

STATE OF CONNECTICUT



*AUDITORS' REPORT
BOARD OF REGENTS FOR HIGHER EDUCATION
WESTERN CONNECTICUT STATE UNIVERSTIY
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

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

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September 13, 2017

AUDITORS' REPORT BOARD OF REGENTS FOR HIGHER EDUCATION WESTERN CONNECTICUT STATE UNIVERSITY FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014

We have audited certain operations of Western Connecticut State University 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 fiscal years ended June 30, 2013 and 2014. The objectives of our audit were to:

1. Evaluate the university's internal controls over significant management and financial functions;
2. Evaluate the university's compliance with policies and procedures internal to the university 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 the university; 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 information purposes. This information was obtained from the university's management and was not subjected to the procedures applied in our audit of the university. 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 the university.

COMMENTS

FOREWORD

Western Connecticut State University, located in Danbury, Connecticut, is 1 of the 4 higher education institutions that collectively make up the Connecticut State University System (CSUS). The other 3 are Eastern Connecticut State University in Willimantic, Central Connecticut State University in New Britain, and Southern Connecticut State University in New Haven. The Board of Regents for Higher Education serves as the administrative office for CSUS, the Connecticut Community College System, and Charter Oak State College. CSUS, currently part of the Connecticut State Colleges and Universities (ConnSCU) System and a constituent unit of the State of Connecticut's system of higher education, operated principally under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes.

Dr. James Schmotter held the position of university president during the audited period.

Recent Legislation

The following notable legislative changes affecting the university were enacted by the General Assembly during the audited period:

- Public Act No. 12-97 – Effective July 1, 2012, Section 1 of this act modified subsection (b) of section 10a-151b, allowing expenditures related to the development of any technology, product, or process for testing purposes without obtaining competitive quotes if such

technology, product, or process (1) is part of or related to a research program at the constituent unit, (2) has the potential to provide economic benefit to the state, (3) will not adversely affect the safety of any individual, and (4) has potential for commercialization. In addition, the executive officer of the constituent unit must have received a recommendation to test such technology, product, or process from a constituent unit committee whose membership includes the chief purchasing official, the chief academic officer, and the chief economic development officer for the constituent unit, or their designees.

- Public Act No. 12-129 – Effective July 1, 2012, Section 1 of this act modified subsection (b) of section 10a-151b to remove the requirement to solicit bids or proposals estimated to exceed \$50,000 in two or more publications.
- Public Act No. 13-4 – Effective from passage (April 22, 2013), Section 1 of this act modified Section 10a-1b of the General Statutes shifting the responsibility of appointing the president of the Board of Regents for Higher Education from the Governor to the Board of Regents for Higher Education.

Enrollment Statistics

The university provided the following enrollment statistics for full-time and part-time students during the audited period:

	Fall 2012	Spring 2013	Fall 2013	Spring 2014
Full-Time Undergraduate	4,501	4,095	4,394	4,058
Full-Time Graduate	77	80	71	91
Total Full-Time	4,578	4,175	4,465	4,149
Part-Time Undergraduate	1,098	1,145	1,098	1,083
Part-Time Graduate	524	469	462	434
Total Part-Time	1,622	1,614	1,560	1,517
 Total Enrollment	6,200	5,789	6,025	5,666

The average of the fall and spring semesters’ total enrollment was 5,995 and 5,846 during the 2012-2013 and 2013-2014 fiscal years respectively, compared to an average of 6,215 during the 2011-2012 fiscal year. Enrollment steadily declined with the total average number of enrolled students decreasing by 220 (3.5%) from fiscal year 2012 to 2013 and 149 (2.5%) from 2013 to 2014.

RÉSUMÉ OF OPERATIONS

During the audited period, university operations were primarily supported by appropriations from the state's General Fund and tuition and fees credited to the university's Operating Fund. In addition, the university received capital projects funds generated from state bond issues. Such funds were earmarked to finance various capital projects on campus.

General Fund appropriations were not made to the university directly. Rather, General Fund appropriations for the entire ConnSCU System were made available to the ConnSCU System Office where the allocations of these amounts were calculated and transferred periodically to the university's Operating Fund, primarily for personal services and related fringe benefits.

Operating Fund receipts primarily consisted of student tuition payments received by the university. Under the provisions of Section 10a-99 subsection (a) of the General Statutes, tuition charges were set by the Board of Regents for Higher Education. The following presents annual tuition charges for full-time students during the audited fiscal years:

Student Status:	<u>2012 - 2013</u>			<u>2013 - 2014</u>		
	<u>In-State</u>	<u>Out-of-State</u>	<u>Regional</u>	<u>In-State</u>	<u>Out-of-State</u>	<u>Regional</u>
Undergraduate	\$ 4,285	\$ 13,866	\$ 6,427	\$ 4,510	\$ 14,594	\$ 6,765
Graduate	5,337	14,869	8,008	5,617	15,650	8,429

In accordance with Section 10a-67 of the General Statutes, the Board of Regents for Higher Education sets tuition amounts for nonresident students enrolled in the ConnSCU System through the New England Regional Student Program at an amount equal to 1.5 times that of in-state tuition. Tuition for part-time students is charged on a prorated basis according to the number of credit hours for which a student registers.

Besides tuition, the university charged students various other fees during the audited years, including a General Fee and a State University Fee, among others. The following presents these fees, on an annual basis, during the audited fiscal years:

Fee Description:	<u>2012 - 2013</u>			<u>2013 - 2014</u>		
	<u>In-State</u>	<u>Out-of-State</u>	<u>Regional</u>	<u>In-State</u>	<u>Out-of-State</u>	<u>Regional</u>
General	\$ 3,015	\$ 3,015	\$ 3,015	\$ 3,213	\$ 3,213	\$ 3,213
State University	1,000	2,451	1,000	1,030	2,451	1,030

In addition, the Housing and Food Service fees required of resident students represent a significant portion of the operating revenues category titled Auxiliary Revenues. The following presents the average annual Housing Fee (double occupancy) and Food Service Fee during the audited period:

Fee Description:	2012 - 2013	2013 - 2014
Housing	\$ 6,214	\$ 6,400
Food Service	4,576	4,462

Operating Revenues

Operating revenues are derived from the sale or exchange of goods and services relating to the university’s educational and public service activities. Major sources of operating revenue include tuition and fees, federal grants, state grants, and auxiliary services.

Operating revenues as presented in the university’s audited financial statements for the audited period and previous fiscal year follow:

	2011 - 2012	2012 - 2013	2013 - 2014
Tuition and Fees (net of scholarship allowances)	\$ 40,396,075	\$ 39,642,132	\$ 37,707,740
Federal Grants and Contracts	6,920,988	6,869,181	7,465,382
State and Local Grants and Contracts	2,404,992	1,913,885	1,659,249
Non-Governmental Grants and Contracts		20,941	12,000
Auxiliary Revenues	16,416,246	15,575,850	16,340,668
Other Operating Revenues	2,197,929	1,683,068	2,755,766
Total Operating Revenues	\$ 68,336,230	\$ 65,705,057	\$ 65,940,805

Operating revenues totaled \$65,705,057 and \$65,940,805 during the fiscal years ended June 30, 2013 and 2014, respectively, compared to \$68,336,230 during the fiscal year ended June 30, 2012. These amounts reflect a decrease of \$2,631,173 (3.9%) in fiscal year 2013 and an increase of \$235,748 (.4%) in 2014.

The decrease in operating revenues during the fiscal year ended June 30, 2013 can primarily be attributed to decreases in tuition and fees as well as auxiliary revenues due to declined enrollment. The marginal increase in operating revenues during the fiscal year ended June 30, 2014 was, in large part, due to increases in auxiliary and other operating revenues caused by increased residence hall fees and program income (additional study abroad deposits). These increases offset the decrease in tuition and fee revenue.

Operating Expenses

Operating expenses generally result from payments made for goods and services to achieve the university’s mission of instruction and public service. Operating expenses include employee compensation and benefits, professional services, supplies, and depreciation, among others.

Operating expenses as presented in the university's audited financial statements for the audited period and the previous fiscal year follow:

	<u>2011 - 2012</u>	<u>2012- 2013</u>	<u>2013 - 2014</u>
Personal Services and Fringe Benefits	\$ 72,235,636	\$ 74,370,802	\$ 81,574,758
Professional Services and Fees	4,228,147	5,315,764	4,722,515
Educational Services and Support	15,057,405	14,936,037	16,842,353
Travel Expenses	1,030,954	871,827	1,026,950
Operation of Facilities	8,863,731	8,003,083	8,306,851
Other Operating Supplies and Expenses	4,454,098	4,206,309	4,921,472
Depreciation Expense	10,427,579	9,458,782	9,885,054
Amortization Expense	40,143	43,072	45,764
Total Operating Expenses	<u>\$ 116,337,693</u>	<u>\$ 117,205,676</u>	<u>\$ 127,325,717</u>

Operating expenses totaled \$117,205,676 and \$127,325,717 during the fiscal years ended June 30, 2013 and 2014, respectively, compared to \$116,337,693 during the fiscal year ended June 30, 2012. These amounts reflect an increase of \$867,983 (.7%) during fiscal year 2013 and an increase of \$10,120,041 (8.6%) in 2014.

The marginal increase in operating expenses during fiscal year 2013 was primarily a result of increased costs associated with the September 2010 state arbitration award, which provided certain employees of the state's public higher education institutions an opportunity to transfer from the Alternate Retirement Plan (ARP) to the costlier State Employee Retirement System (SERS). The \$10,120,041 increase in operating expenses during fiscal year 2014 was largely a result of the 2011 SEBAC agreement, which allowed for a transition from the ARP retirement plan to a costlier hybrid plan. In addition, employee pay increases were awarded in fiscal year 2014.

Nonoperating Revenues

Nonoperating revenues are not from the sale or exchange of goods or services that relate to the university's primary functions of instruction, academic support, and student services. Nonoperating revenues include items such as the state's General Fund appropriation, private gifts and donations, investment income, and state-financed plant facility revenues.

Nonoperating revenues during the audited years and the previous fiscal year were presented in the university's audited financial statements as follows:

	<u>2011 - 2012</u>	<u>2012 - 2013</u>	<u>2013 - 2014</u>
State Appropriations	\$ 38,876,299	\$ 40,798,476	\$ 49,305,866
Gifts	134,742	171,095	145,324
Investment Income	56,542	58,166	50,411
Other Nonoperating Revenues	507,039	758,474	736,246
Total Nonoperating Revenues	<u>\$ 39,574,622</u>	<u>\$ 41,786,211</u>	<u>\$ 50,237,847</u>

Nonoperating revenues totaled \$41,786,211 and \$50,237,847 during the fiscal years ended June 30, 2013 and 2014, respectively, compared to \$39,574,622 during the fiscal year ended June 30, 2012. The \$2,211,589 (5.6%) increase from fiscal year 2012 to 2013 and the \$8,451,636 (20.2%) increase from fiscal year 2013 to 2014 were primarily the result of increases in state appropriations.

In addition to the operating and nonoperating revenues presented above, the university's financial statements disclosed revenues classified as state appropriations restricted for capital purposes totaling \$28,952,799 and \$45,531,682 for the fiscal years ended June 30, 2013 and 2014, respectively.

Western Connecticut State University Foundation, Inc.

The Western Connecticut State University Foundation, Inc. is a private, nonprofit corporation established to raise funds to support the activities of the university.

Sections 4-37e through 4-37k of the General Statutes define and set requirements for such organizations that support state agencies. The requirements address the annual filings of an updated list of board members with the state agency for which the foundation was established; financial recordkeeping and reporting in accordance with generally accepted accounting principles; financial statement and audit report criteria; written agreements concerning the use of facilities and resources; compensation of state officers or employees; and the state agency's responsibilities with respect to affiliated 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, 2013 and 2014, in accordance with Section 4-37f subsection (8) of the General Statutes. The auditors expressed unqualified opinions on the foundation's financial statements in both fiscal years. In addition, the foundation's audit reports disclosed no reportable instances of noncompliance with Sections 4-37e through 4-37j of the General Statutes.

The foundation's financial statements reported revenues totaling \$2,064,864 and \$2,825,582 during the fiscal years ended June 30, 2013 and 2014, respectively. Net assets were reported at \$14,080,903 and \$15,690,169 as of June 30, 2013 and 2014, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Professional Services Purchases and Other Procurement

Criteria: Sound internal controls dictate that a purchase should not be initiated before it is properly approved, and that such approval should be documented via an approved purchase requisition and purchase order.

It is good business practice to promptly submit invoices to Accounts Payable for payment processing in order to avoid potential late payment charges.

Condition: We examined 25 nonpayroll expenditure transactions totaling \$565,026 and 15 professional services expenditure transactions totaling \$1,094,154. Our review disclosed the following:

1. There were 5 instances in which purchases of services, totaling \$33,461, were initiated prior to the processing of a purchase order. We noted that these purchases occurred between 19 and 55 business days prior to processing and approving a purchase order.
2. There were 2 instances in which invoices totaling \$50,045 were received by the Admissions Department in March and April of 2013. However, the invoices were not submitted to Accounts Payable until October 2013 and were paid in December 2013, more than 7 and 8 months after the invoice dates, respectively.

Effect: Without documentation indicating that purchases were preapproved, there is an increased risk that unauthorized or improper purchases will occur.

The untimely processing of invoices could impair the university's relationships with vendors and result in late fees.

Cause: In some instances, established internal control procedures were not carried out as designed.

It is unknown why there was a delay in submitting the invoices to Accounts Payable for payment.

Recommendation: Western Connecticut State University should improve controls over the purchasing process by ensuring that all purchases are properly approved prior to initiating the purchase of goods or services. These approvals should be documented through purchase orders signed by

authorized employees. The university should also ensure that invoices are paid in a timely manner. (See Recommendation 1.)

Agency Response: “The University agrees with this comment. The Purchasing Department and the Accounts Payable Department will continue to work with University personnel to reinforce policies and the need for timely submittal of requisitions and invoices for payment.”

Travel-Related Expenditures

Criteria: The Connecticut State University System’s Travel Policies and Procedures Manual allows employees to be reimbursed for use of a personally-owned motor vehicle at an established mileage rate for travel on official state business after deducting the commute from home to their official duty station.

Condition: We reviewed 15 travel expenditures, totaling \$10,171, and noted 2 instances in which the university overpaid an employee for mileage reimbursement. The overpayments totaled \$118 and \$26, respectively. These reimbursements included travel to and from the employee’s home, which is contrary to the university’s travel policies.

Effect: In some instances, the university did not comply with the established travel policies, which weakened controls over travel expenditures and caused mileage overpayments.

Cause: In some instances, controls were not carried out as designed.

Recommendation: Western Connecticut State University should improve internal controls over travel expenditures by complying with the Connecticut State University System’s Travel Policies and Procedures Manual. In addition, the university should pursue recovery of the mileage reimbursement overpayments noted. (See Recommendation 2.)

Agency Response: “The University agrees with this comment. We now adjust mileage to account for daily commutes to and from home for Athletic department coaches.”

Purchasing Card and Gasoline Credit Card Expenditures

Criteria: The Western Connecticut State University Purchasing Card Policy provides guidelines for the use of university purchasing cards. The policy states that authorized use of the purchasing card shall be limited to the person whose name appears on the face of the card. In addition, the policy prohibits single transaction purchases above an approved

limit (\$999). Furthermore, the policy states that, “splitting a single item purchase to circumvent the purchasing card threshold of \$999 is not allowed.” The policy also requires cardholders to sign and date monthly purchasing card statements as certification that the statements were reconciled to supporting documentation, and that purchases were consistent with university policies.

The Connecticut State Library records retention requirements state that receipts related to bills and purchasing cards must be retained for 3 years or until audited, whichever is later.

It is a good business practice to retain receipts for gas credit card purchases in order to support that charges were valid and in the correct amount.

Condition:

We reviewed 15 monthly purchasing card statements, covering 5 months, during the audited period. These statements corresponded with purchasing cards assigned to 15 university employees and included charges totaling \$26,593. Our review disclosed the following:

1. Seven instances in which purchasing cardholders failed to sign and date their purchasing card monthly statements, indicating that purchasing card statement reconciliation had been performed and that the purchases were in compliance with the university’s purchasing card requirements. In the instances noted, the cardholders’ statements contained purchases totaling \$9,954.
2. Seven instances in which purchasing cardholders signed, but failed to date their purchasing card monthly statements, indicating that a purchasing card statement review and reconciliation had been performed in a timely manner. In the instances noted, the cardholders’ statements contained purchases totaling \$12,376.
3. Three instances in which cardholders made purchases that exceeded their assigned single purchase limit amount. In 1 instance, a cardholder purchased goods totaling \$1,264, which exceeded the cardholder’s single purchase limit of \$999 by \$265. In the second instance, a cardholder purchased goods totaling \$1,202, exceeding the cardholder’s \$999 single purchase limit by \$203. This purchase was split into 2 separate transactions, thereby circumventing the \$999 single purchase limit. In the third instance, a cardholder with a \$2,500 single purchase limit made a purchase totaling \$3,594 that was split into multiple transactions. This purchase exceeded the cardholder’s single purchase limit by \$1,094.

4. Four monthly cardholder statements that included charges for Connecticut sales tax, totaling \$89, even though the university is exempt from paying this tax.
5. One instance in which a purchase totaling \$67 was made by an employee other than the purchasing cardholder who was assigned the card.
6. One monthly statement included 2 computer hardware purchases totaling \$955, for which Information Technology Department approval was not obtained, which is required by the university's purchasing card policy.

We tested 18 gas credit card purchase transactions totaling \$833 during the audited period and noted that the university did not retain receipts for any of these purchases.

Effect:

In some instances, the university did not comply with its established purchasing card policies and procedures, which increased the risk of improper purchases.

The lack of supporting receipts for gasoline purchases decreases assurance that amounts billed on monthly gasoline credit card statements were correct, and increases the risk of erroneous or fraudulent purchases.

Cause:

In some instances, controls were not being carried out as designed.

Recommendation:

Western Connecticut State University should improve internal controls over purchasing cards by complying with the Western Connecticut State University Purchasing Card Policy. In addition, the university should retain gas credit card receipts. (See Recommendation 3.)

Agency Response:

“Concerning the purchasing cards, in terms of internal controls subsequent to this audit period, the University has revised its policies where the purchasing card holders are responsible for submitting their statements and receipts monthly to the Purchasing Department, where the Purchasing Department reviews the statements and receipts to ensure all signatures and documentation are present. As the purchasing card program continues to expand on campus to meet user needs, policies and procedures continue to be reinforced with the objective of positioning users to better address those noted issues regarding taxes at purchase, acquisitions which may exceed \$999.99, signature requirements, and general use of the cards. For the gas cards, receipts are now being kept.”

Dual Employment

- Criteria:* Section 5-208a of the General Statutes bars state employees from being concurrently compensated for more than 1 state position unless the appointing authorities for such positions certify that: the duties performed and hours worked are outside the responsibilities of the employee's primary position; there is no conflict in schedules between the positions; and no conflict of interest exists between or among the positions.
- Condition:* We examined the dual employment certifications for 5 university employees who were concurrently employed by more than 1 state agency during the audited period. Our review disclosed 7 instances in which a dual employment form was approved by the university after the employee had begun working at a secondary position at the university. The delays in signing ranged from 3 to 54 business days.
- Effect:* In some instances, the university did not comply with the dual employment documentation requirements established by Section 5-208a of the General Statutes. This reduced assurance that no conflicts existed between primary and secondary positions.
- Cause:* Existing controls were not sufficient to prevent these conditions.
- Recommendation:* Western Connecticut State University should improve controls and comply with the dual employment requirements of Section 5-208a of the General Statutes by promptly documenting, through signed certifications, that no conflicts of interest or conflicts in schedules exist in instances in which an employee holds multiple state positions. (See Recommendation 4.)
- Agency Response:* "The University agrees with this comment. A new form and process has been in place since this audit period that should help with the dual employment issue."

Federal Time and Effort Reporting

- Criteria:* Title 2 of the Code of Federal Regulations (CFR) Part 200, states that higher education institutions that charge salaries and wages to federal programs must base these amounts on records that accurately reflect the work performed. The records must reflect the distribution of salaries and wages among the specific activities that the employee worked on. Furthermore, the records must be supported by a system of internal control that provides reasonable assurance that the charges

are accurate, allowable, and properly allocated. These records and controls are known as a time and effort reporting system.

Condition: We tested payroll costs charged to the Trio Upward Bound (CFDA 84.047) federal program during the audited period. The university informed us that, for part-time employees charged to this program, it did not complete time and effort reports that provide an after-the-fact certification that the employee worked on this federal program. Instead, the university relied on Core-CT system timesheets, which do not include a certification that these part-time employees worked on federal programs.

University accounting records presented part-time labor charges to the Trio Upward Bound federal program (CFDA 84.047) totaling \$105,697 and \$136,617 during the fiscal years ended June 30, 2013 and 2014, respectively, which were not supported by a time and effort reporting system.

Effect: In some instances, the university was not in full compliance with the Title 2 CFR Part 200 requirements concerning the documentation of wages charged to federal programs. As a result, there was less assurance that payroll costs were properly charged to the correct program.

Cause: The university was under the impression that electronic timesheets processed through Core-CT were sufficient to satisfy the time and effort reporting requirements of Title 2 CFR Part 200.

Recommendation: Western Connecticut State University should implement a time and effort reporting system for part-time employees to adequately document time charged to federal programs and ensure compliance with the requirements of Title 2 of the Code of Federal Regulations, Part 200. (See Recommendation 5.)

Agency Response: “The University agrees with this comment. We now require time and effort reports for all employees working on a federal grant. The Fiscal Affairs Office will work with grantees to make sure the forms are completed.”

Employee Background Checks

Criteria: The CSUS Pre-employment Background Verification Policy requires that, “All regular, full-time and part-time external candidates for employment with a CSU university or the CSU System Office, as well as potential re-hires with a break in service, must undergo a

reemployment background investigation according to this procedure as part of the employee screening process...Documentation shall be retained for the appropriate retention period for employment records promulgated by the State of Connecticut and by university and CSU System Office personnel search policies and procedures.”

CSUS Board of Trustees Resolution 06-52 applies to university employees who live on campus and provides that, “Before occupancy in a university residence pursuant to this policy may commence, each proposed resident aged eighteen (18) years or over shall submit him or herself to the same criminal conviction investigation, sex offender registry status review, and social security verification that is required of the staff member prior to employment.”

The Connecticut State Library’s State Agencies’ Records Retention/Disposition Schedule requires that state agencies retain employee background check records for the “duration of employment plus 30 years.”

Condition: The university informed us that it did not retain employee background check reports in its custody. Instead, it relied on the background check firm under contract to retain such records. However, the associated background check contract is expressly an agreement to provide the system reports on the results of its background checks of candidates for employment and does not address records retention services.

Effect: The university did not comply with the State Library’s records retention requirements regarding employee background check records.

Cause: The university relied on its background check contractor to retain the university’s background check reports. Furthermore, the university informed us that it chose not to keep such reports for confidentiality reasons.

Recommendation: Western Connecticut State University should either retain employee background check reports on durable media in its own custody or use an appropriate records retention firm that is contractually obligated to retain these records in accordance with the Connecticut State Library’s records retention requirements. (See Recommendation 6.)

Agency Response: “The University agrees with this comment. Since this audit period, we now retain electronic copies of all background check reports on a secure drive in Human Resources.”

Paid Sick Leave for Student Workers

- Criteria:* Section 31-57s of the General Statutes requires state employers to provide paid sick leave to certain service workers. University student workers fall under the definition of service workers.
- Condition:* We reviewed the attendance and leave records of 5 student employees employed by the university during the audited period and found that sick leave accruals were not posted. The university informed us that the process for issuing sick leave accruals to student employees was implemented in September 2014, after the audited period.
- Effect:* During the audited period, the university did not comply with Section 31-57s of the General Statutes.
- Cause:* The university informed us that it was waiting for the then current group of student employees to complete their temporary employment terms before beginning the process of issuing sick leave accruals to the subsequent group of student employees.
- Recommendation:* Western Connecticut State University should implement paid sick leave benefits for student employees in accordance with the requirements of Section 31-57s of the General Statutes. (See Recommendation 7.)
- Agency Response:* “The University agrees with this comment. We have kept records of paid sick leave for student workers since September of 2014.”

Revenue-Generating Contracts and Agreements

- Criteria:* During the audited period, the university’s contract with its on-campus bookstore provided that “The university shall receive all commission payments on a monthly basis. The university shall receive all commission payments and sales summary by the 30th day of the month following the month during which they were generated.”
- During the audited period, the university’s contract with its residence hall laundry machine services provider stipulated, with respect to commissions paid to the university, that “The amount of \$3,500.00 shall be paid if 58% of the aggregate laundry income in a given month is greater than \$3,500.00. The amount totaling 58% of the aggregate laundry income in a given month shall be paid if that total is less than \$3,500.00”

During the audited period, the university's contract with a snack vending machine company provided a \$14,000 annual minimum commission guarantee to the university.

The university's facilities usage agreements provide scheduled dates when contractors are to pay the university facilities usage fees.

It is a good business practice to ensure that written agreements are fully signed prior to the commencement of services.

Condition:

We examined transactions associated with 4 of the university's revenue-generating commission contracts during 5 months of the audited period and noted the following:

1. Two instances in which the university's on-campus bookstore did not pay its monthly commission payment to the university in a timely manner. The payments for March 2014, totaling \$3,044, and April 2014, totaling \$4,791, were received 11 and 32 days late, respectively.
2. The university was under contract with an on-campus laundry service provider that paid the university monthly sales commissions based on income generated from dormitory washing machines and clothes dryers. The agreement limited commission payments to a maximum of \$3,500 per month. For 2 of the 5 months that we tested, the contractor paid the university commissions in excess of the \$3,500 per month maximum. The commission payment for September 2013 totaled \$5,660, which exceeded the contractual maximum payment by \$2,160. The commission payment for February 2014 totaled \$4,617, which exceeded the contractual maximum payment by \$1,117. The university informed the contractor of these overpayments; however, the contractor did not object to paying the university higher commission amounts for high laundry income months. Nevertheless, the university's contract with the laundry service provider was not amended to reflect the higher commission payments.
3. The university was under contract with a snack vending machine company that paid the university monthly commissions based on food sales from the contractor's on-campus vending machines. Under the agreement, the contractor was required to pay the university an annual minimum guarantee commission totaling \$14,000. During the audited years, the contractor did not comply with this

annual minimum guarantee. The contractor paid the university commissions totaling \$12,071 and \$11,787 for the fiscal years ended June 30, 2013 and 2014, respectively. These amounts were \$1,929 and \$2,213 less than the required annual minimum guarantee of \$14,000. After we informed the university of these underpayments, the university amended its contract with this snack vending machine provider in February 2015. This unusual and questionable amendment retroactively voided the \$14,000 annual minimum commission guarantee clause starting with the contract's inception in July 2010. Instead, effective in February 2015, the university increased the commission rate from 30% to 32% on net sales on all products sold, with no annual minimum commission guarantee.

We examined 10 facilities usage agreements entered into during the audited period and noted the following:

1. Three instances totaling \$2,615 in which a facilities usage agreement was not executed prior to the contractor's use of university facilities. In 1 of these instances, neither the university nor the contractor signed the agreement. In the other 2 instances, the university signed the agreement 7 and 3 days after the usage occurred, respectively.
2. Twenty-six instances in which agreement payments to the university were not received in a timely manner. Late payments totaled \$34,300 and ranged from 2 to 211 days late.
3. Two instances in which there was no formal, written facilities usage agreement in place for a contractor who rented university concert venue space in September 2012 and September 2013. The contractor paid the university \$640 and \$240 for this usage, respectively.
4. Four instances in which there was no contractor certificate of liability insurance on file for facilities usage events.

Effect:

Insufficient monitoring of revenue-generating agreements could lead to late or incorrect payments of associated revenues.

Late execution of contracts increases the risk that the terms of such agreements may have been carried out without the approval of management or other key parties to the contract.

Cause: It appears that, in some instances, the university did not sufficiently monitor revenue-generating contracts or facilities usage agreements to ensure the terms of the agreements were being carried out as stipulated.

It is unknown why certificates of liability insurance were not obtained from certain contractors.

Recommendation: Western Connecticut State University should improve its monitoring of revenue-generating agreements to better ensure that the amounts and timeliness of contractor payments to the university agree with contractual terms. Also, the university should execute such agreements in a timely manner and obtain certificates of insurance from contractors when necessary. (See Recommendation 8.)

Agency Response: “Regarding the late payments from the bookstore, the University agrees with this comment. While the bookstore contractor at the time of these payments is no longer under contract with the University, the University will continue to monitor its incoming payments to ensure they are made in a timely fashion. Concerning the laundry provider’s overpayments, the University notified the contractor of the overpayment, with the contractor acknowledging the overpayment was made on its own volition and declining requests for a refund. As the contractual obligations of the parties were not changed or altered, an amendment was not issued. Should an overpayment occur in the future, the University will review opportunities for either a refund or an amendment. With respect to the snack vending contract, as declines in student enrollment from the time this agreement was commenced in July of 2010 has resulted in decreased revenue opportunities to meet the originally established minimum guarantee, the parties equitably agreed to an amendment executed in January of 2015 which eliminated the minimum guarantee, retroactive to the start of the agreement and increased the monthly commission rate. For the facility usage agreements, the Facilities Scheduling and Promotion Department will work with vendors to get agreements done in a more timely fashion, follow up with delinquent payments, and ensure that certificates of liability insurance are obtained.”

Football Game Gate Receipts

Criteria: It is a good business practice to ensure that university departments submit receipts to the Bursar’s Office in a timely manner so that they can be deposited promptly in accordance with Section 4-32 of the General Statutes. In addition, revenue accountability reports for

athletic event ticket sales should be completed accurately to support the number of tickets sold and the amount of revenue collected.

Condition:

We examined revenues generated from gate receipts associated with 5 university football games during the audited period and noted the following:

- 1.) Two instances in which ticket sales accountability reports were either incomplete or contained conflicting ticket sale numbers.
- 2.) Two instances, totaling \$838 and \$1,216, in which ticket sales receipts were not submitted to the Bursar's Office in a timely manner. In both of these instances, funds were submitted to the Bursar's Office 3 business days after their receipt.

Effect:

There was decreased assurance that the amount of gate receipts was accurate. The delayed submission of these funds to the Bursar's Office increased the risk of their loss or theft.

Cause:

It is unknown why this condition occurred.

Recommendation:

Western Connecticut State University should improve controls over the collection of football game gate receipts by completing accurate ticket sales accountability reports. In addition, these receipts should be submitted to the Bursar's Office promptly so that they can be deposited in a timely manner. (See Recommendation 9.)

Agency Response:

"The University agrees with this comment. We will use an improved control sheet to account for ticket sales that will make tickets sold clear. Every effort will be made to deposit the funds in a timely manner."

Asset Management

Criteria:

The Connecticut State University System Capital Asset and Valuation Manual and the State Property Control Manual provide guidance on requirements and internal controls over equipment, supplies, and software inventory.

The Capital Asset and Valuation Manual requires that a loan approval form be completed and signed by the supervisor of each employee to whom equipment is loaned.

The Property Control Manual, under authority of Section 4-36 of the General Statutes, stipulates that state agencies maintain inventory records for software that include certain data elements, such as the software item's cost, location, and date of install. The manual also requires state agencies to maintain a perpetual first-in, first-out inventory system over stores and supplies.

Condition:

We examined 10 equipment items with a total cost of \$16,244, on loan to university employees and noted 1 instance in which the university did not properly document the loan of a \$1,899 laptop computer. In this instance, the IT Department loaned a laptop computer to a university employee who returned the computer to IT. IT then loaned the computer to another employee. Neither the return of the computer nor the reissuance was documented on a loan approval form. As a result, the property control department could not readily locate the item.

In addition, the university did not maintain software inventory control records during the audited period. Furthermore, the university could not provide us with documentation to support that it had completed annual physical inventories of software.

We also examined the university's stores and supplies inventory and noted that a perpetual inventory system was not being used. Instead, the university performs periodic checks of the supplies inventory.

Effect:

In some instances, the university failed to comply with the property control requirements set forth by the State Comptroller and the Connecticut State University System's Capital Asset and Valuation Manual. This exposed university property to an increased risk of loss or theft.

Cause:

It is unknown why these conditions occurred.

Recommendation:

Western Connecticut State University should improve internal control over equipment and supplies by complying with the State Property Control Manual and the Connecticut State University System's Capital Asset and Valuation Manual. (See Recommendation 10.)

Agency Response:

"The University agrees with this comment. The IT&I department will complete the proper paperwork for laptops loaned to employees and keep in inventory of software. With regards to the University's stores and supplies inventory, during this audit period the University performed periodic checks of supplies inventory. Subsequent to this audit period, the University implemented a perpetual inventory system within its stores and supplies inventory."

Information Technology System Data Breaches

Criteria: Section 4-33a of the General Statutes requires state agencies to promptly report breakdowns in the safekeeping of state resources to the State Comptroller and the Auditors of Public Accounts.

It is a good business practice to ensure that the Human Resources Department is informed of employee misconduct so that an appropriate response can be considered.

Condition: Our inquiries of the university's Information Technology Department disclosed 4 data breaches that occurred during the audited period. The first, which was reported to university management in September 2012, involved vulnerability in the university's data storage system. In this instance, it is possible that protected, confidential data relating to 233,880 individuals was compromised.

In the second incident, which occurred in January 2013, malware infected an employee's computer. It is possible that data relating to 5 individuals may have been compromised.

The third and fourth incidents, also involving malware infections, occurred in February 2013 and May 2013. In these instances confidential data may have been compromised relating to 180 and 37 individuals, respectively.

The university informed us that it notified the individuals whose data was exposed by these 4 breaches and offered them free identity theft protection services for a 2-year period.

However, the university could not provide us evidence that it reported these data breaches to the Auditors of Public Accounts and the State Comptroller, as required under Section 4-33a of the General Statutes.

In addition, the second of these incidents, which occurred in January 2013, involved an employee who kept his personal tax return on his university computer. According to the university's Human Resources Department, the Information Technology Department had not informed HR of this incident. Therefore, no disciplinary action was considered with respect to this employee's improper use of a university computer.

Moreover, we inquired as to whether the university performed an investigation to determine if this employee's computer contained any additional evidence of non-work-related activity. The university's Information Technology Department informed us that the focus of

their investigation was the malware infection, not on improper computer use.

Effect: The university did not fully comply with the requirements of Section 4-33a of the General Statutes.

Also, the extent of an employee's misuse of a university computer was not determined and disciplinary action to address this improper use was not considered.

Cause: Regarding the improper use of a university computer, the Information Technology Department did not inform HR of this misuse, resulting in no disciplinary action being considered.

It is unknown why these matters were not reported to the State Comptroller and the Auditors of Public Accounts.

Recommendation: Western Connecticut State University should promptly report breakdowns in the safekeeping of state resources to the State Comptroller and the Auditors of Public Accounts, as required by Section 4-33a of the General Statutes. In addition, the university should investigate instances in which university resources are misused and consider disciplinary action against the employees involved. (See Recommendation 11.)

Agency Response: "The University agrees with this comment and will promptly notify the State Comptroller and the Auditor of Public Accounts if there is data breach in the future. The University will also investigate instances in which university resources are misused."

University Administered Capital Projects

Criteria: The Procedures for Agency Administered Construction Projects requires a certificate of compliance to be submitted to the Department of Construction Services. The certificate of compliance is verification that the project was completed per the specifications in the contract and in accordance with Connecticut building codes.

Condition: We reviewed a selection of 5 capital projects administered by the university totaling \$1,599,039 and noted 1 instance in which a certificate of code compliance was not obtained for a building upgrade project estimated to cost \$451,000. This certificate is required to verify that the project was in compliance with contract specifications and Connecticut building codes.

Effect: In 1 instance, the university did not comply with the close-out process required by the procedures. This increased the risk that the project was not completed per the specifications detailed in the contract or in accordance with Connecticut building codes.

Cause: It is unknown why this condition occurred.

Recommendation: Western Connecticut State University should improve internal controls over the close-out process for university administered construction projects to ensure that all required supporting documentation is completed and submitted to the Department of Construction Services in the Department of Administrative Services. (See Recommendation 12.)

Agency Response: “The University agrees with this comment and will continue to work with DCS to ensure all documentation is complete.”

Other Audit Examination

The Board of Regents for Higher Education 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 Universities. As part of its audit work, the firm has made an annual study and evaluation of the universities’ 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 Report to Management for the fiscal year ended June 30, 2014 issued no recommendations pertaining to Western Connecticut State University.

RECOMMENDATIONS

Our prior audit report on the university contained 19 recommendations for improving operations, 9 of which are being repeated or restated with modifications in our current audit report. Our current audit report presents 12 recommendations, including 3 new recommendations in addition to the 9 recommendations that are being repeated or restated from the prior audit report.

Status of Prior Audit Recommendations:

- **Western Connecticut State University should improve controls over the purchasing process by ensuring that all purchases are properly approved beforehand. These approvals should be documented by purchase orders signed by authorized employees.** During the current audit, we noted further improvement is needed in this area. The recommendation is being repeated. (See Recommendation 1.)
- **Western Connecticut State University should improve internal controls over purchasing card use by following the Western Connecticut State University Purchasing Card Policy.** During the current audit, we noted no significant improvement in this area. The recommendation is being repeated. (See Recommendation 3.)
- **Western Connecticut State University should improve internal controls over travel expenditures by complying with the Connecticut State University System's Travel Policies and Procedures Manual.** Our current audit disclosed improvement in this area. However, further improvement is needed. The recommendation is being repeated with modification. (See Recommendation 2.)
- **Western Connecticut State University should implement controls to prevent duplicate payments to teaching faculty members who perform non-instructional work in addition to their teaching duties. The university should also recover the noted payroll overpayment issued to the faculty member during the audited period.** The university implemented this recommendation. The recommendation is not being repeated.
- **Western Connecticut State University should either retain employee background check reports on durable media in its own custody or use an appropriate records retention firm that is contractually obligated to retain these records in accordance with the State Library's records retention requirements.** The university did not implement this recommendation during the current audited period. The recommendation is being repeated. (See Recommendation 6.)
- **Western Connecticut State University should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by promptly**

documenting, through signed certifications, that no conflicts of interest or conflicts in schedules exist in instances in which an employee holds multiple state positions. During our current audit, no improvement was made in this area. The recommendation is being repeated. (See Recommendation 4.)

- **Western Connecticut State University should implement a time and effort reporting system for documenting payroll costs charged to federal programs to ensure compliance with the requirements of Title 2 of the Code of Federal Regulations, Part 200.** Our current audit disclosed some improvement in this area. However, further attention is needed. The recommendation is being repeated with modification. (See Recommendation 5.)
- **Western Connecticut State University should implement paid sick leave benefits for student employees in accordance with the requirements of Public Act 11-52.** The university did not implement this recommendation during the current audited period. The recommendation is being repeated. (See Recommendation 7.)
- **Western Connecticut State University should improve internal control over equipment and supplies by complying with the Connecticut State University System's Capital Asset Valuation Manual and the State Property Control Manual.** We noted several areas of improvement; however, further improvement is needed. This recommendation is being repeated. (See Recommendation 10.)
- **Western Connecticut State University should take steps to ensure that offices remotely located from the Bursar's Office submit receipts to the Bursar's Office in a timely manner to improve the timeliness of bank deposits and comply with Section 4-32 of the General Statutes.** Our current audit disclosed significant improvement in this area. The recommendation is not being repeated.
- **Western Connecticut State University should improve the monitoring of revenue-generating agreements to better enforce the timeliness of contractor payments due to the university. Also, the university should execute such agreements in a timely manner, specify payment due dates in the agreements, and include, when applicable, the effective dates of agreement amendments.** During our current audit, we noted no improvement in this area. The recommendation is being repeated. (See Recommendation 8.)
- **Western Connecticut State University should take steps to ensure that students are properly classified and charged as in-state or out-of-state students for tuition and fee purposes. Furthermore, the university should execute waivers of tuition and fees in accordance with Connecticut State University policy and the General Statutes.** The university improved in this area. The recommendation is not being repeated.
- **Western Connecticut State University should take steps to ensure that it applies the correct tuition waiver amounts to student accounts. Furthermore, the university should review tuition amounts charged to students who participated in the**

university's Danbury Public School System advanced placement course program and refund overcharges noted. Improvement was noted. The recommendation is not being repeated.

- **Western Connecticut State University should retain credit card receipt records of student payments for tuition and fees for three years or until audited, whichever comes later, in accordance with the State Library's records retention requirements.** The university implemented this recommendation during our current audited period. The recommendation is not being repeated.
- **Western Connecticut State University should improve its controls over delinquent student accounts and student payment plans by following its established policies and procedures. The university should send collection notices to students with delinquent accounts in a timely manner and assess late fees when student payments are late.** Our current audit disclosed improvement in this area. The recommendation is not being repeated.
- **Western Connecticut State University should improve internal control over student activity account cash receipts by complying with the prompt bank deposit requirements established by Section 4-32 of the General Statutes. In particular, the university should take further steps to ensure that student organizations deliver funds generated from student events to the Cashier's Office in a timely manner.** We noted significant improvement in this area. The recommendation is not being repeated.
- **Western Connecticut State University should improve controls over student activity account expenditures by ensuring that such expenditures are properly approved by student organizations in accordance with the university's Student Life Financial Policies. In addition, student organizations should promptly return unspent cash advances and related supporting documentation to the Cashier's Office.** Our current audit disclosed significant improvement in this area. The recommendation is not being repeated.
- **Western Connecticut State University should regularly review information system access privileges granted to employees to determine whether such access is appropriate. The university should promptly deactivate system access upon an employee's separation from university employment.** During our current audit, we noted improvement in this area. The recommendation is not being repeated.
- **Western Connecticut State University should prepare accurate Schedules of Expenditures of Federal Awards.** Our current audit disclosed improvement in this area. The recommendation is not being repeated.

Current Audit Recommendations:

- 1. Western Connecticut State University should improve controls over the purchasing process by ensuring that all purchases are properly approved prior to initiating the purchase of goods or services. These approvals should be documented through purchase orders signed by authorized employees. The university should also ensure that invoices are paid in a timely manner.**

Comment:

In some instances, purchase orders were completed and approved after the university had incurred services from the vendor. We also noted invoices at times were held by the Admissions Department for several months prior to submission to Accounts Payable for payment.

- 2. Western Connecticut State University should improve internal controls over travel expenditures by complying with the Connecticut State University System's Travel Policies and Procedures Manual. In addition, the university should pursue recovery of the mileage reimbursement overpayments noted.**

Comment:

In some instances, the university overpaid employees for mileage reimbursement. These instances included travel to and from the employee's home, which is contrary to the university's travel policies.

- 3. Western Connecticut State University should improve internal controls over purchasing cards by complying with the Western Connecticut State University Purchasing Card Policy. In addition, the university should retain gas credit card receipts.**

Comment:

Our testing disclosed several instances in which the university did not follow its established policy for purchasing card use. In addition, we found that the university did not retain any receipts for gas purchases.

- 4. Western Connecticut State University should improve controls and comply with the dual employment requirements of Section 5-208a of the General Statutes by promptly documenting, through signed certifications, that no conflicts of interest or conflicts in schedules exist in instances in which an employee holds multiple state positions.**

Comment:

In some instances, the university approved dual employment certifications after the dual employment period began.

- 5. Western Connecticut State University should implement a time and effort reporting system for part-time employees to adequately document time charged to federal programs and ensure compliance with the requirements of Title 2 of the Code of Federal Regulations, Part 200.**

Comment:

A time and effort reporting system for part-time employees was not in place during the audited period.

- 6. Western Connecticut State University should either retain employee background check reports on durable media in its own custody or use an appropriate records retention firm that is contractually obligated to retain these records in accordance with the Connecticut State Library's records retention requirements.**

Comment:

The university did not retain employee background check reports. Instead, it relied on its background check vendor to retain these reports.

- 7. Western Connecticut State University should implement paid sick leave benefits for student employees in accordance with the requirements of Section 31-57s of the General Statutes.**

Comment:

The university did not provide required paid sick leave benefits to student employees during the audited period.

- 8. Western Connecticut State University should improve its monitoring of revenue-generating agreements to better ensure the amounts and timeliness of contractor payments to the university agree with contractual terms. Also, the university should execute such agreements in a timely manner and obtain certificates of insurance from contractors when necessary.**

Comment:

Commission payments and payments related to facilities usage agreements were not received in a timely manner and payment amounts did not always agree with the terms within the agreement. In some instances, facilities usage agreements were not executed prior to the contractor's use of the facilities or were not completed at all. In other instances, required certificates of liability insurance for contractors were not on file.

- 9. Western Connecticut State University should improve controls over the collection of football game gate receipts by completing accurate ticket sales accountability reports. In addition, these receipts should be submitted to the Bursar's Office promptly so that they can be deposited in a timely manner.**

Comment:

In some instances, football game ticket sales were not submitted to the Bursar's Office in a timely manner. In some instances, accountability reports were either incomplete or contained conflicting ticket sale numbers.

- 10. Western Connecticut State University should improve internal control over equipment and supplies by complying with the State Property Control Manual and the Connecticut State University System's Capital Asset and Valuation Manual.**

Comment:

We noted 1 instance in which an equipment-on-loan form was not completed for a laptop that was distributed to an employee. In addition, we noted the university did not maintain an inventory of its software. Finally, our review found that a perpetual inventory system over stores and supplies was not being used as required by the Property Control Manual.

- 11. Western Connecticut State University should promptly report breakdowns in the safekeeping of state resources to the State Comptroller and the Auditors of Public Accounts, as required by Section 4-33a of the General Statutes. In addition, the university should investigate instances in which university resources are misused and consider disciplinary action against the employees involved.**

Comment:

The university did not report any of the 4 data breaches that occurred during the audited period to the Auditors of Public Accounts and the State Comptroller. Furthermore, the university did not perform an investigation into the use of a university-owned laptop to store an employee's personal tax return.

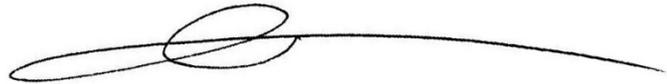
- 12. Western Connecticut State University should improve internal controls over the close-out process for university administered construction projects to ensure that all required supporting documentation is completed and submitted to the Department of Construction Services in the Department of Administrative Services.**

Comment:

In 1 instance, a required certificate of code compliance was not obtained.

CONCLUSION

In 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.



Michael R. Stemmler
Auditor II

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
Auditor of Public Accounts