

STATE OF CONNECTICUT



*AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT HEALTH CENTER
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2016*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT J.KANE

May 23, 2018

AUDITORS' REPORT UNIVERSITY OF CONNECTICUT HEALTH CENTER FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2016

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, 2015 and 2016. 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 various available sources including, but not limited to, UConn Health's management and the state's information systems, 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 (UConn Health) 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, 2016, were:

Ex officio members:

Dannel P. Malloy, Governor
Steven K. Reviczky, Commissioner of Agriculture
Catherine H. Smith, Commissioner of Economic and Community Development
Dianna R. Wentzell, 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
Andy F. Bessette, West Hartford
Charles F. Bunnell, East Haddam
Shari G. Cantor, West Hartford
Andrea Dennis-LaVigne, Simsbury
Marilda L. Gandara, Hartford
Thomas E. Kruger, Stamford
Rebecca Lobo, Granby
Denis J. Nayden, Stamford
Thomas D. Ritter, Hartford

Elected by alumni:

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

Elected by students:

Jeremy L. Jelliffe, Willimantic
David Rifkin, Glastonbury

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

Michael K. Daniels, Plainville
Juanita T. James, Norwalk
Stefan Pryor, Providence, Rhode Island

Section 10a-104 (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. The members of the board of directors as of June 30, 2016, were:

Ex officio members:

Susan Herbst, President, University of Connecticut
Robert Dakers, designee of the Secretary of the Office of Policy and Management

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 D. Woods, Avon
Teresa M. Ressel, New Canaan
Joel Freedman, South Glastonbury

Members at Large:

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

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

Jewel Mullen, Hartford
Robert T. Samuels, 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 members appointed under the provisions of Section 10a-253 of the General Statutes. The members of the board of directors as of June 30, 2016, were:

Ex officio members:

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

Appointed by the Governor:

Lawrence D. McHugh, Chairman Middletown

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 15-244, Section 22, allowed the Secretary of the Office of Policy and Management to transfer all or part of any General Fund appropriations for UConn Health in fiscal years 2016 and 2017 to the Department of Social Services' Medicaid account in order to maximize federal reimbursement. Public Act 15-244 also transferred \$1,000,000 from the Biomedical Research Trust Fund to support the Connecticut Institute for Clinical and Translational Science in fiscal years 2016 and 2017.
- Public Act 15-1, June Special Session, Section 2, provided \$25,000,000 of the information and technology capital investment bond fund to UConn Health for the purchase and implementation of an integrated electronic medical records system, effective July 1, 2015.
- Public Act 15-5, June Special Session, Section 416, allowed UConn Health to provide health care coverage for graduate assistants and others through the partnership plan (the state-administered plan for non-state public or nonprofit employers), provided that the related premiums and expenses were not charged to the state's General Fund.
- Public Act 15-1 December 2015 Special Session, Section 19, transferred \$3,000,000 from UConn Health to the state's General Fund.
- Public Act 16-1, Section 11, required UConn Health to transfer \$1,000,000 from the Hospital Insurance Fund to the General Fund.

- Public Act 16-2, May Special Session, Section 9, provided \$1,300,000 of the Biomedical Research Fund to UConn Health for melanoma research and the Bladder Cancer Institute. Section 34 of the public act limited the Secretary of the Office of Policy and Management’s allotment reductions to no more than 2% of the appropriations to UConn Health.

- Public Act 16-4 May Special Session, Section 208, provided \$16,000,000 of the information and technology capital investment bond fund to UConn Health for the purchase and implementation of an integrated electronic medical records system, effectively July 1, 2016.

Enrollment Statistics

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

Student Status	2013-2014		2014-2015		2015-2016	
	Fall	Spring	Fall	Spring	Fall	Spring
Medicine – Students	368	368	384	384	396	396
Medicine – Residents	645	645	650	650	659	655
Dental – Students	174	174	171	171	168	171
Dental – Residents	114	114	110	110	109	103
Totals	1301	1301	1315	1315	1332	1325

RÉSUMÉ OF OPERATIONS

Under the provisions of Section 10a-105 (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		
	2013-2014	2014-2015	2015-2016	2013-2014	2014-2015	2015-2016
In-State	\$24,832	\$27,074	\$30,013	\$23,363	\$25,531	\$28,231
Out-of-State	\$52,312	\$55,928	\$60,021	\$53,804	\$57,494	\$61,472
Regional	\$43,456	\$47,380	\$52,523	\$40,886	\$43,930	\$49,404

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 Foundation Fund (Section 10a-130 of the General Statutes).
- 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. 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 in the state's correctional facilities. Medical personnel at the correctional facilities, formerly paid through the Department of Correction, were transferred to the UConn Health 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 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 in a variety of specialties. The UConn Medical Group's operation is considered essential for the education and training of medical students of the School of Medicine.

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, UConn Medical Group, and University Dentists. For the years ended June 30, 2015 and 2016, 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 5,017 as of June 2014; 4,918 as of June 2015; and 4,939 as of June 2016.

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, contracts, and other operating revenues. Operating revenue as presented in UConn Health's financial statements for the audited period and prior fiscal year, follows:

	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
<u>(\$ in thousands)</u>			
Student Tuition and Fees (net of scholarship allowances)	\$ 15,794	\$ 16,557	\$ 15,728
Patient Services (net of charity care)	450,315	512,960	532,876
Federal Grants and Contracts	62,527	57,920	59,529
Non-Governmental Grants and Contracts	23,803	24,407	27,116
Contract and Other Operating Revenues	<u>106,771</u>	<u>109,324</u>	<u>108,017</u>
Total Operating Revenue	<u>\$ 659,210</u>	<u>\$721,168</u>	<u>\$743,266</u>

The largest source of operating revenue, patient services, is derived from fees charged for patient care. Patient services revenue increased 13.9% in the fiscal year ended June 30, 2015 followed by an increase of 3.9% in fiscal year 2016. Increases in patient services revenue were

attributed to an increase in volume since the opening of the new outpatient pavilion in the 2015 fiscal year and the new hospital tower in the 2016 fiscal year. Billing rate increases of approximately 2% also contributed to the increase of patient service revenue.

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>(\$ in thousands)</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
Education and General			
Instruction	\$ 152,618	\$ 163,703	\$ 168,299
Research	59,518	56,961	58,233
Patient Services	581,558	607,435	648,071
Academic Support	20,824	22,458	18,070
Institutional Support	66,416	83,260	80,638
Operations and Maintenance	31,548	35,363	38,714
Depreciation	32,780	37,830	41,469
Student Aid	<u>50</u>	<u>32</u>	<u>84</u>
Total Operating Expenses	<u>\$945,312</u>	<u>\$1,007,042</u>	<u>\$1,053,578</u>

The largest source of operating expenses relates to patient services. Patient services expenses increased 4.4% in the fiscal year ended June 30, 2015 followed by an increase of 6.7% in fiscal year 2016. Instruction expenses, the second largest operating expense, increased 7.3% in the fiscal year ended June 30, 2015 and increased 2.8% in the fiscal year ended June 30, 2016. In addition to increases in patient volume, increases in salaries related to collective bargaining agreements, and fringe benefit rates also contributed to the increases of operating expenses.

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>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
<u>(\$ in thousands)</u>			
State Appropriations (including fringe benefits)	\$ 266,139	\$ 280,645	\$ 289,287
Gifts	7,300	7,175	6,865
Investment Income	93	176	141
Interest on Capital Assets – Related Debt	<u>(1,007)</u>	<u>(3,820)</u>	<u>(10,487)</u>
Net Non-operating Revenue	<u>\$ 272,525</u>	<u>\$ 284,176</u>	<u>\$ 285,806</u>

State appropriations, which include fringe benefits, increased 5.5% in the fiscal year ended June 30, 2015 and 3.1% in the fiscal year ended June 30, 2016.

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>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
<u>(\$ in thousands)</u>			
Capital Appropriations	\$ 193,214	\$ 159,810	\$ 175,000
Loss on Disposal	<u>(573)</u>	<u>(3,902)</u>	<u>(695)</u>
Net Other Changes in Net Assets	<u>\$ 192,641</u>	<u>\$ 155,908</u>	<u>\$ 174,305</u>

The capital appropriations amounts for the fiscal years ended June 30, 2015 and 2016 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>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
<u>(\$ in thousands)</u>			
Invested in Capital Assets, Net of Related Debt	\$ 405,672	\$ 579,241	\$ 734,480
Restricted for Non-expendable:			
Scholarships	61	61	61

Restricted for Expendable:

Research	547	(139)	(876)
Loans	104	1,348	953
Capital Projects	152,707	104,082	117,466
Unrestricted	<u>17,703</u>	<u>(648,621)</u>	<u>(666,313)</u>
Total Net Position	<u>\$ 576,794</u>	<u>\$ 35,972</u>	<u>\$ 185,771</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. Increases in this category were attributable to the construction of the outpatient pavilion, approximately \$167 million, in the fiscal year ended June 30, 2015 and the completion of the University Tower at John Dempsey Hospital, approximately \$175 million, in the fiscal year ended June 30, 2016. 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. Significant decreases in unrestricted assets were the cumulative effect of recognizing pension liabilities, deferred outflows of resources, and deferred inflows of resources, which were required by the Governmental Accounting Standards Board (GASB) Statements No. 68 and No.71 starting in the 2015 fiscal year.

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:

<u>(\$ in thousands)</u>	University of Connecticut Foundation, Inc.		
	Fiscal Year Ended		
	June 30, 2014	June 30, 2015	June 30, 2016
Assets	\$ 489,928	\$ 481,944	\$ 475,537
Liabilities	53,019	46,162	44,723
Net Position	436,909	435,782	430,814
Support and Revenue	91,426	53,422	48,815
Expenditures	68,004	54,422	53,892

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

We believe that the following matters require disclosure and management's attention.

Evaluation of Contract Proposals

Background: UConn Health frequently uses a request for proposal (RFP) process to determine how to award a contract of significant value. To assist with the bid evaluation process, UConn Health has established procurement initiation forms to outline the purchase needs, estimated budget, expected contract length and potential funding sources. UConn Health uses proposal evaluation forms to document the independent evaluations and scores of the contract selection committee members.

Criteria: It is essential to the integrity of the contract proposal evaluation process that evaluators certify their independence and objective review of contract proposals. Adherence to established procedures provides assurance that the evaluation process and award decisions are fair and based on objective criteria.

Requests for contract proposals should include scope of work and specifications that align directly with the contract expectations and results.

Condition: Our review of 65 expenditure transactions disclosed the following deficiencies:

- Evaluation documents of 4 contract proposals did not include evaluator names or signatures to certify their independent review and scoring of contract proposals. These proposal evaluations resulted in 4 contracts with a total potential value of \$10,129,806.
- In 4 other proposal evaluations, a number of evaluators provided either no comments or inadequate comments on the proposals' strengths and weaknesses to support their scores on the proposals. These proposal evaluations resulted in 4 contracts with a total potential value of \$39,803,143.
- Evaluation forms for 2 proposals were not completed to support the decision to award some vendors with contract values 3 to 4 times larger than the remaining vendors. These 2 proposals had contracts with total potential values of \$4,452,980.

- A contract with an initially identified budget of \$400,000 was publicly bid with insufficient scope of work information. A proposal was rejected during the preliminary process for being the highest bid and \$150,000 more than the initially identified budget. In addition, because UConn Health did not specify the complete scope of work in its request for proposals, bidders submitted quotes that varied widely from the final contract. As of March 31, 2017, the contract value totaled \$2,400,000, which was 6 times greater than the initially identified budget.

Effect: There was no assurance of the independence and reasonableness of UConn Health’s bid evaluation process when evaluators neglected to certify their evaluations or provide comments supporting the scoring of bid proposals. Without bid evaluation forms, the reviewer could not determine whether some contractors were justifiably awarded contract values much larger than other contractors. Potential vendors could not provide accurate proposals when they lacked a scope of work or realistic contract budget.

Cause: UConn Health did not require proposal evaluators to provide adequate comments for the bid scores and to certify that they independently reviewed and evaluated the proposals. When all proposers were awarded some contract value, it was UConn Health’s procurement practice to not complete proposal evaluation forms. Procurement staff often had to rely on the division requesting the contract to determine the contract budget and the scope of work. In addition, UConn Health substantially expanded its facilities during the audited period, which made it more challenging for purchasing employees to correctly forecast the final service needs.

Recommendation: The University of Connecticut Health Center should enforce its requirements for proposal evaluators to certify and adequately comment on contract proposal scores. UConn Health should rebid contracts when their value has become significantly higher than the initial contract budget. (See Recommendation 1.)

Agency Response: “UConn Health is committed to a public and transparent bid process that encourages competition and results in the selections that provide the best value for UConn Health and the State of Connecticut. We have reviewed our bid process and made some changes as a result of this finding; we will continue to periodically evaluate our process for other potential improvements.

In the past, the electronic copy of each evaluation form was saved under the evaluator's name, so names were easily identified when the forms were reviewed electronically. The Procurement Department has now revised its process to require the evaluator's name and date to be printed on the evaluation form itself, so that the evaluator can also be easily identified when a hard copy of the form is being reviewed.

UConn Health's instructions to selection committee members—including instructions printed on the evaluation form itself—state that evaluations are to be performed independently. In order to facilitate automated scoring and eliminate the need for a Buyer to retype scores (which can result in transcription errors), the Procurement Department prefers to have evaluation forms submitted in electronic Excel format, rather than in hard-copy format. We are not currently aware of a technical solution that would allow evaluators to easily sign their evaluation forms without eliminating the valuable automated scoring functionality; we will ask the IT Department to help us to determine if a cost-effective and user-friendly solution exists that meets both needs.

The Procurement Department will continue to review the evaluation forms submitted by the members of the selection committee to ensure that there is sufficient information to support the award. In addition to the evaluation forms themselves, a Procurement Summary and Recommendations form is prepared jointly by the Buyer and Selection Committee Chairperson to summarize the process and capture any relevant information that may not be reflected elsewhere. That document is signed by the Buyer, Selection Committee Chairperson and Director of Procurement at the end of the bid process. In cases of multiple awards, the reasons for any significant difference in the values awarded to each vendor are documented on the Procurement Summary and Recommendations form.

We agree that it is always best to have as much information as possible about a project's scope before a bid is released so that the proposers can submit tailored responses to meet UConn Health's needs. Sometimes, business needs and project deadlines make it necessary to seek a solution before all of the variables are known. In the instance cited by the auditors, the information available to the drafters of the RFP was limited by the fact that the buildings where the system would be used were still under construction, and the solution had to be piloted before it could be implemented on a larger scale.”

Management of Purchase Orders

Criteria: State agencies should use a purchase order to encumber sufficient cash for invoice payments and to establish a written authorization for vendors to deliver goods and services at agreed-upon terms. According to its purchasing policy, UConn Health must make all purchases of goods and services using an approved purchase order or a written pre-approval from the Procurement Division.

UConn Health should identify late payment fees in a separate administrative account so that management can easily monitor and take actions to prevent additional penalties.

Condition: We reviewed 12 purchase orders and noted that 7 had been revised numerous times, including 1 that was revised 28 times. In all of these instances, the revisions occurred after purchase dates. UConn Health made the revisions after receiving invoices in order to encumber additional funds to pay for the purchases.

UConn Health incurred \$3,134 in late payment fees when a lease purchase order did not encumber sufficient funds for payments. UConn Health did not code the late payment fees to a separate administrative cost account.

Effect: UConn Health did not use purchase orders as a written authorization for vendors to deliver goods. This practice increased the risk of inconsistencies between the contracted terms and the vendor invoice terms. It also increased the risk of not having sufficient funds to pay for the purchases.

Cause: The procurement office did not always receive advance notifications of the actual purchases. In order to save processing time, UConn Health intentionally revised some purchase orders after the receipt of invoices so that they could reflect the actual invoice amounts or the correct funding sources.

Recommendation: The University of Connecticut Health Center should improve the management of purchase orders so that they can reflect the correct contract terms and assist with the timely payment of invoices. UConn Health should record late payment penalties in a separate account to allow proper monitoring. (See Recommendation 2.)

Agency Response: “The controls in place for revising purchase orders are very similar to the controls we have for requesting a new purchase order; the same departmental reviews and approvals that must take place before a PO can be issued also have to take place prior to any PO

revisions. There are a number of legitimate business reasons why departments need to be permitted to add funds to an existing PO, but ultimately each department's spend is capped by the funds available in the department's budget. However, as a result of this comment, UConn Health will review its policies and procedures related to purchase order revisions, and add additional parameters and controls as needed."

Loss of Prompt Payment Discounts

Criteria: Prudent cash management practice requires a business entity to set aside sufficient funds prior to requesting a delivery of goods or services and to take advantage of prompt payment discounts.

Condition: Our review of 22 invoice payments to vendors offering prompt payment discounts showed that UConn Health did not take advantage of the discounts in 13 invoices, and lost a total savings of \$46,424.

A furniture vendor received payments totaling \$1,243,000 in the 2016 fiscal year without providing UConn Health with the prompt payment discount included in its contract proposal. In the invoices, the vendor required UConn Health to pay within a shorter period and requested late payment penalties of 1.5% on all invoices.

Effect: UConn Health lost savings opportunities when it did not take advantage of prompt payment offers.

Cause: In most instances, the accounts payable office did not receive the invoices until the prompt payment period had expired. Delays were also caused by purchase orders lacking sufficient funds for prompt payments.

Recommendation: The University of Connecticut Health Center should improve coordination among various departments to take advantage of prompt payment discounts. UConn Health should hold vendors to their payment and discount terms. (See Recommendation 3.)

Agency Response: "UConn Health maintains several mechanisms to enable it to capitalize on discount opportunities. Among these mechanisms are vendor level system settings that control when payments are issued to ensure discounts are taken and invoice prioritization in the AP Department to ensure timely entry. The findings herein typically represent either singular vendor opportunities or departmental delays on items requiring departmental sign off. UConn Health will work to better communicate singular vendor offers amongst

departments and all levels of review. At the same time, we will enhance our tracking of lost discounts so that meaningful feedback can be provided to departments and discount compliance improved.”

Monitoring of Purchases and Contract Terms

Criteria: Proper purchasing procedures require that agencies maintain and consult contracted price lists, prompt discounts, and discount percentages during the purchase process and approval of invoices.

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

- UConn Health paid in excess of \$6,200,000 to a vendor that provided information technology hardware and software. There was insufficient written documentation to confirm that UConn Health compared the vendor’s invoices to its price list and correctly reflected the discount percentages agreed in the contract.
- We could not trace three invoices, totaling \$1,035,591, to the vendor price lists or supporting employee timecards.
- Two purchase orders, totaling \$555,720, referred to the state contracts when the invoice approvers indicated that they were using contracts procured by UConn Storrs. The state contracts had different price lists and competitive purchasing quote requirements than the contracts procured by UConn Storrs.

Effect: The risk of improper payments increased when the invoice approvers failed to document vendor price lists, applicable discount percentages, and did not follow the applicable contracts.

Cause: Invoice approvers did not retain a copy of the vendor price lists and timecards for the tested disbursements. References to incorrect contracts appeared to be an oversight and a miscommunication between the procurement office and the divisions approving the invoices.

Recommendation: The University of Connecticut Health Center should ensure that invoice prices and quantities are supported, and can be verified for accuracy and compliance with contract terms. (See Recommendation 4.)

Agency Response: “The UConn Health department that requests and receives goods/services is responsible for reviewing and approving the supplier’s invoices prior to authorizing payment. However, as a result of this audit finding, we have implemented a new requirement that the Buyer review the quote submitted with the requesting department’s purchase requisition to confirm that the quote references the correct contract discount.”

Payment for Compensatory Leave Balances

Background: Payments for compensatory leave balances are only permitted when the relevant bargaining contract clearly provides for such allowance. These contracts often involve essential state employees who provide direct healthcare or work in public safety.

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.” An agency can grant compensatory time when a manager is required to work a significant number of extra hours in addition to the normal work schedule. The policy disallows the granting of compensatory time if a manager works for an extra hour or two in order to complete normal work assignments.

The Maintenance & Service Unit (NP-2) and Administrative Clerical (NP-3) bargaining unit contracts state that compensatory time shall not be the basis for compensation on termination of employment.

Condition: We reviewed payments for compensatory leave balances during the audited period and found that payouts of compensatory leave balances were not consistent with the state policy and bargaining contracts.

- Active managers and confidential employees received payouts for 1,520 compensatory leave hours, totaling \$76,461.
- Upon employment termination, managers and confidential employees received payouts for 1,419 compensatory leave hours, totaling \$86,947.

- NP-2 and NP-3 bargaining unit employees received payouts at termination for 3,676 hours of compensatory time, totaling \$83,368.

In addition to the payouts of compensatory leave balances, we identified 29 instances in which a manager was allowed to earn compensatory time for working an additional 2 hours or less on a regular workday.

Effect: UConn Health spent more than it should have on unused compensatory time. The practice of paying cash for compensatory leave balances of managerial employees and bargaining employees (Maintenance & Service Unit and Administrative Clerical) contradicted the state’s policy and contractual agreements.

Cause: UConn Health has a more generous managerial compensatory time policy than other state agencies. Compensatory leave balances did not expire in accordance with the state prevailing policy. Instead, UConn Health paid additional compensation to employees whose bargaining contracts did not include an agreement for a cash payout.

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

Agency Response: “UConn Health will adopt the practice and guidelines consistent with the University wide practice related to use and payout of compensatory time for managerial employees as well as use of compensatory time by bargaining unit covered employees except where this cannot be accomplished without adversely impacting patient safety and continuity of care. Where staff shortages related to patient safety and continuity of care necessitate compensatory time payout, Management reserves discretion, subject to appropriate guidelines and corresponding documentation, to authorize compensatory time payout or extend the time period by which the compensatory time must be used. Guidelines addressing these limited circumstances will be issued by January 31, 2018. In all other circumstances, UConn Health will follow the University-wide practice and guidelines.”

Auditors’ Concluding Comment: We reiterate the recommendation that UConn Health follow the statewide policy and not make cash payments for compensatory

leave balances to managerial employees or to employees whose bargaining contracts do not allow such payouts.

Payment for Long Term Disability Insurance

Background: In the prior audit report, we noted that UConn Health provided 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 for benefits beyond the state's comprehensive fringe benefits package.

Condition: Although UConn Health ceased long-term disability coverage for new managerial employees hired after November 1, 2011, it continued to provide long-term disability coverage for approximately 27 managerial employees hired prior to that date, which cost \$10,115 per year.

Our review of state bargaining unit contracts and comparison with other state universities identified that only a very small segment of state university and Board of Regents employees received long-term disability insurance coverage. On the other hand, we found that UConn Health paid for long-term disability insurance of approximately 60% of its workforce, or 3,345 employees, during each fiscal year of the audited period. We observed that approximately 900 of these employees participated in SERS, which includes disability retirement benefits. Total payment for employee long-term disability insurance cost UConn Health \$859,882 in the 2015 fiscal year and \$831,629 in the 2016 fiscal year.

In the prior audit report, UConn Health responded that long-term disability insurance was part of the terms and conditions of hire for managerial employees. However, the office of Human Resources had not provided us with written contracts supporting UConn Health's agreement to pay for long-term disability coverage for the length of the manager's employment.

Effect: UConn Health provided disability insurance coverage beyond the benefits that the state provides to the majority of state employees.

Cause: UConn Health believes the coverage provided by SERS is inadequate and that long-term disability insurance was part of employment contracts of managerial and confidential employees.

Agreements with 2 bargaining units require long-term disability coverage for approximately 3,069 faculty and health professional members without distinguishing benefits afforded by different retirement plans.

Recommendation: The University of Connecticut Health Center should stop paying for long-term disability insurance for managerial employees. UConn Health should renegotiate bargaining contracts to avoid payments for benefits that are already part of the State Employee Retirement System. (See Recommendation 6.)

Agency Response: “We have discontinued offering this plan to managerial employees in SERS hired after November 1, 2011 and to faculty members in SERS, including those represented by the AAUP bargaining unit, hired after January 1, 2017. We will again attempt to renegotiate with the UHP bargaining unit at the next opportunity. 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 employees.”

Inaccurate Property Control Records

Background: UConn Health established a \$5,000 threshold for the capitalization and amortization of depreciation expense over the useful life of equipment. Equipment valued at under \$5,000 is expensed in the year purchased and is not added to the inventory of capitalized equipment. Equipment items with values under \$5,000 that UConn Health believes 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 16,000 items with approximately 5,200 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. They also assist in safeguarding equipment from theft, loss, and destruction. Periodic physical inspection of the condition and location of equipment items is a

standard technique to assist in maintaining an accurate equipment inventory.

Condition:

During our tests of UConn Health equipment inventory records, we noted incomplete inventory records.

- Approximately 746 of 15,992 capital equipment items had not been located in more than 2 years. Even though UConn Health fully depreciated most of these items, the lack of complete records prevented UConn Health from timely detection of losses and the identification of the physical whereabouts of capital equipment.
- Approximately 1,116 of 5,217 controllable inventory items had not been located and inspected in more than 2 years. UConn Health acquired most of these items within the last 3 years. They had a total value of approximately \$861,886. In addition, we found 198 newly purchased computer items, totaling \$138,688, that were not included in the controllable assets listing. We also noted that UConn Health's controllable assets policy continues to be limited to computer items. Current controllable inventory practice does not provide similar accountability for other items with a value of less than \$5,000 that are highly susceptible to theft.

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 do not occur in a timely manner.

Cause:

UConn Health hired a consultant and took other corrective action to improve its property control records. However, a lack of responsiveness and effective communication between departments and a lack of consequences for lost assets affected UConn Health's ability to fully complete its inventory reconciliation and update its inventory listing.

Recommendation:

The University of Connecticut Health Center should ensure that it appropriately tracks all capitalized and controllable assets. UConn Health should train managers so that they can fully understand the inventory recordkeeping process and are held responsible for missing equipment under their purview. (See Recommendation 7.)

Agency Response:

"UConn Health takes asset stewardship very seriously. While assets purchased remain the responsibility of each individual department, each year staff from the Office of Logistics

Management (OLM) inventory all UConn Health facilities with a focus on assets within the two year scope of review. Inventory counts are reconciled against fixed asset listings and the reconciled results are shared with departments for further review and follow up. Unfound assets represent those which have been identified in the reconciliation process for additional tracking efforts, departmental investigation, or disposal. While we strive to locate and inventory every asset we know that this is not always feasible. Our goal is to reduce the number of unfound assets below 3% on an ongoing basis.

Office of Logistics Management has previously added fixed asset training to UConn Health's annual training requirements. OLM also provides training in the Management Development Program. In the current year, the OLM has begun rolling out new automated tools to assist departments with inventory management, transfers, and disposals. These tools include real time asset inventories by location and electronic forms and workflows. We feel these tools, along with continued departmental and administrative vigilance will move us closer towards our goal."

Disposal of Equipment

Criteria:

UConn Health's policy requires that the in-charge Associate Vice President or Chief Executive Officer approve of disposal of equipment greater than \$10,000.

UConn Health should remove items approved for disposal from its premises and inventory records. When missing items are located in a subsequent inventory, UConn Health should update records to reflect the current inventory status.

Condition:

Items approved for disposal remained on the inventory records several years past their disposal dates. Our review disclosed that 46 items disposed of in the 2016 fiscal year, with a total value of \$349,493, still showed inventory dates 2 to 536 days after their official disposal dates.

Our review of items disposed in the 2015 fiscal year showed that 316 items, with a total value of \$1,391,932, remained on the inventory records 2 to 857 days after their disposal dates.

We reviewed the disposal forms for 6 items greater than \$10,000 and found that 4 out of 6, totaling \$161,742, were not approved by the Associate Vice President or the Chief Executive Officer. In one

of the disposal forms, the signature did not appear to be that of the former Associate Vice President of Research Finance.

Effect: This weakens internal controls pertaining to disposal and lost or missing equipment.

Cause: Equipment disposal policy was not enforced. When surplus items were recycled and put back in operation, the inventory system was incapable of identifying changes in their disposal status.

Recommendation: The University of Connecticut Health Center should strengthen internal controls over the disposition of equipment. All disposals must be properly authorized. (See Recommendation 8.)

Agency Response: “UConn Health Office of Logistics Management (OLM) has recently launched an Electronic Workflow Management system allowing us to improve the tracking and approval of forms submitted. Under this system, forms are electronically routed using a workflow process that only allows authorized users to promote them to the next level. The forms can also be connected to our live database of assets by location to facilitate quicker, more accurate completion.

The recycled assets noted were repurposed via our Surplus Equipment Program. The Surplus Equipment Program processes disposed equipment from UConn Health departments and makes it available to other departments, other State Agencies, and, where appropriate, public sale. This process allows items which are updated to a disposed status to remain on the premises in use for research, teaching, or other purposes at a lower cost than purchasing new equipment. The recycled equipment was inventoried due to the tags not being removed from equipment entering surplus. Going forward, UConn Health will attempt to remove inventory tags from items in our Surplus program and will update its scanning software to differentiate between items that are active on the inventory listing and items that have been surplusd.”

Excessive Paid Administrative Leave

Criteria: In accordance with the Professional Health Care Employees (P-1) and Paraprofessional Health Care Employees (NP-6) bargaining unit contracts, employees should not be placed on paid administrative leave for more than 2 months while the appointing authority investigates complaints of wrongdoing and determines disciplinary actions.

- Condition:* During the audited period, UConn Health placed 77 employees on paid administrative leave for a total of 12,722 hours. Approximately 42% of these hours were for the investigation of 8 employees, which lasted 3 to 5 months. Seven of these employees resigned in good standing after the conclusion of the investigations. The remaining employee returned to a regular pay schedule after the expiration of the paid administrative leave.
- Effect:* Investigations exceeding the 2-month period caused additional expenses. They also prevented prompt managerial responses and corrective action.
- Cause:* The nature of these investigations could be more complex. For the safety of its patients and employees, UConn Health could not allow employees to return to work before it completed the investigations.
- Recommendation:* The University of Connecticut Health Center should make an effort to complete disciplinary investigations in a timely manner. (See Recommendation 9.)
- Agency Response:* “Effective January 2017, UConn Health Human Resources has addressed this issue. Approval of an employee being placed on administrative leave now requires the employee’s Vice President and the UConn Health Vice President of Human Resources joint approval. Additionally, UConn Health Vice President of Human Resources receives a weekly Administrative Leave Report from Employee and Labor Relations. The weekly report is used to monitor the progress of investigations and time that an employee is placed on administrative leave. We believe the above actions will allow the agency to monitor and manage this process in an efficient manner.”

Rehire of Retired State Employees

- Background:* During the period from July 1, 2011 through June 30, 2016, UConn Health employed 167 retired state employees. UConn Health has a policy regarding the reemployment of retirees that is slightly different from Governor Rell’s Executive Order 27-A.
- Criteria:* Governor Malloy’s Executive Order No. 47 reaffirms Governor Rell’s Executive Order 27-A, which limits the rehire of retirees to no more than two 120-day periods for any individual retiree. The Office of Policy and Management General Notice No. 2006-18 established a Core-CT job code (1373VR) to allow proper tracking of rehired retirees.

The UConn Health policy limits the rehire of retirees to no more than three 120-day calendar years. In addition, UConn Health disallows annual salary increases and the use of state appropriations to fund the reemployment of retirees. Rehired retiree compensation rates should not exceed 75% of the individual's preretirement salary or the established minimum salary, if the retiree works in a different position.

Condition:

We reviewed the rehire of 8 retirees who remained active on UConn Health's payroll roster for 5 to 19 years after their retirement dates. The review disclosed that:

- All 8 retirees were employed for more than two 120-day periods. The job code classification in Core-CT was not accurate for 7 retirees.
- All 8 retirees had hourly wages exceeding 75% of their preretirement salary or the minimum salary of a position different than their former job.
- Retirement of 6 employees did not meet the definition of a bona fide separation of employment. A bona fide separation of employment occurs when both the employee and employer reasonably anticipate that the employee will not perform further services after the employee's retirement date. UConn Health rehired 4 of these employees the day after their retirement dates. The remaining 2 employees specified the terms of their reemployment in the letters informing UConn Health of their anticipated retirement.

We reviewed payments to all rehired retirees and noted 2 instances of faculty incentive payments, which generally are for contractual shares of clinical revenues for on-call hours, totaling \$30,800 in the 2016 fiscal year.

Effect:

UConn Health failed to comply with its policy on reemployment of retirees and Executive Order 27-A. The violation places additional burdens on the state retirement system because it encourages employees to retire early for free health insurance and pension benefits while maintaining a reduced work schedule. The State Comptroller's Office could not properly suspend the employees' retirement benefits, because UConn Health incorrectly coded their reemployment in Core-CT.

Cause:

Some of the retirees were managers and professors whose skills and experience were valuable and necessary for UConn Health to

continue its operations during the transition phase to new management. UConn Health did not have adequate controls to enforce its policy on reemployment of these retirees after the transition to new management.

Recommendation: The University of Connecticut Health Center should reevaluate its practice of rehiring retirees and comply with Governor Rell's Executive Order 27-A. (See Recommendation 10.)

Agency Response: "UConn Health agrees that it did not use accurate job code classifications in Core-CT for all of its rehired retirees. UConn Health has properly re-coded these employees in Core-CT, therefore this condition has been fully rectified. UConn Health agrees that the 8 retirees identified worked more than two 120-day periods after their retirement, but states that such practice is permitted by University policy, which governs UConn Health in this area and reflects the University's need to extend these appointments in certain circumstances including to address patient care needs. The applicable University policy also permits these 8 individuals to be paid hourly wages exceeding 75% of their pre-retirement salaries, and UConn Health notes that all 8 such individuals are unclassified employees and seven of the eight were re-employed prior to the date that Executive Order 27-A went into effect. The eighth employee in fact did have her salary reduced to 75% of her pre-retirement wage."

Auditors' Concluding Comment:

Governor Rell's Executive Order 27-A does not exempt employees who retired from state service prior to July 1, 2009. In addition to the extraordinary length of employment after their retirement dates, most retirees noted in this audit finding do not hold a healthcare position.

Student Activity Fund

Background: UConn Health imposes a \$125 student activity fee on every enrolled student. UConn Health transfers the fee 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 and is responsible for planning extra-curricular activities, as well as allocating and disbursing monies to student organizations for these activities.

Criteria: The State Comptroller's Accounting Procedures Manual for Trustee Accounts, issued in accordance with Section 4-53 of the

General Statutes, establishes procedural requirements for student activity funds.

MDSG should account for income derived from social activities or similar events by using pre-numbered tickets as specified in the State Comptroller's Trustee Account Manual.

Condition: MDSG did not follow the State Comptroller's procedures for cash receipts associated with social events. There was no supporting documentation for MDSG revenue-generating events such as the annual winter formals, or rafting and ski trips. Deposits from these events totaled \$81,057 and \$55,361 in fiscal years 2015 and 2016, respectively.

Effect: The failure to properly account for receipts increases the risk that cash could go missing without being detected.

Cause: Because MDSG officers are students with 1-year election terms, the lack of continuity in MDSG leadership and the lack of UConn Health administrative assistance with recordkeeping caused the repeat of these audit conditions.

Recommendation: The University of Connecticut Health Center should clearly promulgate the State Comptroller's procedures relating to student activity funds. (See Recommendation 11.)

Agency Response: "UConn Health assists the MDSG with basic operational functions including providing a bank account to this organization. Each year, UConn Health meets with incoming officers and provides guidance on how to utilize UConn Health internal services and the associated requirements of being a part of UConn Health. The communicated requirements include a section on proper record keeping including receipts for any funds raised outside of those transferred from UConn Health.

UConn Health will continue to work with MDSG officers to highlight the importance of proper documentation and recordkeeping for revenue generating functions."

Late Deposits

Criteria: According to Section 4-32 of the General Statutes, agencies should deposit receipts of \$500 or more within 24 hours. Total daily receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for more than a period of 7 calendar days.

Condition: We noted several instances in which funds were not deposited within 24 hours of receipt.

- In the review of the Graduate Medical Education Residency Program, we found that 21 out of 24 receipts greater than \$1 million were deposited 1 to 5 days late. The late deposits totaled \$30,629,847.
- In the review of the Medical Dental Student Government account, we found that 7 out of 15 receipts were deposited 1 to 3 days late. The late deposits totaled \$113,347.
- In the review of the Creative Child Care account, we found that all 15 receipts were deposited 1 to 4 days late. The late deposits totaled \$124,896.

Effect: The untimely deposits violated Section 4-32 of the General Statutes and increased the risk of loss.

Cause: Other departments that received funds at various locations did not forward them to the Bursar's Office in a timely manner. Recent workforce reductions prevented employees at these locations from bringing funds to the Bursar's Office in a timely manner. The Bursar's Office did not use remote deposit, which could eliminate the need to deliver checks to the bank.

Recommendation: The University of Connecticut Health Center should deposit all receipts in a timely manner and fully comply with Section 4-32 of the General Statutes. (See Recommendation 12.)

Agency Response: "UConn Health transacts business across a large number of facilities throughout the State and on its main campus in Farmington. At the same time, UConn Health utilizes only two institutional cashiers, located in different buildings on its Farmington campus. This decentralization, combined with staff responsibilities can make it difficult for departments to bring items to the cashier daily. UConn Health therefore requests, and receives, a waiver from the State Treasurer each year for additional time to make its deposits. UConn Health believes many of the deposits cited fall within the period covered by this waiver.

In regards to the additional late deposits noted, UConn Health will work with the departments noted in an attempt to decrease the lag on deposit times. UConn Health will also prepare and distribute information on timely deposits to the UConn Health community and create targeted training on deposit requirements."

Participation in Group Purchasing Organizations

- Background:* A group purchasing organization (GPO) is marketed to be an arrangement in which members expect to benefit from vendor discounts created by the collective purchasing power. A GPO ranks its members by tiers of monthly spending in order to provide higher discount percentages to members with larger monthly spending.
- Criteria:* To maximize savings, sound business practice requires UConn Health to perform regular qualitative and quantitative assessments of the benefits afforded by its participation in a GPO versus buying directly from manufacturers.
- Condition:* UConn Health purchased 2 pieces of medical equipment with values greater than \$50,000 through GPOs without documentation of competitive pricing consideration. We did not find evidence that UConn Health performed periodic quantitative and qualitative assessments to evaluate the benefits from purchasing through GPOs rather than purchasing directly from other medical suppliers.
- Effect:* Continuous participation in GPOs without sufficient assessment of UConn Health's potential purchasing power and other available offers could result in higher costs.
- Cause:* Purchasing through GPOs was convenient due to established distribution channels and employees' familiarity with the ordering process. Limited procurement resources may have prevented UConn Health from reviewing other alternatives.
- Recommendation:* The University of Connecticut Health Center should perform periodic assessments of its purchasing power and available product offers to determine whether it is prudent to continue procuring from group purchasing organizations. (See Recommendation 13.)
- Agency Response:* "UConn Health's Procurement & Supply Chain Operations Department does periodic checks to confirm that we are receiving both competitive pricing and high quality products through our group purchasing organizations. In addition to outright cost savings, our participation in GPOs saves a significant amount of staff time and effort by enabling us to purchase off of pre-negotiated contracts. Our primary GPOs are utilized for purchases to support UConn Health's clinical operations. Because our clinical needs differ significantly from the needs of most other State of Connecticut agencies, UConn Health often has unique contracting requirements. In the past, the Procurement Department

has satisfied internal business needs through informal documentation of price benchmarking. Although it would not be cost-effective for us to formally document all of our price comparisons, as a result of this audit comment the Procurement Department will retain formal documentation of its comparisons of price and other factors (such as quality) for certain higher value purchases as well as some randomly-selected purchases made against GPO contracts. UConn Health will evaluate the results of this more formalized process to determine future actions.”

Inadequate Independent Pricing of Contract Amendments and Segregation of Duties.

Criteria: UConn Health operates in an environment of limited resources and should take steps to avoid paying too much for goods and services.

Additionally, segregation of duties between the initiation, evaluation, and approval of transactions assists in ensuring that transactions are processed in accordance with management’s intentions.

Condition: In November of 2013, UConn Health entered into a contractual agreement for the fit out of the UConn Health Outpatient Pavilion (formerly known as the Ambulatory Care Center) that established a guaranteed maximum price of \$54,459,356. Upon completion of this project, UConn Health adjusted the contract price 34 times, with more than 200 changes, increasing the final price to more than \$59,000,000.

When reviewing the process for additional price adjustments, we found no evidence that UConn Health purchasing professionals independently prepared or reviewed the reasonableness of the costs of construction changes.

Additionally, the UConn Health Campus Planning, Design and Construction Unit initiated the requests for construction changes and evaluated the proposals submitted for the changes. This division was also involved in assessing the reasonableness of the change order pricing and approved the work performed under amendments as acceptable.

Effect: The lack of involvement by purchasing professionals in the preparation and review of independent calculations of the reasonableness of contract amendments increases the risk of overpayments.

The lack of segregation of duties increases the risk that transactions can be processed in a manner inconsistent with UConn Health's intentions.

Cause: UConn Health appears to believe that the review performed by the architect for the project and the external construction manager is adequate to protect its interests.

Recommendation: The University of Connecticut Health Center should establish procedures that require a segregation of duties in the area of construction contract amendments and the pricing of such contract amendments by integrating state-employed purchasing professionals into a process that includes independent calculation and review of increases in construction project costs. (See Recommendation 14.)

Agency Response: "UConn Health does not rely solely on the review performed by the architect and the external construction manager to protect its interests. Rather there are additional critical internal review sources that are part of a comprehensive overall review process. In addition to being reviewed by the outside architect (who has a contractual obligation to review such documents on behalf of UConn and provide their professional opinion) and the Construction Manager, all construction Change Orders are reviewed by the UConn Health Project Manager, the Director of Construction Services, and the Associate VP of Campus Planning, Design & Construction. Each of these management individuals reviewing Change Orders on behalf of UConn Health is a construction professional, a licensed State of Connecticut Architect, with deep knowledge and experience in evaluating construction change proposals. For this project the change proposals were also reviewed by Jacobs Engineering's Senior Project Manager, and Budget Manager, again construction professionals with expertise in review of such matters.

UConn Health procurement professionals are also a critical part of the review process responsible for independently confirming that the total value of the change order(s) submitted by Campus Planning and attached to each HuskyBuy COR matches the amount of the requested increase or decrease to the Purchase Order but they do not possess the construction management expertise necessary to calculate or evaluate construction changes and related costs.

The expertise for construction management resides in the Campus Planning department, thus Campus Planning is responsible for

review and evaluation of construction change proposals. We believe the comprehensive review process we have in place is adequate to protect UConn Health interests.”

*Auditors’ Concluding
Comment:*

Our review of construction change orders did not reveal the level of thoroughness and segregation of duties sufficient to achieve the highest possible savings and lowest risks for UConn Health. We urge UConn Health to consider additional procedures to provide for a segregation of duties and involvement of state-employed purchasing professionals to ensure that change order costs are reasonable.

Potential Conflict of Interest

Criteria:

In an effort to protect the financial interests of the state, anyone authorizing payments to contractors and certifying that work is complete, should be free from undue pressure to approve such payments.

Condition:

During our testing of expenditures at UConn Health, we noted that in December 2014, UConn Health paid a consulting firm for one of its equity owners to serve as Interim Executive Vice President and Chief Executive Officer of UConn Health. UConn Health increased the consulting company’s contract to \$562,500 to pay for this arrangement.

Upon review of documents authorizing payments to the consulting company, we concluded that 1 of the 2 UConn Health employees authorizing the payments had his annual employee performance evaluation prepared by the Interim Executive Vice President for Health Affairs while he still worked for the consulting company. The Interim Executive Vice President for Health Affairs also approved salary increases for both of the UConn Health employees who authorized payments to the consulting company where he still worked.

Effect:

Having a person who also works for a consultant prepare and approve an annual performance evaluation and salary increases of UConn Health employees who authorized payments to that consultant created a risk that the UConn Health employees may have felt compelled to authorize those payments.

Cause:

UConn Health did not adequately consider the potential conflict of interest when allowing a consultant to approve 1 of the 2 UConn

Health employees' performance evaluations and both employees' salary increases.

Recommendation: The University of Connecticut Health Center should not allow a consultant to prepare performance evaluations and approve salary increases of the employees who authorize payments to the consultant. (See Recommendation 15.)

Agency Response: "UConn Health agrees with the recommendation of the Audit; however, would note several mitigating factors specific to the situation documented in this finding: a) The amounts approved for payment to the consulting company were agreed upon in advance of performance detailed in the contract amendment; b) The amounts paid were for the continuation of services that were already being provided by the consultant under contract – both the Finance Corporation Board and the Board of Directors approved the contract amendment to extend the engagement, having an opportunity to previously evaluate the services provided by the consultant; c) The performance review completed during that time by the Interim Executive Vice President for Health Affairs was at the tail of the engagement when discussions were already underway to retain him as a full-time UConn Health employee; and d) The raises approved by the consultant were within the range of raises for all eligible managerial employees at that time."

RECOMMENDATIONS

In the prior audit report, we presented 12 recommendations pertaining to University of Connecticut Health Center's operations. Six of the prior recommendations have been implemented, and the remaining 6 recommendations are being repeated in modified form. As a result of our current examination, we have included 15 recommendations.

Status of Prior Audit Recommendations:

- **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.** This recommendation has been implemented.
- **The University of Connecticut Health Center should maintain custody of bids and proposals until they are opened publically.** This recommendation has been implemented.
- **The University of Connecticut Health Center should solicit competition among qualified parties prior to entering into significant contractual obligations.** This recommendation has been implemented.
- **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.** This recommendation is being restated and repeated. (See Recommendation 4)
- **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.** This recommendation is being restated and repeated. (See Recommendation 5)
- **The University of Connecticut Health Center should eliminate SERS managerial employees from their employer-provided long-term disability plan.** This recommendation is being modified and repeated. (See Recommendation 6.)
- **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.** This recommendation is being repeated. (See Recommendation 7.)
- **The University of Connecticut Health Center should strengthen internal controls for equipment 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. UConn Health has taken action to submit Form CO-853; however, the current review found other deficiencies related to the disposals of equipment. This recommendation is being modified and repeated. (See Recommendation 8)

- **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.** We did not identify the conditions upon which this recommendation was based in the current audit. This recommendation is not being repeated.
- **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.** We did not identify the conditions upon which this recommendation was based in the current audit. This recommendation is not being repeated.
- **The University of Connecticut Health Center should develop control procedures and minimum documentation standards to assist in ensuring the propriety of managerial salaries.** This recommendation has been implemented.
- **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.** This recommendation is modified and being repeated. (See Recommendation 11)

Current Audit Recommendations:

1. **The University of Connecticut Health Center should enforce its requirements for proposal evaluators to certify and adequately comment on contract proposal scores. UConn Health should rebid contracts when their value has become significantly higher than the initial contract budget.**

Comment:

We found numerous instances in which the evaluation of contract proposals did not contain evaluator names, signatures, or adequate explanations to support proposal scores and contract award decisions. We also found an instance in which a contract budget was significantly lower than the contract award value.

2. **The University of Connecticut Health Center should improve the management of purchase orders so that they can reflect the correct contract terms and assist with the timely payment of invoices. UConn Health should record late payment penalties in a separate account to allow proper monitoring.**

Comment:

We noted instances in which UConn Health revised purchase orders multiple times because there were insufficient funds to pay the outstanding invoices. UConn Health did not record late payment penalties in a separate administrative account.

- 3. The University of Connecticut Health Center should improve coordination among various departments to take advantage of prompt payment discounts. UConn Health should hold vendors to their payment and discounts terms.**

Comment:

UConn Health could not take advantage of many prompt payment discounts. UConn Health did not hold a vendor to its original offer of payment terms.

- 4. The University of Connecticut Health Center should ensure that invoice prices and quantities are supported, and can be verified for accuracy and compliance with contract terms.**

Comment:

We noted instances in which we could not trace invoices to published price lists, discount percentages, or contracted employees' timecards. On other occasions, the invoice approvers used different contracts than those referenced in the purchase orders.

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

Comment:

UConn Health continued to pay cash for compensatory leave balances of managerial employees and other bargaining contract employees whose bargaining contracts did not authorize the payments.

- 6. The University of Connecticut Health Center should stop paying for long-term disability insurance for managerial employees. UConn Health should renegotiate bargaining contracts to avoid payments for benefits that are already part of the State Employees Retirement System.**

Comment:

UConn Health continues to provide long-term disability coverage for approximately 27 managerial employees hired prior to November 1, 2011, and for union employees whose disability retirement benefits were included in the State Employee Retirement System.

- 7. The University of Connecticut Health Center should ensure that it appropriately tracks all capitalized and controllable assets. UConn Health should train managers so that they can fully understand the inventory recordkeeping process and are held responsible for missing equipment under their purview.**

Comment:

We found incomplete recordkeeping of capital and controllable inventory. In addition, UConn Health policy does not include controllable items highly susceptible to theft other than computers and firearms.

- 8. The University of Connecticut Health Center should strengthen internal controls over the disposition of equipment. All disposals must be properly authorized.**

Comment:

Approximately 60% of tested disposed items either did not have disposal forms or the disposal forms did not include the appropriate approval signatures. Items with a service status of discarded or obsolete remained on campus and continued to appear on the inventory records for up to 857 days after the disposal dates.

- 9. The University of Connecticut Health Center should make an effort to complete disciplinary investigations in a timely manner.**

Comment:

Eight employees' paid administrative leave lasted 3 to 5 months during disciplinary investigations.

- 10. The University of Connecticut Health Center should reevaluate its practice of rehiring retirees and comply with Governor Rell's Executive Order 27-A.**

Comment:

Eight retirees continued their employment in excess of limits established by UConn Health policy and Executive Order 27-A.

- 11. The University of Connecticut Health Center should clearly promulgate the State Comptroller's procedures relating to student activity funds.**

Comment:

The Medical Dental Student Government (MDSG) was not following the State Comptroller's procedures for cash receipts associated with social events.

12. The University of Connecticut Health Center should deposit all receipts in a timely manner and fully comply with Section 4-32 of the General Statutes.

Comment:

We found several instances of late deposits.

13. The University of Connecticut Health Center should perform periodic assessments of its purchasing power and available product offers to determine whether it is prudent to continue procuring from group purchasing organizations.

Comment:

There were no periodic analytical procedures to prove that group purchasing organizations (GPOs) offered savings greater than direct purchases from medical suppliers. In its three-year agreement with a GPO distributor, there was no indication that UConn Health factored its plan for growth in its negotiation for a lower mark-up rate.

14. The University of Connecticut Health Center should establish procedures that require a segregation of duties in the area of construction contract amendments and the pricing of such contract amendments by integrating state-employed purchasing professionals into a process that includes independent calculation and review of increases in construction project costs.

Comment:

UConn Health purchasing professionals were not included in the review of change order costs on construction projects to ensure their reasonableness.

15. The University of Connecticut Health Center should not allow a consultant to prepare performance evaluations and approve salary increases of the employees who authorize payments to the consultant.

Comment:

UConn Health did not adequately consider a potential conflict of interest when allowing a person who worked for a consulting company to evaluate and approve salary increases of employees who authorized payments to the consulting company.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Frederick Armour
Tyler J. Flanagan
Thu Ann Phung
Samantha S. Smith
Linnette Stark

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.



Thu Ann Phung
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor