

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE
CONNECTICUT STATE UNIVERSITY
WESTERN CONNECTICUT STATE UNIVERSITY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2003 AND 2004**

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

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September 13, 2006

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FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

We have examined the financial records of Western Connecticut State University (University) for the fiscal years ended June 30, 2003 and 2004.

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

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

Western Connecticut State University is one of four institutions that collectively form the Connecticut State University, and is responsible to the Board of Trustees for the Connecticut State University, a constituent unit of the State system of higher education. Located in Danbury, Connecticut, Western Connecticut State University consists of two campuses, the Midtown campus and the Westside campus.

The University operates primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes. Dr. James R. Roach served as University President during the audited period. Dr. James W. Schmotter was appointed University President on August 1, 2004.

Recent Legislation:

The following notable legislative changes took effect during the audited period:

Public Act 02-107, effective July 1, 2002, amended various sections of the General Statutes to eliminate the terms activity fund and welfare fund, and to designate such funds as trustee accounts.

Public Act 02-140, Section 1, codified as Section 10a-151b, subsection (i), of the General Statutes, defines that funds or revenues collected between the period from July 1, 2002 to June 30, 2006, from ticket sales by the contractor hired by the University to operate and manage its O'Neill Center, shall not be deemed to be State funds for the purposes of Sections 4-32 and 4-33 of the General Statutes. These funds may be deposited in the contractor's account for a period not to exceed forty days to pay all expenses related to the event for which the tickets were sold. The contractor must make an accounting of the portion of the funds to be remitted to the University pursuant to the terms of the contract. Section 2, amended Section 10a-151b, subsection (b), of the General Statutes to allow constituent units of public higher education purchase authority to accept electronic bids, quotations, and proposals. Section 2 further states that if sealed bids or proposals are received electronically, they shall be maintained within a safe and secure electronic environment until such time as they are publicly opened. These Sections of the Act became effective July 1, 2002.

Public Act 03-33, Section 2, codified as Section 10a-99, subsection (h), of the General Statutes allows students called to active duty in the armed forces during any semester to reenroll in any course for which they paid tuition but did not complete because of their active duty status. Students have four years from the date of release from active duty to reenroll. This Section of the Act is effective from its passage, May 12, 2003.

Enrollment Statistics:

Enrollment statistics compiled by the University showed the following enrollments for full-time and part-time students during the two audited years:

	<u>Fall 2002</u>	<u>Spring 2003</u>	<u>Fall 2003</u>	<u>Spring 2004</u>
Full-time undergraduate	3,722	3,479	3,814	3,522
Full-time graduate	<u>44</u>	<u>40</u>	<u>93</u>	<u>103</u>
Total full-time	<u>3,766</u>	<u>3,519</u>	<u>3,907</u>	<u>3,625</u>
Part-time undergraduate	1,552	1,378	1,422	1,374
Part-time graduate	<u>732</u>	<u>781</u>	<u>750</u>	<u>736</u>
Total part-time	<u>2,284</u>	<u>2,159</u>	<u>2,172</u>	<u>2,110</u>
Total Enrollment	<u>6,050</u>	<u>5,678</u>	<u>6,079</u>	<u>5,735</u>

RÉSUMÉ OF OPERATIONS:

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

- The University Operating Fund
- Grants Fund
- State Capital Project Funds

Operations of the University were primarily supported by appropriations from the State's General Fund and by tuition and fees credited to the University Operating Fund. During the audited period, General Fund appropriations were not made to the University directly. Rather, General Fund appropriations for the entire Connecticut State University, primarily for personal services and related fringe benefits, were made available to the System's Central Office, where allocations of this amount were calculated, and transfers of these funds were made periodically to the campuses' Operating Funds.

The financial information reported in the section below is derived from the Connecticut State University System's combined financial statements, which are audited by an independent public accounting firm.

Beginning with the fiscal year ended June 30, 2002, the University adopted Governmental Accounting Standards Board Statements No. 34 and No. 35. These statements made significant changes to the reporting model and changed the presentation of the University's financial statements from a multi-column format to a single-column format.

The University financial statements are adjusted as necessary, combined with those of the State's other institutions of higher education and incorporated in the State's Comprehensive Annual Financial Report as an enterprise fund. Significant aspects of the operations of the University, as presented in the Agency prepared financial statements, are discussed in the following sections of this report.

Operating Revenues:

Operating revenue results from the sale or exchange of goods or services that relate to the University's primary function of instruction, academic support and student services.

Operating revenue as presented in the University's financial statements for the audited period follows:

	<u>2002-2003</u>	<u>2003-2004</u>
Tuition and fees (net of scholarship allowances)	\$20,996,246	\$24,673,485
Federal grants and contracts	2,398,509	2,397,147
State and local grants and contracts	1,233,993	1,305,654
Non-Governmental grants and contracts	1,000	26,175
Indirect cost recoveries	430	3,840
Auxiliary revenues	8,244,829	8,921,741

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Other sources	<u>1,936,343</u>	<u>19,033,330</u>
Total operating revenues	<u>\$34,811,350</u>	<u>\$56,361,372</u>

Under the provisions of Section 10a-99, subsection (a), of the General Statutes, tuition and fees were fixed by the University’s Board of Trustees. The following summary presents annual tuition charges during the 2002-2003 and 2003-2004 fiscal years.

Student Status	2002-2003			2003-2004		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$2,313	\$7,485	\$3,470	\$2,648	\$8,570	\$3,972
Graduates	2,880	8,027	4,320	3,298	9,190	4,947

The following summary presents the annual General, State University, and Information Technology Fees, which are also included within the operating revenues category of tuition and fees.

Fees	2002-2003			2003-2004		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
General	\$1,116			\$1,307		
State University	706	1,736	706	732	1,798	732
Information Technology	200			218		

The Housing Fee and Food Service Fee, required of resident students, are included in the operating revenues category titled “Auxiliary revenues”. The following summary presents the average annual Housing Fee (double occupancy) and Food Service Fee during the audited period.

Fees	2002-2003	2003-2004
Housing	\$3,590	\$3,830
Food Service	2,610	2,720

The other sources category of operating revenue primarily consists of internal revenue transfers and reclassifications between funds.

The increase in the tuition and fees category of \$3,677,239 in the fiscal year 2003-2004 was primarily the result of an increase in the University’s fee structure. As presented above, the University’s full-time tuition charge increased by fourteen percent between the fiscal years 2002-2003 and 2003-2004. In addition, the University’s General fees and University fees increased by seventeen and four percent, respectively, during the same time-period.

The increase in the other sources category of \$17,096,987 was primarily the result of a reclassification of bond transfers for payments made.

Operating Expenses:

Operating expenses generally result from payments made for goods and services to assist in achieving the University's primary function of instruction, academic support and student services.

Operating expenses include employee compensation and benefits, supplies, services, utilities and depreciation. Operating expenses as presented in the University's financial statements for the audit period follow:

	<u>2002-2003</u>	<u>2003-2004</u>
Personal service and fringe benefits	\$49,500,843	\$49,439,031
Professional services and fees	2,738,998	2,985,728
Educational services and support	5,160,941	5,402,617
Travel expenses	863,670	1,010,870
Operation of facilities	8,437,304	7,361,009
Other operating supplies and expenses	2,270,516	6,949,985
Depreciation expense	<u>5,850,634</u>	<u>5,769,158</u>
Total operating expenses	<u>\$74,822,906</u>	<u>\$78,918,398</u>

Nonoperating Revenues:

Nonoperating revenues are those revenues that are not from the sale or exchange of goods or services that relate to the University's primary function of instruction, academic support and student services. Nonoperating revenues include items such as the State's general fund appropriation, gifts, investment income and other nonoperating revenues.

Nonoperating revenues as presented in the University's financial statements for the audited period follow:

	<u>2002-2003</u>	<u>2003-2004</u>
State appropriations	\$31,158,615	\$32,513,134
Gifts	210,592	114,343
Investment income	318,460	151,598
Other nonoperating revenues	6,572	274,249
State financial plant facilities	<u>132,308</u>	<u>4,521,240</u>
Total nonoperating revenues	<u>\$31,826,547</u>	<u>\$37,574,564</u>

In addition to the operating and nonoperating revenues presented above, the University's financial statements also disclosed revenues classified as State appropriations restricted for capital purposes totaling \$6,303,155 and \$2,307,880 for the fiscal years ended June 30, 2003 and 2004, respectively.

University Foundation of Western Connecticut, Inc.:

The University Foundation of Western Connecticut, Inc. (the Foundation) is a private corporation established to secure contributions, bequests and donations from private sources for the purposes of support, promotion and improvement of the educational activities of Western Connecticut State University.

Sections 4-37e through 4-37k of the General Statutes set requirements for organizations such as the Foundation. The requirements include and deal with the annual filing of an updated list of board members with the State agency for which the foundation was established, financial record keeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning use of facilities and resources, compensation of State officers or employees, and the State agency's responsibilities with respect to foundations.

Audits of the books and accounts of the Foundation were performed by an independent certified public accounting firm for the fiscal years ended June 30, 2003 and 2004, in accordance with Section 4-37f, subsection (8), of the General Statutes. We were provided with two audit reports on Foundation operations, one for each of the audited years. Both reports disclosed no material inadequacies in the Foundation records and indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes.

CONDITION OF RECORDS

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

Personal Service Agreements:

Criteria: The Connecticut State University System's Personal Service Agreement Procedures Manual sets forth requirements relating to personal service agreement contracts. This manual states, "The Personal Service Agreement (PSA) Form is used for the commitment of funds concerning all non-employment contracts for personal services that are over \$3,000 and are not issued on a Purchase Order... The Attorney General's Office reviews and approves all PSA's in excess of \$3,000 cumulative over any rolling twelve-month period." In regards to the payment for services, the Manual states "...the vendor's invoice along with Voucher/Disbursement Request form must be submitted to the Accounts Payable Department for payment to be made after services are rendered." The manual further states, "The voucher must be signed by the requester of services, attesting that services have been rendered. The voucher must also be signed by the person authorized to charge against the Banner account in question."

Section 1-84, Subsection (i), of the General Statutes states that "No public official or state employee or member of his immediate family or a business with which he is associated shall enter into any contract with the state, valued at one hundred dollars or more, other than a contract of employment as a state employee or pursuant to a court appointment, unless the contract has been awarded through an open and public process, including prior public offer and subsequent public disclosure of all proposals considered and the contract awarded."

Conditions: Our review of a sample of ten personal service agreement contracts disclosed the following:

We noted six instances, where the University contracted for services exceeding \$3,000 without completing the required Personal Service Agreement Form. Consequently, in all six instances noted these service contracts were not reviewed and approved by the Attorney General's Office. In one of these instances, the University contracted with and paid a State employee as an independent contractor without competitively bidding the contract. In another instance, the University did not have a contract that was signed by both parties on file at the time of the performance.

We noted five instances where the University's Accounts Payable Department processed a payment without obtaining one or more of the required budget authority signatures attesting that the services have been rendered.

We noted one instance, where the purchase requisition was approved after services were begun. In addition, there was no encumbering document or contract on file stipulating the terms of the contract.

We noted one instance, where a University official certified that the services were performed and approved the payment prior to the completion of the services.

We noted another instance where a personal service agreement was approved by one of the necessary parties after corresponding services had begun.

Effect: The University did not comply with its established policies and procedures, which weakens internal control, and increases the likelihood that inappropriate personal service expenditures may be made and not detected by management.

Cause: Internal control policies were not being followed.

Recommendation: The University should improve internal controls over personal service agreements and comply with the procedures promulgated in the Connecticut State University System's Personal Service Agreement Procedures Manual. (See Recommendation 1.)

Agency Response: "The University agrees with this finding. A new Connecticut State University (CSU) system wide Purchasing Manual has been developed, implemented, and training has been made available to all University employees starting in February 2006. Implementation of the new manual, subsequent training, and the introduction of a new Personal Service Agreement (PSA) form are designed to improve our internal controls over Personal Service Agreements. In 2005, the responsibilities for processing PSA's were reassigned and this process now works collaboratively with the Purchasing department."

Travel Expenditures:

Criteria: The Connecticut State University System's Travel Policy and Procedures Manual sets forth requirements relating to travel-related expenditures. This manual states, "An approved Travel Authorization Form should be submitted to the Travel Office at least two (2) weeks prior to travel... Reimbursement for meals and incidentals will be based on current GSA

rates broken down as specified in the Federal Travel Regulations.... Bids for group travel should be solicited through the Purchasing Office.” In regards to reimbursement, the manual states “Reimbursement of actual expenses incurred via a Travel Reimbursement Form must be completed within 15 business days after the completion of a trip if a travel advance is taken, or 30 calendar days after the completion of the trip if an advance is not taken.”

Conditions: Our review of a sample of ten travel-related expenditures disclosed the following:

We found two instances where the required travel authorization was either approved after the travel had been completed or was never completed.

We found one instance where the incorrect meal per diem was used to calculate an employee’s meal allowance.

We found one instance where the University did not bid a group’s airfare or document that the price they obtained directly from the airline carrier was the lower cost airfare.

We found two instances where the employee did not submit a completed travel reimbursement form with the required documentation to the Travel Office within 30 calendar days after completion of the trip. The number of days late ranged from 7 to 36 days. In another instance, an employee’s reimbursement was processed without completing the required travel reimbursement form.

Effect: The University did not comply with its established policies and procedures, which weakens internal control, and increases the likelihood that inappropriate travel expenditures may be made and not be detected by management.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with established policies and procedures and improve internal control over travel-related expenditures. (See Recommendation 2.)

Agency Response: “The University agrees with this finding. The travel office has conducted periodic training, University wide, to reinforce their policies and procedures. Continued awareness of these policies along with appropriate adherence to the deadlines for submittal and proper documentation of the circumstances leading to travel approval will improve internal control over travel related expenditures.”

Procurement:

Criteria: Section 10a-151b of the General Statutes governs the purchase of equipment, supplies, and contractual services, and execution of personal service agreements by constituent units of higher education.

The University's Food Service Policy requires the submission of a Food Service Policy Form when the payment for food service is to be made from University funds.

The University's Purchasing Manual states that "The purchase requisition represents the document necessary to begin the procurement process. A requisition is necessary for all purchased products/services except office supply items ordered via the internet..."

The purchase order is the primary commitment document with respect to acquisitions of supplies, equipment, materials, and services. Commitment documents should be properly authorized prior to the shipment and billing of goods or services.

The Connecticut State University System's Personal Service Agreement Procedures Manual provides additional guidance in this area.

Conditions: Our sample for procurement testing consisted of 20 expenditures for the audited period. Our testing disclosed the following:

We noted one instance, where the University did not complete the required Food Service Policy Form.

We noted two instances, where the University processed an expenditure transaction without the issuance of a purchase order. In one of these instances, the authorized budget authority did not approve the expenditure for payment.

In another instance, equipment was ordered and partially delivered to the University before the purchase order was authorized.

We noted an instance, where the University processed a service related expenditure totaling \$917,280 without completing the required Personal Service Agreement Form. The language on the purchase order made reference to a four page letter of agreement, which outlined specific legal conditions and services to be provided by the University and vendor.

We noted two instances, where the University did not take advantage of a billing discount, which provided for a one percent discount for remitting payment within ten days of the invoice date.

Effect: The University is not in compliance with established policies and procedures.

Cause: With respect to the cases cited, established control procedures in the area of procurement were not adequately carried out.

Recommendation: The University should take steps to improve internal control over the procurement process and comply with established policies and procedures. (See Recommendation 3.)

Agency Response: “The University agrees with this finding. A new CSU system wide Purchasing Manual has been implemented, and training has been made available to all University employees. This new manual, in its scope, is designed to establish stronger guidelines and promote overall compliance within the noted areas.”

Accounts Receivable:

Criteria: Sound business practices require that the University attempt to collect all outstanding debts.

The University has established procedures for the collection of student accounts receivable. These procedures require that at least two internal collection attempts be made before an account is sent to an outside collection agency.

Conditions: Our review of a sample of 25 students with individual account receivable balances disclosed the following:

Two students’ collection files were missing. Therefore, we were unable to ascertain if the University complied with its established collection policies and procedures.

Two students with individual account receivable balances were not sent to an outside collection agency after a series of internal collection letters were unsuccessful.

One student’s account receivable balance was discharged in a bankruptcy proceeding in July 2000 and was never written-off. The student’s account was listed as active and included in the accounts receivable balance as of June 30, 2004.

Effect: The University did not comply with its established policies and procedures, which weakens internal control. Furthermore, the University may never collect outstanding receivables, which may result in the loss of

revenue. Errors to account receivable records result in inaccuracies with the financial statements.

Cause: Internal control policies were not being followed.

Recommendation: The University should follow its established policies for the collection and write-off of student accounts receivable. (See Recommendation 4.)

Agency Response: “The University agrees with this finding. The University continues to enhance processes, procedures and reports within the accounts receivable area. As problems have been identified in the collection process, corrective action has been taken. A formal write-off/collection procedure for writing off account balances that are in bankruptcy will be drafted by the Coordinator of Bursar Services.”

Equipment Inventory:

Criteria: The State of Connecticut’s Property Control Manual, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a State agency.

The Connecticut State University System’s Capital Valuation and Asset Management Manual provides policies and procedures for physical and reporting controls over capital assets.

Conditions: Our current audit examination of the University's property control system disclosed the following:

Certain amounts presented on the annual Fixed Assets/Property Inventory Report (CO-59) either contained errors or could not be readily traced to supporting documentation.

From a sample of 36 equipment items purchased during the audited period, the value of 15 equipment items were reported on the property control records at the incorrect amount. One equipment item was not tagged and the asset’s serial number was not recorded on the property control records.

From a sample of 40 equipment items selected from the inventory records, three equipment items were not tagged and the assets’ serial numbers were not recorded on the property control record. Further review of this condition, revealed other assets purchased on the same purchase orders with the same condition.

From a sample of 27 equipment items identified by a random inspection of the premises, we found the following conditions. One equipment item was

not tagged and the asset's serial number was not recorded on the property control records. Further review of this condition, revealed 16 other equipment items with the same condition. One equipment item found on the premises was certified as being disposed of several months prior to our inspection. Another asset was listed as being active on the property control records but had a value reported as zero. Based upon our review of other equipment items with similar characteristics, including acquisition date and asset description, the amount of this item appears to have a value between \$1,500 and \$4,000.

From a sample of 25 disposed equipment items, the University disposed of all the items prior to obtaining one of the required authorization signatures. In two instances, which contained 11 items from our sample, we also found that the University was authorizing the disposal form after the items were removed from the premises. In addition, we noted one instance where the University did not retain the required documentation supporting the trade-in of equipment.

Effect: The University's property control records are not in compliance with established policies and procedures. The conditions described above weaken internal control over equipment and increases the likelihood that the loss of equipment may occur and not be detected by management.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over capital assets. (See Recommendation 5.)

Agency Response: "The University agrees with this finding. The University will continue to enhance processes, communication, and reconciliation of fixed assets. The process to compile the necessary data to complete the CO-59 reporting is not fully automated and comes from various sources. Diligent collaborated efforts have been made to improve internal reporting in order to accurately capture the complex accounting data. Goods are no longer being disposed of or declared surplus until the appropriate forms are signed. Internal control continues to strengthen with the frequent communication between various departments discussing and addressing potential reporting difficulties and establishing solutions and controls."

Construction Projects Administered by the University:

Criteria: The Department of Public Works' (DPW) Guidelines and Procedures Manual for Agency Administered Projects requires that an agency submit to the DPW's Special Projects Unit a Certificate of Compliance Form for all completed projects that exceed \$50,000.

The State of Connecticut's Property Control Manual sets forth specific policies regarding the valuation of construction projects administered by the University. The Manual states, "The recorded asset cost should include the purchase or construction cost, professional fees for architects, attorneys, appraisers, or financial advisors, and any other expenditures necessary to put a building or structure into its intended state of operation."

The Connecticut State University System's Capital Valuation and Asset Management Manual provides additional guidance in this area.

Conditions: Our current audit examination of construction projects administered by the University disclosed the following:

From a sample of five construction projects administered by the University, we found that in all five instances the required Certificate of Compliance Form was not on file.

In addition, we found an instance where the project was reported at the incorrect cost on the annual Fixed Assets/Property Inventory Report (CO-59). The project did not include all the costs necessary to put a building or structure into its intended state of operation. In this instance, the University omitted the cost of mechanical and engineering design services, totaling \$25,700, from the total cost of the project.

Effect: The University did not comply with established policies and procedures, which weakens internal control. The value of one construction project administered by the University was reported incorrectly to the State Comptroller.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with established policies and procedures and improve internal control over University administered projects. (See Recommendation 6.)

Agency Response: "The University agrees with this finding. The above five referenced Certificate of Compliance Forms have been completed and submitted. In addition, verification was made to ensure that Certificate of Compliance Forms were completed and on file for those agency administered projects which had been completed over the previous five years. We are currently up-to-date on all agency administered projects and have adopted Department of Public Works (DPW) 'Checklist for duties by DPW and Agency Representatives' into our project guidelines, in order to increase internal control. In addition, increased diligence between various

departments will continue to improve the capitalization of expenditures appropriately.”

Software Inventory:

Background: In our last audit report on the University, covering the fiscal years 2000-2001 and 2001-2002, we recommended that the University comply with the software inventory requirements contained in the State of Connecticut’s Property Control Manual. The University did not maintain a software inventory that tracks and controls all of its software media, licenses or end user license agreements, certificates of authenticity, and other related items.

Criteria: The State of Connecticut’s Property Control Manual states that “a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation and related items.” The Manual further states that “each agency will produce a software inventory report on, at minimum, an annual basis.... A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This report will be retained by the agency for audit purposes.”

Condition: During the current audited period, we encountered a similar condition. Subsequently, a University representative informed us that they have implemented some procedural changes that have taken effect in June 2005, which will enhance the University’s control over its software. Since these procedural changes take effect outside of our current audit period, we will review the revised processes and the software inventory during the next audit cycle.

Effect: The University is not in compliance with software inventory requirements contained in the State of Connecticut’s Property Control Manual.

Cause: During the audit period, the University did not track and control their entire software inventory because it was developing new software inventory tracking policies and procedures. We were informed that new control procedures were implemented in the June of 2005.

Recommendation: The University should comply with the software inventory requirements contained in the State of Connecticut’s Property Control Manual. (See Recommendation 7.)

Agency Response: “The University agrees with this finding. WestConn has taken various measures to tighten software distribution procedures and software inventory in terms of compliance with the State of CT’s Property Control

Manual. University Computing (UC) is now using the ‘Property Control Record’ format as outlined in the manual for software inventory. All software purchased at the University is sent by Purchasing, to the Chief Information Officer (CIO) for sign-off. Original software and manuals are now kept in a central location in the UC offices. UC has begun an education effort for faculty and staff so they understand various aspects of the Property Control Manual.”

Financial Data Reported to the State Comptroller:

Criteria: State agencies should provide accurate financial data to the State Comptroller to ensure that the Comptroller's records are accurate.

Condition: Cash transfers from the University’s Operating Fund bank account to its direct disbursement account are classified generically, as direct disbursement expenditures (coded 5-39) when the cash is transferred. Subsequently, when payments are made out of the direct disbursement account, the University advises the State Comptroller of the specific expenditure classifications applicable to the payments made. The State Comptroller’s records are adjusted accordingly, decreasing amounts coded 5–39 and increasing amounts coded to expenditure categories reflecting actual payments made. If this process is working correctly, the total of 5-39 expenditures recorded on the State Comptroller’s records at year-end should equal zero.

During the audit period, the University did not transmit the required information for all direct disbursements made. Accordingly, a portion of the direct disbursement expenditures was not properly classified.

The State Comptroller’s records showed that the University’s generic (5-39) Operating Fund expenditures totaled a negative \$4,581,789 for the 2002-2003 fiscal year instead of showing a total of zero.

For the 2003-2004 fiscal year the State Comptroller’s records showed that the University’s generic Operating Fund expenditures totaled \$2,234,164 instead of showing a total of zero.

Effect: University expenditures were not accurately classified in the State Comptroller's records. This could potentially affect decisions made in reliance on the information shown in those records.

Cause: The University did not follow the State Comptroller’s prescribed procedures to properly account for such direct disbursement expenditures.

Resolution: The University processed an adjustment to account for prior year direct disbursement expenditures with the State Comptroller. The adjustment

will be reflected in the State Comptroller's accounting records for fiscal year 2005-2006.

Agency Response: "The University agrees with this finding and corrected this condition. The University's generic Operating Funds expenditures (classified under Core-CT account code 54810) were reduced to zero on March 16, 2006, and all expenditures were reclassified to the proper account codes."

Internal Control over Receipts:

Background: Our review of the processing of receipts included the examination of monies received by student activity clubs/groups. The examination disclosed the following:

Criteria: Sections 4-52 through 4-55 of the General Statutes set guidelines for the establishment and operation of trustee accounts and authorize the State Comptroller to approve the establishment of such funds in accordance with procedures she prescribes.

The State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds sets forth requirements relating to the revenue/receipts process. The Manual states that "...All cash belonging to the Fund will be deposited within 24 hours after receipt except if otherwise authorized by the State Treasurer, or the total amount is less than \$500. Total daily receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for a period of more than seven calendar days."

Sound internal control procedures call for the maintenance of adequate records of monies received, including documentation of date of receipt.

Condition: We tested the timeliness of 25 bank deposits containing individual receipts originally received by student activity clubs/groups, at locations other than the University's central cashiering office. From this sample, we found 16 instances totaling \$54,722 where the majority of the clubs/groups had no record of the original receipt date. In these cases, we could not determine if the funds were deposited promptly. However, based upon our review of copies of checks received, we determined that deposit delays were possible.

Effect: At these locations there were weaknesses of internal control over receipts. In addition, we could not determine how long monies were held pending deposit. This condition also increased the risk of loss or theft of funds.

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the established local fund policies and procedures and improve internal control over the receipts process. (See Recommendation 8.)

Agency Response: “The University agrees with this finding. Deposits are now date stamped when received by the Cashier’s Office and cash is deposited the day it is received or within the five day deadline according to State Regulations. Deposits greater than \$200 are deposited daily.”

Local Fund Expenditures:

Criteria: Sections 4-52 through 4-55 of the General Statutes set guidelines for the establishment and operation of trustee accounts and authorize the State Comptroller to approve the establishment of such funds in accordance with procedures she prescribes.

In addition to the State of Connecticut’s Accounting Procedures Manual for Activity and Welfare Funds, the University has adopted its own procedures relating to the expenditure/disbursement process. These procedures are outlined in the University’s Student Organization Guidebook.

The Connecticut State University System’s (CSU) Personal Service Agreement Procedures Manual provides guidance for transactions involving the acquisition of personal services.

The Connecticut State University System’s Travel Policy and Procedures Manual set forth requirements for students traveling using local funds.

Condition: Our testing of 25 local fund expenditures disclosed the following:

We noted four instances, where the University contracted for services exceeding \$3,000 without completing the required Personal Service Agreement Form. Consequently, in all four instances noted these service contracts were not reviewed and approved by the Attorney General’s Office.

We found two instances, where travel-related expenditures did not comply with established policy. In both instances, the following conditions were disclosed: The required CSU Travel Authorization Form was not utilized. The University did not bid a group’s airfare or document that the price they obtained directly from the airline carrier was the lower cost airfare. The individual who paid for the group’s airfare was reimbursed several weeks prior to the actual travel period. The organization did not use the required Travel Reimbursement form (CO-17XP) to reconcile expenses incurred on a trip.

We noted two instances where an organization’s meeting minutes did not comply with established policies and procedures. The meeting minutes lacked several required elements.

We noted three instances, where the purchases of equipment items were not properly reported on the inventory system. In two of these instances the equipment items were never recorded on the inventory system. In another instance, an equipment item was recorded on the inventory system at the incorrect amount.

Effect: The University is not in compliance with established procedures. This weakens internal control

Cause: Internal control policies were not being followed.

Recommendation: The University should comply with the established local fund policies and procedures and improve internal control over the purchasing process. (See Recommendation 9.)

Agency Response: “The University agrees with this finding. The University will review current procedures regarding University Student Activity Funds in order to strengthen processes and ensure compliance.”

Other Audit Examination:

In recent years the Board of Trustees of the Connecticut State University has entered into agreements with a public accounting firm to conduct certain auditing and consulting services on an annual basis, including an audit of the combined financial statements of the Connecticut State University System. As part of its audit work, the firm has made an annual study and evaluation of the System’s internal controls to the extent deemed necessary to express an audit opinion on the financial statements. Certain matters involving internal controls have been included in an annual *Report to Management* accompanying the audited financial statements.

The areas pertaining to Western Connecticut State University as set forth in the *Report to Management* relating to the 2003-2004 fiscal year are presented below.

- Perkins Loans: Procedures should be established by the University to record interest, penalties and late fees on Perkins Loans to ensure that the loans receivable balance is accurate and properly tracked.
- Payroll: The University should run a Core-CT edit report which then could be reviewed to ensure that all changes to employee data are valid. The University should implement a policy requiring the preparation and review of a monthly payroll reconciliation. In addition, all monthly reconciliations should be signed off by management as evidence that the reconciliations have been reviewed.
- Information Systems: Management should review the roles and responsibilities of key computer administrators to ensure that fully trained back-up personnel are available. Vacant administrator positions should be filled to prevent reliance upon one individual.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The University should take the necessary steps to ensure that compensatory time records are accurate and in accordance with applicable collective bargaining agreements, personnel policies and statutes. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The University should improve internal controls over personal service agreements by taking steps to ensure that appropriate officials document approval of these contracts in a timely manner. The recommendation is being repeated with modification. (See Recommendation 1.)
- The University should formalize its policies and procedures and improve internal control over accounts receivable. The recommendation is being repeated with modification. (See Recommendation 4.)
- Control over the University's software should be improved by establishing procedures designed to ensure compliance with the State of Connecticut's Property Control Manual. The recommendation is being repeated. (See Recommendation 7.)
- Internal control over the University's information system should be improved. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The University should comply with the requirements governing Student Activity Fund receipts as set forth in the State of Connecticut's Accounting Procedures Manual for Activity and Welfare Funds. The recommendation is being repeated with modification. (See Recommendation 8.)
- The University should follow the State Comptroller's prescribed procedures to correctly account for direct disbursement expenditures. The University has put forth a significant effort towards implementing this recommendation. The recommendation is not being repeated.

Current Audit Recommendations:

- 1. The University should improve internal controls over personal service agreements and comply with the procedures promulgated in the Connecticut State University System's Personal Service Agreement Procedures Manual.**

Comment:

A significant number of personal service related expenditure transactions were not processed in compliance with the University's established policies and procedures.

- 2. The University should comply with established policies and procedures and improve internal control over travel-related expenditures.**

Comment:

A significant number of travel-related expenditure transactions were not processed in compliance with its established policies and procedures.

- 3. The University should take steps to improve internal control over the procurement process and comply with established policies and procedures.**

Comment:

The University did not comply with its established policies and procedures over the procurement process.

- 4. The University should follow its established policies for the collection and write-off of student accounts receivable.**

Comment:

Our review of a sample of students with individual account receivable balances disclosed a number of internal control weaknesses.

- 5. The University should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over capital assets.**

Comment:

Our examination of the University's property control system disclosed a significant number of inaccuracies and other control weaknesses.

6. The University should comply with established policies and procedures and improve internal control over University administered projects.

Comment:

From a sample of five construction projects administered by the University, we found that in all five instances the required Certificate of Compliance Forms were not on file. In addition, one project was reported at the incorrect cost on the annual Fixed Assets/Property Inventory Report (CO-59).

7. The University should comply with the software inventory requirements contained in the State of Connecticut's Property Control Manual.

Comment:

The University does not maintain a complete software inventory that tracks and controls all of its software media, licenses or end user license agreements, certificates of authenticity, and other related items. Furthermore, the University does not conduct a physical inventory of software on an annual basis.

8. The University should comply with the established local fund policies and procedures and improve internal control over the receipts process.

Comment:

The University did not comply with its established local fund policies and procedures over the receipt process. We could not verify the prompt deposit of local fund receipts.

9. The University should comply with the established local fund policies and procedures and improve internal control over the purchasing process.

Comment:

A significant number of local fund expenditure transactions were not processed in compliance with established policies and procedures. Certain personal service agreements were not approved by the Office of the Attorney General, travel authorization forms were not used for certain travel expenditures, and certain purchased equipment items were not properly recorded in property control records.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of Western Connecticut State University for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the University's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the University's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the University are complied with, (2) the financial transactions of the University are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the University are safeguarded against loss or unauthorized use. The financial statement audits of Western Connecticut State University for the fiscal years ended June 30, 2003 and 2004, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to Western Connecticut State University is the responsibility of the Western Connecticut State University's management.

As part of obtaining reasonable assurance about whether the University complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the University's financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

The management of Western Connecticut State University is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the University. In planning and performing our audit, we considered the University's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the University's financial operations in order to determine our auditing procedures for the purpose of evaluating the Western Connecticut State University's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the University's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the University's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the University's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: inadequate controls over the procurement process and inadequate controls over the equipment inventory.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the University's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the University's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the University's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Western Connecticut State University during the course of our examination.

Walter J. Felgate
Principal Auditor

Approved:

Kevin P. Johnston
Auditor Public Accounts

Robert G. Jaekle
Auditor of Public Accounts