research laboratories. Additionally, the schools of medicine and dental medicine provide health care to the public, through the UConn Medical Group (including its UConn Health Partners unit) and the University Dentists, in facilities located at the Farmington campus and in neighboring towns.

The University of Connecticut Health Center 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 and instruments. It also acts as a procurement vehicle for the clinical operations of UConn Health. 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 acts as an agent for UConn Health and 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, 2014, were:

Ex officio members:

Susan Herbst, President, University of Connecticut
Frank Torti, Executive Vice President for Health Affairs
Benjamin Barnes, Secretary of the Office of Policy and Management

Appointed by the Governor:

Lawrence D. McHugh, Middletown
Wayne J. Shepperd, Danbury

Recent Legislation

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

- Public Act 13-143, required the University of Connecticut Board of Trustees to complete studies every two years, beginning January 1, 2014, that compare their administrator salaries and staffing ratios with those of peer public institutions in other states and report the results of such comparisons to the Higher Education and Appropriations committees.
- Public Act 13-233, authorized \$1.551 billion in new bonds for Next Generation Connecticut, a capital improvement program under the UConn 2000 infrastructure program.
- Public Act 14-217, Section 259, repealed a provision that placed the Office of the Chief Medical Examiner within UConn Health for administrative purposes only.

Enrollment Statistics

Statistics compiled by UConn Health's registrar present the following enrollments during the audited period and prior fiscal year.

Student Status	2011-2012		2012-2013		2013-2014	
	Fall	Spring	Fall	Spring	Fall	Spring

Medicine – Students	355	355	359	359	368	368
Medicine – Residents	611	611	625	625	645	645
Dental – Students	176	176	169	169	174	174
Dental – Residents	112	112	117	117	114	114
Totals	1254	1254	1270	1270	1301	1301

RÉSUMÉ OF OPERATIONS

Under the provisions of Section 10a 105, subsection (a), of the General Statutes, fees for tuition were fixed by the university’s board of trustees. The following summary presents annual tuition charges during the audited period and prior fiscal year.

Student Status	School of Medicine			School of Dental Medicine		
	2011-2012	2012-2013	2013-2014	2011-2012	2012-2013	2013-2014
In-State	\$22,740	\$23,649	\$24,832	\$21,395	\$22,251	\$23,363
Out-of-State	\$47,905	49,821	52,312	\$49,271	51,242	53,804
Regional	\$39,795	\$41,387	\$43,456	\$37,441	38,939	\$40,886

During the audited period, the State Comptroller accounted for UConn Health 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.

During the audited period, patient revenues were UConn Health’s largest source of revenue, with John Dempsey Hospital patient revenues being the largest single component of patient revenues. Other operations that generated significant patient revenues were the Correctional Managed Healthcare Program and the UConn Medical Group.

Under the Correctional Managed Healthcare Program, UConn Health entered into an agreement, effective August 11, 1997, with the Department of Correction to provide medical care to inmates incarcerated in the state’s correctional facilities. Medical personnel at the correctional facilities, formerly paid through the Department of Correction, were transferred to UConn Health’s payroll.

Under the agreement, while the program was to be managed by UConn Health, the commissioner of the Department of Correction retained the authority for the care and custody of inmates and the responsibility for the supervision and direction of all institutions, facilities and activities of the department. The purpose of the program was to enlist the services of UConn Health to carry out the responsibility of the commissioner for the provision and management of comprehensive medical care.

The UConn Medical Group functions similarly to a private group practice for faculty clinicians providing patient services.

Other significant sources of revenue included state General Fund operating support, federal and state grants, and payments for the services related to the Residency Training Program.

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

Health care providers and support staff of UConn Health are granted statutory immunity from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment. Any claims paid for actions brought against the state as permitted by waiver of statutory immunity have been charged against UConn Health's malpractice self-insurance fund. UConn Health has developed a methodology by which it allocates malpractice costs between the hospital, the UConn Medical Group and University Dentists. For the years ended June 30, 2013 and 2014, these costs are included in the statement of revenues, expenses and changes in net assets.

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

UConn Health's financial statements are adjusted as necessary and incorporated in the state's Comprehensive Annual Financial Report. The financial balances and activity of UConn Health, including John Dempsey Hospital, are combined with those of the university and included as a proprietary fund.

UConn Health employment remained relatively stable during the audited period. UConn Health position summaries show that permanent full-time filled positions totaled 4,956 as of June 2012; 5,006 as of June 2013; and 5,011 as of June 2014.

Operating Revenues

Operating revenue results from the sale or exchange of goods and services that relate to UConn Health's mission of instruction, research and patient services. Major sources of operating

revenue include patient services, federal grants, state grants, contract and other operating revenues. Operating revenue as presented in UConn Health's financial statements for the audited period and prior fiscal year, follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
<u>(\$ in thousands)</u>			
Student Tuition and Fees (net of scholarship allowances)	\$ 13,746	\$ 13,812	\$ 15,794
Patient Services (net of charity care)	429,546	432,032	450,315
Federal Grants and Contracts	56,904	60,651	62,527
Non-Governmental Grants and Contracts	27,690	27,593	23,803
Contract and Other Operating Revenues	<u>93,730</u>	<u>102,574</u>	<u>106,771</u>
Total Operating Revenue	<u>\$621,616</u>	<u>\$636,662</u>	<u>\$659,210</u>

The largest source of operating revenue, patient services, is derived from fees charged for patient care. Patient services revenue increased .58 percent in the fiscal year ended June 30, 2013 followed by an increase of 4.2 percent in fiscal year 2014.

Operating Expenses

Operating expenses generally result from payments made for goods and services to assist in achieving UConn Health's mission of instruction, research and patient services. Operating expenses do not include interest expense or capital additions and deductions. Operating expenses include employee compensation and benefits, supplies, services, utilities, and depreciation and amortization.

Operating expenses by functional classification, as presented in UConn Health's financial statements for the audited period and prior fiscal year, follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
<u>(\$ in thousands)</u>			
Educational and General			
Instruction	\$ 129,217	\$ 141,182	\$ 152,618
Research	63,080	60,918	59,518
Patient Services	506,720	522,825	581,558
Academic Support	20,200	20,011	20,824
Institutional Support	53,059	53,114	66,416
Operations and Maintenance	28,031	33,606	31,548
Depreciation	30,875	32,365	32,780
Loss on Disposal	7	0	0
Student Aid	<u>165</u>	<u>136</u>	<u>50</u>

Total Operating Expenses	<u>\$ 831,354</u>	<u>\$ 864,157</u>	<u>\$ 945,312</u>
Other Changes in Net Assets			
Capital Appropriations	\$ 0	\$ 5,000	\$ 193,214
Loss on Disposal	<u>0</u>	<u>(2,978)</u>	<u>(573)</u>
Net Other Changes in Net Assets	<u>\$ 0</u>	<u>\$ 2,022</u>	<u>\$ 192,641</u>

The largest source of operating expenses relates to patient services. Patient services expenses increased 3.2 percent in the fiscal year ended June 30, 2013 followed by an increase of 11.2 percent in fiscal year 2014. Instruction expenses, the second largest operating expense, increased 9.3 percent in the fiscal year ended June 30, 2013 and increased 8.1 percent in the fiscal year ended June 30, 2014.

Non-operating Revenues and Expenses

Non-operating revenues and expenses are neither operating revenues/expenses nor capital additions/deductions. Non-operating revenues and expenses include items such as the state's General Fund appropriation, gifts, investment income and interest expense. Non-operating revenue (expenses) as presented in UConn Health's financial statements for the audited period and prior fiscal year follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
<u>(\$ in thousands)</u>			
State Appropriations (including fringe benefits)	\$ 202,997	\$ 213,371	\$ 266,139
Transfers to State	1,312	0	0
Gifts	7,435	7,658	7,300
Investment Income	101	124	93
Interest on Capital Assets - Related Debt	<u>(1,095)</u>	<u>(1,072)</u>	<u>(1,007)</u>
Net Non-operating Revenue	<u>\$ 210,750</u>	<u>\$ 220,081</u>	<u>\$ 272,525</u>

State appropriations, which include fringe benefits, increased in the fiscal year ended June 30, 2013, by 5.1 percent when compared to the fiscal year ended June 30, 2012. State appropriations increased in the fiscal year ended June 30, 2014, by 24.7 percent when compared to the fiscal year ended June 30, 2013. The significant increase in appropriations in fiscal year 2014 is the result of additional funds to support bioscience initiatives as well as additional support to cover increased fringe benefits costs.

Investment income is derived primarily from UConn Health's unspent cash balances and endowments. The gifts component of non-operating revenue is comprised of amounts received from the University of Connecticut Foundation and other non-governmental organizations and individuals.

Other Changes in Net Assets

Other Changes in Net Assets, as presented in UConn Health's financial statements for the audited period and prior fiscal year, follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
<u>(\$ in thousands)</u>			
Capital Appropriations	\$ 62,500	\$ 5,000	\$ 193,214
Loss on Disposal	<u>0</u>	<u>(2,978)</u>	<u>(573)</u>
Net Other Changes in Net Assets	<u>\$ 62,500</u>	<u>\$ 2,022</u>	<u>\$ 192,641</u>

The capital appropriations amounts for the fiscal years ended June 30, 2013 and 2014 are primarily related to amounts allocated to UConn Health under the UCONN 2000 capital improvement program.

Net Assets

Net assets represent assets less liabilities. Net assets, as presented in UConn Health's financial statements for the audited period and prior fiscal year, follows:

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
<u>(\$ in thousands)</u>			
Invested in Capital Assets, Net of Related Debt Restricted for Non-expendable	\$301,969	\$335,015	\$405,672
Scholarships	61	61	61
Restricted for Expendable:			
Research	3,436	1,982	547
Loans	1,081	794	104
Capital Projects	51,287	30,829	152,707
Unrestricted	<u>45,288</u>	<u>29,049</u>	<u>17,703</u>
Total Net Assets	<u>\$403,122</u>	<u>\$397,730</u>	<u>\$576,794</u>

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

Related Entities

UConn Health did not hold significant endowment and similar fund balances during the audited period, as it has been UConn Health's longstanding practice to deposit funds raised with the University of Connecticut Foundation, Inc. The foundation provides support for the

university and UConn Health. Its financial statements reflect balances and transactions associated with both entities, not only those exclusive to UConn Health.

A summary of the foundation's assets, liabilities, support, and revenues and expenditures for the audited period and prior fiscal year follows:

(\$ in thousands)	University of Connecticut Foundation, Inc.		
	Fiscal Year Ended		
	June 30, 2012	June 30, 2013	June 30, 2014
Assets	\$398,655	\$459,101	\$489,928
Liabilities	14,715	45,632	53,019
Net Assets	383,940	413,469	436,909
Support and Revenue	50,489	79,574	91,426
Expenditures	44,656	50,045	68,004

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

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

Unclear Selection Criteria

Background: UConn Health frequently uses a request for proposal (RFP) purchasing process that includes factors other than cost when determining how a contract will be awarded.

Criteria: When using a request for proposal purchasing process for major contracts, the criteria upon which the proposals will be evaluated should be clearly stated and the ratings of proposers tabulated and retained in accordance with the State of Connecticut records retention policies.

Condition: In October of 2012, UConn Health entered into a contract for the construction of the shell of the Ambulatory Care Center. The initial RFP stated, "The selection of the Design-Builder for the project and the Award of the Design-Build Contract for the project, shall be based on an evaluation by the University of the Proposals submitted by the Pre-Qualified Design-Builders, the Pre-Qualification Application, and further supplementary information as obtained by the University," giving the impression that factors other than cost would be considered when selecting the design-builder.

In a subsequent addendum to the RFP, in response to a question from a potential proposer as to how proposals would be evaluated, UConn Health responded, "Evaluation is based upon the lowest total of the Base Bid plus Alternates selected to be awarded at the time of contract execution; in addition to the compliance of the Project Execution Plan with the RFP requirements." UConn Health personnel indicated that this response informed interested parties that the contract would be awarded to the lowest proposer. Furthermore, UConn Health personnel stated that when awarding a contract to the lowest proposer, no selection committee is necessary nor do proposals have to be scored.

Effect: The ambiguous selection criterion makes it difficult to determine whether the selection process was properly conducted. It also raises concern about the fairness of the process to proposers.

Cause: UConn Health personnel have stated that when using the design-build delivery method, it is their policy to award the contract to the lowest responsible proposer.

Recommendation: The University of Connecticut Health Center should establish clear criteria upon which proposals for major construction contracts will be evaluated and integrate such criteria within the RFP prior to soliciting those proposals. Additionally, a selection committee should be established to evaluate and score the criteria. (See Recommendation 1.)

Agency Response: “UConn Health followed the policies and procedures in effect for this design-build project, which included the formal evaluation and scoring of Request for Qualifications (RFQ) responses based upon, established criteria, and the subsequent evaluation of the lowest bidder response to the Request for Proposals (RFP) to ensure full compliance with the required specifications.

The RFQ was issued to prequalify a “short list” of design-builders for the project. A selection committee evaluated and scored the responses in accordance with those criteria. This step enabled us to use the RFP, as contemplated by our policies and procedures, to solicit lump sum design-build bids only from the approved contractors that were selected via the RFQ.

We acknowledge that in this case the evaluation criteria language in the original RFP was not as clear as it could have been; however, this was corrected by the issuance of an addendum to all potential proposers, confirming that the evaluation would be “based upon the lowest total of the Base Bid plus Alternates selected to be awarded at the time of contract execution; in addition to the compliance of the Project Execution Plan with the RFP requirements.” Thus, all proposers were adequately notified prior to proposal submission that the lowest cost proposal that adhered to the RFP requirements would be selected. This selection process adhered to policies and procedures established to ensure the best, lowest-cost result for UConn Health and the State of Connecticut. There is no need for corrective action at this time.”

Transfer of Purchasing Responsibilities

Background: In April of 2013, UConn Health, in conjunction with UConn-Storrs, solicited a request for proposals for third party procurement services. In July of 2013, UConn-Storrs entered into a contract with an outside contractor, for the third party procurement services which were described in documents submitted to the board of

trustees as “Professional procurement services for the acquisition of medical, high-tech, information technology, research and other equipment and furniture for projects on all the University campuses, including the Health Center.” The contract was established for an amount of \$985,000 with rates ranging from \$110 to \$174 per hour.

Criteria: Section 10a-151b of the Connecticut General Statutes requires UConn Health to solicit competitive bids or proposals when making large dollar value purchases of equipment, supplies or contractual services.

Condition: UConn Health purchased a linear accelerator, (used for delivering radiotherapy treatments), at a price in excess of \$2,000,000. Upon our review of the documents supporting the competitive process used to obtain the linear accelerator, we noted that an outside contractor had collected the proposals related to the purchase.

Effect: UConn Health removed itself from the control process. Additionally, UConn Health’s failure to maintain physical control over the submitted proposals increases the risk of deviations with established procedures.

Cause: UConn Health chose to use an outside contractor to perform these tasks.

Recommendation: The University of Connecticut Health Center should maintain custody of bids and proposals until they are opened publically. (See Recommendation 2.)

Agency Response: “Beginning August 17, 2015 UConn Health will maintain custody of all bids and proposals until they are opened publically.”

Inadequate Purchasing Process

Criteria: Fostering competition in an open market environment is generally the best way to obtain quality products and services at the lowest possible price.

Condition: During our review of expenditures, we discovered large disbursements related to a contract originally established for real estate advisory services for UConn Health’s Ambulatory Care Center. The real estate advisory services included, among other things, the evaluation of development options, crafting proposal documents (RFP, development agreements, leases, etc.),

identification of potential developers, evaluation of the transaction structure, evaluation of financing alternatives, and proposal review.

In addition, UConn Health decided to procure credit tenant lease financing for the Ambulatory Care Center, an item that was not specifically part of the original real estate advisory contract. We determined that instead of soliciting competition among interested qualified parties, UConn Health amended an existing contract with the real estate advisory firm by \$1,400,000, increasing the contract from \$320,000 to \$1,720,000. The amendment, which increased the original contract in excess of 400%, was purportedly for additional services.

Effect: Failure to solicit competition for significant contracts increases the risk of overpayment.

Cause: UConn Health personnel felt soliciting competition was not needed.

Recommendation: The University of Connecticut Health Center should solicit competition among qualified parties prior to entering into significant contractual obligations. (See Recommendation 3.)

Agency Response: “The expenditures noted above were paid against a contract based upon an RFP process. The RFP response included a provision that a separate financing fee would be agreed to, if the vendor sourced financing for UConn Health. UConn Health negotiated a fixed fee based upon RFP responses from other vendors outlining development fees and fees paid to underwriters for State of Connecticut and University of Connecticut bond issues.”

Inadequate Contract Terms and Monitoring

Criteria: UConn Health personnel have an obligation to engage in and monitor contract terms that protect the state’s financial interests.

Condition: During our test of expenditures, we noted the following:

- UConn Health paid in excess of \$3,000,000 to a vendor who provided information technology hardware and software. Based upon our review of the contract and invoices related to such payments, as well as discussion with UConn Health personnel, we concluded that no one was verifying that prices paid were in agreement with the terms of the contract.

- UConn Health paid in excess of \$8,000,000 to a vendor under contract to provide food services and cafeteria operations. The contract contains a large variety of variables which affected the amount of the payment to the vendor. These variables included, the vendor's cost of goods, the vendor's labor costs, and certain sales. We found no evidence of meaningful review by UConn Health of the amounts billed by the vendor for the variable components of the contract.

Effect: The failure to negotiate transparent and independently verifiable amounts to be billed by vendors under the terms of a contract increases the likelihood of improper payments.

Cause: UConn Health has entered into contracts which do not provide end users transparency over pricing and, as such, place an overreliance on the accuracy and goodwill of the vendors who prepare the invoices.

Recommendation: The University of Connecticut Health Center should ensure that contracts for goods and services allow for verifiable pricing and that end users review such pricing to be in accordance with the applicable contract before approving invoices. (See Recommendation 4.)

Agency Response: "UConn Health works to negotiate contracts that are both in our best financial interests and transparent to the end users who utilize them. In some cases, such as when gaining access to a vendor's full catalog or when products/pricing changes frequently, UConn Health may be unable to obtain continuously updated price listings. Going forward, we will continue to work with vendors to request updated price listings as often as is practicable and to share them with the affected departments.

UConn Health currently audits the food services and cafeteria operations expenditures on a quarterly basis to ensure transparency and accuracy of the vendor's invoices. We have implemented a new departmental policy both to document and maintain records of this audit documentation for a minimum of 2 years going forward."

Excessive Payment Upon Separation

Criteria: The prevailing State of Connecticut policy on managerial compensatory time states "Compensatory time earned during the twelve months of the calendar year must be used by the end of the

succeeding calendar year and cannot be carried forward. In no event will compensatory time be used as the basis for additional compensation and shall not be paid as a lump sum at termination of employment.”

Condition: We noted two instances in which, upon termination of the employment of managerial employees, UConn Health paid the employees \$17,518 and \$12,624 for compensatory time.

Effect: UConn Health spent more than it should have on unused compensatory time.

Cause: UConn Health has a more generous managerial compensatory time policy than other state agencies.

Recommendation: The University of Connecticut Health Center should require managerial compensatory time be used within a reasonable time frame and should not include unused compensatory time in lump sum payments to managerial employees upon termination. (See Recommendation 5.)

Agency Response: “We believe it would be preferable to have a policy that encourages use of compensatory time in a reasonable time with managerial discretion to allow carry forward of this time or payout upon termination for managerial employees.

In a health care environment, it is not always practical or desirable to have a policy mandating this. Particularly in clinical areas, areas experiencing staff shortage or areas dealing with significant management issues, it may be in the agency’s best interest to require that a manager delay use of compensatory time to meet organizational need.”

Health Center Paid Long Term Disability Insurance

Background: In our prior audit report, we noted that UConn Health was providing long-term disability coverage for employees who were members of the State of Connecticut State Employee Retirement System (SERS). We observed that this coverage was excessive because the SERS plan contains provisions for disability retirement.

Criteria: UConn Health should not incur unnecessary expenses.

Condition: Although UConn Health ceased long-term disability coverage for managerial employees hired after November 1, 2011, they continue

to provide long-term disability coverage for approximately 38 managerial employees hired prior to that date.

Effect: We estimate the cost of providing the long-term disability coverage to SERS managerial employees is approximately \$11,000 annually.

Cause: UConn Health believes the coverage provided by SERS to be inadequate.

Recommendation: The University of Connecticut Health Center should eliminate SERS managerial employees from their employer provided long-term disability plan. (See Recommendation 6.)

Agency Response: “We have discontinued offering this plan to managerial employees hired after November 1, 2011 despite the fact that this creates a gap in their disability coverage because such employees are aware of this fact at the time of hire. However, we continue to be concerned about withdrawing a benefit that was part of the terms and conditions of hire for managerial employees hired before November 1, 2011 and creating a coverage gap for these 38 employees.”

Failure to Keep Adequate Property Control Records

Background: UConn Health has established a \$5,000 threshold for the capitalization and amortization of depreciation expense over the useful life of the equipment. Equipment under \$5,000 is expensed in the year purchased and is not added to the inventory of capitalized equipment. Those equipment items under \$5,000 that are believed to be sensitive, portable and theft-prone are considered controllable property and should be tracked in a manner that facilitates accountability.

UConn Health has a capitalized equipment inventory containing an estimated 17,000 items with approximately 4,400 additional items listed as controllable property.

Criteria: Section 4-36 of the General Statutes provides that an inventory of property shall be kept in the form prescribed by the Comptroller. The Comptroller’s State Property Control Manual requires that each agency maintain a written listing of controllable property.

Accurate inventory records are important for financial statement and insurance reporting purposes and to assist in safeguarding equipment from theft, loss and destruction. Periodic physical

inspection of the condition and the location of equipment items is a standard technique to assist in maintaining an accurate equipment inventory.

Condition: During our tests of UConn Health’s equipment inventory records, we noted the following:

- There were approximately 3,100 pieces of equipment assets that had not been located and inspected in over two years.
- Approximately 1,100 of the 4,400 items appearing on UConn Health’s controllable property listing did not have complete and pertinent information such as the cost and purchasing source. It was also noted that the controllable asset list was limited to a single category, computers.

Effect: UConn Health’s ability to safeguard assets is compromised when inventory records do not reflect periodic inspection and confirmation of location. The potential for undetected loss or theft increases when full inventories are not performed in a timely manner.

Cause: Noted communication errors between the inventory system and the fixed asset sub-system were not repaired ahead of the implementation of a new general ledger system and fixed asset module, causing delays in performing inventory and updating inventory records. It also appears that UConn Health is not capturing other potentially significant classes of controllable assets.

Recommendation: The University of Connecticut Health Center should ensure that all capitalized and controllable assets are appropriately tracked and should perform a physical inspection and confirmation of their location in a timely manner. (See Recommendation 7.)

Agency Response: “Fixed asset subsystems were not originally linked to our new ERP, Banner. That has been corrected and we continue to refine our procedures to ensure that the full inventory is seen at least once every two years. These efforts have been hampered by the high volume of departmental moves over the past couple years.

UConn Health continues to evaluate existing policies, procedures, and staffing models to determine how best to ensure all tagable and trackable assets are identified, logged, and tracked in accordance with the Comptroller’s manual.”

Internal Controls for Equipment Missing or Lost is Inadequate

Criteria: The State Property Control Manual, under authority of Section 4-36 of the General Statutes, contains the policies related to assets owned or leased by a state agency.

Section 4-33a of the General Statutes of Connecticut requires the reporting of all losses and/or damage to real and personal property.

The State Property Control Manual has established a form, Report of Loss or Damage to Real and Personal Property (CO-853), for equipment items not located or missing during a physical inventory. This form is required to be submitted to the State Comptroller and Auditors of Public Accounts. It must also be reported to their own police department if the loss is due to criminal activity.

Condition: There were approximately 5,700 items in fiscal year 2014 which were deleted from the inventory after the inventory process failed to locate these assets for two or more years. Documentation provided shows that they were disposed without physically being on hand. These items, which we consider lost, should have been reported on form CO-853. However, we found that UConn Health does not have a process for reporting losses using this form. The book value of these items was \$235,132.

Effect: Internal controls pertaining to disposals and lost or missing equipment is weakened.

Cause: UConn Health was not fully completing required inventory procedures including all required disposal forms. As a result, items lost or misplaced were not being properly reported on form CO-853.

Recommendation: The University of Connecticut Health Center should strengthen internal controls for disposals and missing items. All disposals must be properly authorized and missing items must be investigated and reported to the Office of the State Comptroller and Auditors of Public Accounts on form CO-853. (See Recommendation 8.)

Agency Response: “Management has revised its procedures to include the timely filing of the CO-853 with all applicable parties.”

Moving Expense Reimbursement Policy

Criteria: Reimbursement of employee moving expenses should be limited to reasonable amounts.

Condition: During our tests of payments to UConn Health employees, we identified payments of \$18,000, \$13,333, \$10,247, \$10,017, \$9,990 and \$7,708 made for the purpose of reimbursing the employees for their moving expenses. When we reviewed UConn Health's moving expense reimbursement policy, we determined it lacked a maximum reimbursement amount. This is in contrast to the UConn-Storrs moving expense reimbursement policy, which limits reimbursements to \$7,100.

Effect: UConn Health has paid more to employees than would be required if they utilized the UConn-Storrs policy.

Cause: UConn Health has not established a maximum employee moving expense reimbursement rate.

Recommendation: The University of Connecticut Health Center should establish an employee moving expense reimbursement policy that includes limits similar to the one established by UConn-Storrs. (See Recommendation 9.)

Agency Response: "UConn Health agrees with the need for formalized maximum moving amounts across all of UConn Health. Currently, maximum amounts generally are tied to one month's salary or \$15,000, but are determined on a case by case basis and listed in individual offer letters.

UConn Health disagrees that the amount should be set at the Storrs levels referenced. UConn Health feels that capping reimbursement consistent with Storrs could inhibit its recruiting in the highly competitive marketplaces in which it competes for talent. UConn Health will review its policies to determine what guidelines are most appropriate given its hiring goals."

Ineffective Use of Resources

Background: UConn Health has established a separation policy for managers that, at the discretion of UConn Health, allows for the granting of certain benefits to a separating manager when the separation is related to conditions such as layoff, position elimination or management reorganization. One of those benefits is known as Notice and/or Lump Sum Payment. Notice and/or Lump Sum

Payment allows UConn Health to grant either written notification in advance of the effective date of separation or lump sum payment of salary in lieu of notice, or a combination of written notice and lump sum payment.

Criteria: Payments made by UConn Health should have some discernible benefit to the institution.

Condition: During our test of payments to UConn Health employees made upon their separation, we found a lump sum payment in lieu of notice to a manager in the amount of \$192,500. Upon further review, we determined the payment was made to the employee who elected to resign due to a pending reorganization.

Effect: UConn Health resources were wasted.

Cause: UConn Health chose to allow the employee to resign and pay a lump sum rather than give notice of the effective date of separation and find other duties commensurate with the employee's abilities until the date of separation.

Recommendation: The University of Connecticut Health Center should only make lump sum payments to employees in lieu of notification in instances in which the separating manager has no skill set that can benefit the institution. (See Recommendation 10.)

Agency Response: "The position in question was that of Chief Executive Officer for the John Dempsey Hospital with a base annual salary that exceeded \$400,000 at the time of separation. The position of CEO is a single person classification. The then incumbent was a physician executive who through a negotiated agreement resigned his position as CEO due to a pending reorganization. Significantly, the payment primarily served as "good and valuable consideration" consistent with the managerial separation policy that allowed the Health Center to secure a full release of any and all claims and causes of action that the incumbent could have filed against the Health Center upon separation. The CEO position is a highly visible one with access to a range of sensitive information. A notice period that would have allowed the incumbent to perform "other duties" at the hospital for up to a 6 month period of time was deemed by senior leadership in this instance as not in the best overall interest of the institution. In sum, it is the Agency's position that the lump sum payment in question was a reasonable risk management decision that was consistent with Board of Trustees approved policy."

Inadequate Procedures for Establishing Managerial Salaries

Criteria: Establishing proper managerial salary levels can assist in attracting and retaining qualified personnel as well as preserve UConn Health's resources.

Condition: We tested the initial salaries of eleven newly hired UConn Health managers. For six of the eleven, the limited documentation available related to their hiring suggested that they were, to some extent, refilling a managerial position. In each of these six instances, the newly hired managers' initial salary exceeded the salary of their predecessor.

In an effort to determine why the newly hired managers' salaries exceeded the salaries of their predecessors, we reviewed payroll and personnel files for documentation supporting the newly hired managers' starting salary. Based upon that review, although numerous UConn Health employees had authorized the newly hired managers' salaries, we found no evidence within the payroll and personnel files to support how they determined the appropriateness of the starting salaries.

Effect: Establishing salaries without having control procedures and documentation standards which address important topics such as experience, education, training and market conditions increases the risk of paying inappropriate salaries as well as claims of disparate treatment among employees performing similar tasks.

Cause: UConn Health has not established adequate documentation standards to support starting salary levels for newly hired managers.

Recommendation: The University of Connecticut Health Center should develop control procedures and minimum documentation standards to assist in ensuring the propriety of managerial salaries. (See Recommendation 11.)

Agency Response: "We will establish and maintain improved documentation to demonstrate the propriety of managerial salaries. In the case of the salaries cited above, we will add documentation to the respective files reflecting the sound basis of those decisions."

Student Activity Fund

Background: UConn Health imposes a student activity fee on every enrolled student. The fee is then transferred to a student activity fund and

bank account for the use of the Medical Dental Student Government (MDSG). MDSG represents the medical and dental students of the schools of medicine and dental medicine and is responsible for planning extra-curricular activities as well as allocating and disbursing monies to student organizations for their extra-curricular activities.

Criteria: The State Comptroller's Accounting Procedures Manual for Activity Funds and Welfare Funds, issued in accordance with Section 4-53 of the General Statutes, establishes procedural requirements for student activity funds.

Condition: The MDSG wrote checks in excess of available cash balances during the months ending July 31, 2013, May 31, 2014, and June 30, 2014 in the amounts of \$1,117, \$5,499, and \$144, respectively.

Additionally the MDSG was not following the State Comptroller's procedures for cash receipts associated with social events.

Cause: Lack of communication between responsible parties caused the writing of checks in excess of available balances.

The failure to follow the State Comptroller's procedures for cash receipts was caused by a lack of familiarity with established procedures.

Effect: Writing checks in excess of available cash increases the risk that an overdraft may occur. Failure to properly account for receipts increases the risk that cash could go missing without being detected.

Recommendation: The University of Connecticut Health Center should improve communication on available cash balances among responsible parties and clearly promulgate the State Comptroller's procedures relating to student activity funds. (See Recommendation 12.)

Agency Response: "Management had separately identified the overdrawn balance and had already begun corrective actions including recouping overdrawn amounts, limiting MDSG spending to their annual funding, and standardizing quarterly reports to include both budget and available cash balances.

MDSG is a student organization with student officers in charge of events which may include Revenue Producing Social Events. Leadership of the organization typically turns over each year. Management will create an orientation package which explains the

responsibilities for such items as Revenue Producing Social Events, deposits, and proper purchasing and includes the Comptroller's procedures related to student activity funds. Management will review the package as well as existing UConn Health Policies with the newly elected officers each year."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

In our previous report of UConn Health, we presented twelve recommendations pertaining to UConn Health operations. The following is a summary of those recommendations and the actions taken thereon:

- UConn Health should revise its sabbatical leave request form to incorporate a requirement that employees granted sabbatical leave agree to return amounts paid during the sabbatical leave if they do not return to the service of UConn Health for a period of one year following the expiration of the sabbatical leave. This recommendation has been implemented.
- UConn Health should prepare and retain evidence to demonstrate efforts to obtain the most favorable price when purchasing items of significant cost. This recommendation is being restated and repeated. (See Recommendation 3)
- UConn Health, in an effort to reduce costs, should investigate the feasibility of using current, or hiring new staff with the requisite abilities to perform the work related to intellectual property matters that are currently being performed by outside law firms. This recommendation has been implemented.
- UConn Health should develop procedures to verify the details of any contracts that have variable components. This recommendation is being repeated. (See Recommendation 4.)
- UConn Health should require that managerial compensatory time be used within a reasonable time frame and should not make payments to managerial employees upon termination for unused compensatory time. The recommendation is being repeated. (See Recommendation 5.)
- UConn Health should establish a tuition reimbursement policy for managerial employees similar to the one established by the University of Connecticut-Storrs. This recommendation has been implemented.
- UConn Health should perform a complete physical inspection and confirmation of location of equipment items in a timely manner. This recommendation is being repeated. (See Recommendation 7.)
- UConn Health should take greater care in safekeeping important procurement documents. We did not identify the conditions upon which this recommendation was based in the current audit. This recommendation is not being repeated.

- UConn Health should periodically acquire Service Organization Control Reports from its outside service organizations. Those reports should be reviewed by the Health Center's Audit Services Unit. This recommendation has been implemented.
- UConn Health should investigate the benefits of installing a computerized perpetual inventory system for the non-controlled pharmaceuticals currently not being monitored by such a system. This recommendation has been implemented.
- UConn Health should investigate whether the use of the State Tax Intercept Program will assist in maximizing accounts receivable collections. UConn Health made a significant effort to try and implement this recommendation. This recommendation is not being repeated.
- UConn Health should eliminate SERS managerial employees from their employer provided long-term disability plan. The recommendation is being repeated. (See Recommendation 6.)

Current Audit Recommendations:

- 1. The University of Connecticut Health Center should establish clear criteria upon which proposals for major construction contracts will be evaluated and integrate such criteria within the RFP prior to soliciting those proposals. Additionally, a selection committee should be established to evaluate and score the criteria.**

Comment:

We found an instance in which UConn Health entered into a contract and there was no evidence that clear selection criteria was established, no evidence of a selection committee, and no evidence of proposal ratings.

- 2. The University of Connecticut Health Center should maintain custody of bids and proposals until they are opened publically.**

Comment:

We noted an instance in which an outside contractor collected the proposals related to a purchase in excess of \$2,000,000.

- 3. The University of Connecticut Health Center should solicit competition among qualified parties prior to entering into significant contractual obligations.**

Comment:

We noted an instance in which UConn Health increased the value of an existing contract by \$1,400,000 without soliciting competition among interested qualified parties.

- 4. The University of Connecticut Health Center should ensure that contracts for goods and services allow for verifiable pricing and that end users review such pricing to be in accordance with the applicable contract before approving invoices.**

Comment:

We noted two instances in which UConn Health did not verify that amounts billed were in agreement with the terms of the applicable contract. Payments to the related vendors exceeded \$3,000,000 and \$8,000,000.

- 5. The University of Connecticut Health Center should require managerial compensatory time be used within a reasonable time frame and should not include unused compensatory time in lump sum payments to managerial employees upon termination.**

Comment:

We noted two instances in which UConn Health paid terminated employees for their compensatory time. These payments totaled \$30,142.

- 6. The University of Connecticut Health Center should eliminate SERS managerial employees from their employer-provided long-term disability plan.**

Comment:

We found that UConn Health continues to provide long-term disability coverage for approximately 38 managerial employees hired prior to November 1, 2011.

- 7. The University of Connecticut Health Center should ensure that all capitalized and controllable assets are appropriately tracked and should perform a physical inspection and confirmation of their location in a timely manner.**

Comment:

Approximately 3,100 items of capital assets had not been located and inspected in over two years. Approximately 1,100 items of controllable assets did not have complete and pertinent information.

- 8. The University of Connecticut Health Center should strengthen internal controls for disposals and missing items. All disposals must be properly authorized and missing items must be investigated and reported to the Office of the State Comptroller and Auditors of Public Accounts on Form CO-853.**

Comment:

There were approximately 5,700 inventory items lost in fiscal year 2014 which were not reported on form CO-853 to the Comptroller's Office and the Auditors of Public Accounts. The collective book value of these items was \$235,132.

- 9. The University of Connecticut Health Center should establish an employee moving expense reimbursement policy that includes limits similar to the one established by UConn-Storrs.**

Comment:

We found that UConn Health's moving expense reimbursement policy does not contain a maximum reimbursement amount.

- 10. The University of Connecticut Health Center should only make lump sum payments to employees in lieu of notification in instances in which the separating manager has no skill set that can benefit the institution.**

Comment:

During our tests of payments made upon separation, we found a lump sum payment of \$192,500 in lieu of notice to a manager, who elected to resign due to a pending reorganization.

- 11. The University of Connecticut Health Center should develop control procedures and minimum documentation standards to assist in ensuring the propriety of managerial salaries.**

Comment:

We found six instances in which the initial salary of newly hired managers exceeded the salary of their predecessors. We found no evidence within the payroll and personnel files to support the appropriateness of the starting salaries.

- 12. The University of Connecticut Health Center should improve communication on available cash balances among responsible parties and clearly promulgate the State Comptroller's procedures relating to student activity funds.**

Comment:

We found three instances in which Medical Dental Student Government (MDSG) wrote checks in excess of its available cash balance, in amounts of \$1,117, \$5,499, and \$144. In addition, we found that MDSG was not following the State Comptroller's procedures for cash receipts.

CONCLUSION

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



Gregory J. Slupecki
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts