

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
BOARD OF REGENTS FOR HIGHER EDUCATION  
CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2016, 2017, AND 2018*

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

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**EXECUTIVE SUMMARY**

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes we have audited certain operations of the Board of Regents for Higher Education System Office primarily pertaining to the Connecticut State University System. The objectives of this audit were to evaluate the system office’s internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the fiscal years ended June 30, 2016, 2017, and 2018.

The key findings are presented below:

<b>Page 9</b>	The system office processed the approval of purchase orders late, totaling \$11,038, and that the purchasing process for the Connecticut State University System has not been consolidated into the system office. The Board of Regents should ensure the approval of purchase orders prior to ordering services and continue its efforts to consolidate the purchasing process into the system office. (Recommendation 1.)
<b>Page 10</b>	The system office did not have the required dual employment certification forms in place for 5 employees who held multiple state positions. The Board of Regents of Higher Education should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by documenting, through signed certifications, that no conflicts exist for employees who hold multiple state positions. (Recommendation 2.)
<b>Page 11</b>	The system office did not comply with its policies requiring quarterly reconciliations between its asset inventory (eQuip) and its primary information systems (Banner). The Board of Regents for Higher Education should continue its efforts to strengthen controls over asset management by ensuring that it performs reconciliations between its asset management systems on a quarterly basis. (Recommendation 3.)
<b>Page 12</b>	The system office did not deactivate information system accounts of 5 employees with Banner access and an employee with Core-CT access upon separation from state service. The Board of Regents for Higher Education should strengthen controls over its information systems and ensure that access is promptly terminated upon separation from state service. (Recommendation 4.)
<b>Page 13</b>	The system office processed 6 monthly reconciliations between 45 and 62 days late. The Board of Regents for Higher Education should improve internal controls over its bank account reconciliation process by ensuring that it performs monthly reconciliations in a timely manner. (Recommendation 5.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

ROBERT J. KANE

October 17, 2019

### AUDITORS' REPORT

We have audited certain operations of the Board of Regents for Higher Education System Office in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2016, 2017, and 2018. The objectives of our audit were to:

1. Evaluate the system office's internal controls over significant management and financial functions;
2. Evaluate the system office's compliance with policies and procedures internal to the system office or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, 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 system office; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the system office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the system office. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or 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 system office.

## **COMMENTS**

### **FOREWORD**

The Board of Regents for Higher Education operates primarily under the provisions of Chapter 185, Sections 10a-1 through 10a-60m and Chapter 185b, Sections 10a-71 through 10a-160, of the General Statutes. The board's oversight of the State University System is in accordance with Sections 10a-87 through 10a-101 of the General Statutes.

Pursuant to Section 10a-87 of the General Statutes, the Board of Regents for Higher Education, located in Hartford, oversees Central Connecticut State University in New Britain, Eastern Connecticut State University in Willimantic, Southern Connecticut State University in New Haven, and Western Connecticut State University in Danbury as well as the 12 community colleges. Our office performs a separate audit of the 12 community colleges.

Section 10a-1a of the General Statutes provides that the Board of Regents for Higher Education consists of 21 members. Of these members, 9 are appointed by the Governor, 4 are appointed by legislative leaders, 2 are appointed by students, and 6 individuals serve as ex-officio members. The board, among other duties, sets statewide tuition and student fee policies; establishes financial aid policies; reviews, licenses, and accredits academic programs; and, in collaboration with institutional stakeholders, conducts searches for and selects campus presidents. In addition to governance responsibilities, the board also holds broad responsibilities for development and coordination of statewide higher education policy. Board members receive no compensation for their services, but are entitled to reimbursement for expenses.

The Board of Regents for Higher Education consisted of the following members as of June 30, 2018:

Appointed Members:

Matt Fleury, Chair  
Richard J. Balducci  
Naomi K. Cohen  
Felice Gray-Kemp  
Holly Howery  
JoAnn Ryan

Yvette Melendez, Vice Chair  
Aviva D. Budd  
Lawrence J. DeNardis  
Merle W. Harris  
David R. Jimenez  
Elease E. Wright

Ex-Officio Board Members:

William Lugo, FAC Chair  
Kurt Westby, Labor Commissioner  
Catherine H. Smith, DECD Commissioner

Del Cummings, FAC Vice Chair  
Raul Pino, Public Health Commissioner  
Dianna R. Wentzell, Education Commissioner

Hector Navarro, JoAnn H. Price, Juan Carlos Leal, Holly Palmer, Stephen Adair, William J. McGurk, Barbara E. Richards, Joseph Young, Scott Jackson, Nicholas Donofrio, Jewel Mullen, Sarah Greco, Robert Brown, Sharon Palmer, and Gordon Plouffe, also served on the board during the audited period. There were 3 appointed member vacancies as of June 30, 2018.

Among the duties of the Board of Regents for Higher Education is the appointment of a chief executive officer. Gregory W. Gray served as president until September 28, 2015. Mark E. Ojakian was appointed president on October 2, 2015 and served throughout the audited period.

### **Recent Legislation**

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

- **Public Act 15-231** – Effective July 1, 2015, Section 1 of this act required the Board of Regents for Higher Education to submit a report describing how institutional financial aid was awarded to its undergraduate students during the previous academic year to the joint standing committee of the General Assembly having cognizance of matters related to higher education. The report was due no later than November 1, 2015 and annually thereafter.
- **Public Act 15-244** – Effective July 1, 2015, Section 49 of this act limited expenditures for institutional administration to 7.25% of the annual General Fund appropriation and operating fund expenditures, exclusive of capital bond and fringe benefit funds for the fiscal years ending June 30, 2016 and 2017.

- **Public Act 17-63** – Effective June 30, 2017, Section 1 of this act shifted the responsibility for obtaining information on new programs, methods of education being developed, and encouraging and aiding in the development of new and improved programs and methods of education from the Board of Regents for Higher Education to the Office of Higher Education.

Sections 2 through 5 of this act shifts the responsibility of administering and reporting on certain loan reimbursement grant programs from the Board of Regents for Higher Education to the Office of Higher Education.

- **Public Act 17-130** – Effective July 1, 2017, this act limited the applicability of certain state contracting requirements for the Board of Regents for Higher Education (BOR). Generally, it allows BOR to enter into certain goods and services contracts without (1) obtaining specified certifications from bidders and contractors or (2) complying with competitive bidding or negotiation requirements. In the latter case, the BOR must first adopt policies for entering into or amending the goods and services contracts covered by the act.

### **RÉSUMÉ OF OPERATIONS**

During the audited period, operations of the system office were primarily supported by appropriations from the state’s General Fund and by tuition and fees credited to the State University Operating Fund.

#### **Operating Revenues**

Operating revenues are derived from the sale or exchange of goods and services that relate to the system office’s educational and public service activities.

Operating revenues, as presented in the system office’s audited financial statements for the audited period and previous fiscal year, are as follows:

	<b>Fiscal Year Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Tuition and Fees (Net)	\$ 32,242,713	\$ 26,228,711	\$ 25,455,103	\$ 25,384,077
Other Sources	14,242,501	11,894,571	13,827,478	12,578,578
Auxiliary Revenues	3,852,520	1,701,934	211,741	-
State and Local Grants and Contracts	41,021	-	27,773	-
Federal Grants and Contracts	12,947	-	-	-
Total Operating Revenues	<u>\$ 50,391,702</u>	<u>\$ 39,825,216</u>	<u>\$ 39,522,095</u>	<u>\$ 37,962,655</u>

Operating revenues totaled \$39,825,216, \$39,522,095, and \$37,962,655 during the fiscal years ended June 30, 2016, 2017, and 2018, respectively, compared to \$50,391,702 during the fiscal year ended June 30, 2015. These revenues decreased \$10,566,486 (21%), \$303,121 (0.8%), and \$1,559,440 (4%) during the 2016, 2017, and 2018 fiscal years, respectively.

The decrease in operating revenues during the fiscal year ended June 30, 2016 was primarily due to a drop in tuition and fees. This reduction was caused by a decrease in debt service fees transferred from the individual universities to the system office, which was the result of lower principal and interest payments on outstanding debt. A reduction in other sources and auxiliary revenues also drove down total operating revenues during 2016.

The decrease in operating revenues during the fiscal year ended June 30, 2017 was due in large part to a drop in auxiliary revenues. This was the result of shifting the telecommunication costs from the system office to the university campuses where the costs were incurred. This decrease was slightly offset by an increase in other revenues.

The decrease in operating revenues during the fiscal year ended June 30, 2018 was due to the reduction in revenues received from other sources as compared to the prior fiscal year. The completion of the shift in telecommunication costs to the university campuses resulted in the elimination of auxiliary revenues, helping to drive down overall operating revenue during the 2018 fiscal year.

### **Operating Expenses**

Operating expenses generally result from payments made for goods and services to achieve the system office's mission of instruction and public service. Operating expenses include, among other things, employee compensation and benefits, professional services, supplies, and depreciation.

Operating expenses, as presented in the system office's audited financial statements for the audited period and previous fiscal year, are as follows:

	<b>Fiscal Year Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Personal Services and Fringe Benefits	\$ 59,394,997	\$ 20,585,482	\$ 80,468,056	\$ 57,896,388
Operation of Facilities	58,904,747	38,309,140	20,872,070	8,689,006
Other Operating Supplies and Expenses	4,666,907	11,706,950	13,871,216	13,986,428
Professional Services and Fees	3,625,591	2,453,274	3,373,655	2,588,477
Depreciation Expenses	944,293	856,608	479,486	279,497
Travel Expenses	131,991	107,048	139,909	78,047
Educational Services and Support	31,492	2,121	5,494	846
Total Operating Expenses	<u>\$ 127,700,018</u>	<u>\$ 74,020,623</u>	<u>\$ 119,209,886</u>	<u>\$ 83,518,689</u>

Operating expenses totaled \$74,020,623, \$119,209,886, and \$83,518,689 during the fiscal years ended June 30, 2016, 2017, and 2018, respectively, compared to \$127,700,018 during the fiscal year ended June 30, 2015. These expenses decreased \$53,679,395 (42%) in fiscal year 2016, increased \$45,189,263 (61%) in fiscal year 2017, and then decreased again by \$35,691,197 (30%) in fiscal year 2018.

The decrease in operating expenses during the fiscal year ended June 30, 2016 was due, in large part, to a drop in personal service and fringe benefits expenses as well as operation of

facilities expenses. The reduction in personal services and fringe benefits was caused by a correction in the application of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which affected pension expense in this category. Operation of facilities expenses fell due to a decrease in expenses related to Connecticut Health and Educational Facilities Authority (CHEFA) bonds caused by a decrease in infrastructure activity.

The increase in operating expenses during the fiscal year ended June 30, 2017 was due primarily to a rise in personal services and fringe benefit expenses. This was the direct result of an increase in pension expense associated with GASB 68 accounting caused by changes in assumptions related to benefit terms. Specifically, adjustments were made to withdrawal, retirement, and mortality rates to more closely reflect actual and anticipated experience. In addition, economic assumptions and methodologies were changed through a memorandum of understanding between the State of Connecticut and the State Employee Bargaining Agent Coalition (SEBAC). This increase was slightly offset by a reduction in expenses related to operation of facilities due to a decrease in infrastructure activity within the system.

The decrease in operating expenses during the fiscal year ended June 30, 2018 was due to a reduction in personal service and fringe benefits expenses, as well as operation of facilities expenses. The drop in personal service and fringe benefits expenses was the direct result of a decrease in pension expense associated with GASB 68 accounting caused by changes in assumptions related to benefit terms. These changes related to a short-term salary freeze, changes in cost of living adjustment (COLA) payments to future retirees, retirement contribution increases, and the implementation of new retirement tiers. The reduction in expenses related to operation of facilities was due to a decrease in expenses related to CHEFA bonds, related to a decrease in infrastructure activity within the system.

### **Non-operating Revenues and Expenses**

Non-operating revenues and expenses are not from the sale, exchange, or purchase of goods and services that relate to the system office's primary functions of instruction, academic support and student services. Non-operating revenues and expenses include items such as the state's General Fund appropriation, investment income, and interest expense.

Non-operating revenues and expenses as presented in the system office's financial statements for the audited period and the previous fiscal year are as follows:

	<b>Fiscal Year Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
State Appropriations	\$ 54,423,409	\$ 7,028,008	\$ 7,263,446	\$ 6,494,348
Investment Income	751,090	917,010	1,533,800	2,941,682
Interest Expense	(13,893,196)	(12,013,928)	(11,178,752)	(11,262,501)
Other Non-operating Revenues (Expenses)	-	-	(674,041)	-
Transfer to the State of Connecticut	-	(257,996)	-	-
Net Non-operating Revenues (Expenses)	<u>\$ 41,281,303</u>	<u>\$ (4,326,906)</u>	<u>\$ (3,055,547)</u>	<u>\$ (1,826,471)</u>

Net non-operating revenues and expenses totaled \$(4,326,906), \$(3,055,547), and \$(1,826,471) during the fiscal years ended June 30, 2016, 2017, and 2018, respectively, compared to \$41,281,303 during the fiscal year ended June 30, 2015. These net non-operating revenues and expenses decreased \$45,608,209 (111%) in fiscal year 2016 and increased \$1,271,359 (30%) and \$1,229,076 (40%) during fiscal years 2017 and 2018, respectively.

The decrease in net non-operating revenues and expenses during the fiscal year ended June 30, 2016 was primarily caused by the reduction in the amount reported as state appropriations compared to the prior year. In fiscal year 2015, the system office booked an adjustment related to the implementation of GASB 68 to this line item for \$47,000,000. The decline reflects the amount reported returning to its normal activity. This decrease was slightly offset by an increase in investment income and a reduction in interest expense.

The increase in net non-operating revenues and expenses during the fiscal year ended June 30, 2017 was due to a rise in investment income as well as a drop in interest expense. The reduction of interest expense is the direct result of paying off debt.

The increase in net non-operating revenues and expenses during the fiscal year ended June 30, 2018 was the result of a rise in investment income. This increase was slightly offset by a reduction in state appropriations received by the system office.

In addition to the operating and non-operating revenues presented above, the system office's financial statements presented revenues classified as state appropriations restricted for capital purposes totaling \$13,209,341, \$34,128,062, and \$14,948,707 for the fiscal years ended June 30, 2016, 2017, and 2018, respectively.

### **Dormitory Debt Service Fund**

This fund is used to account for costs associated with Connecticut State University long-term debt. Long-term debt includes both self-liquidating state general obligation and revenue bonds issued to fund certain Connecticut State University capital projects as well as bonds issued by the Connecticut Health and Educational Facilities Authority.

Per records of the Office of the State Comptroller, operating transfers into the fund totaled \$32,414,645, \$34,974,553, and \$34,005,253 during the fiscal years ended June 30, 2016, 2017, and 2018, respectively. Payments for retiring principal and interest totaled \$29,284,777, \$32,565,893, and \$30,959,889 during those respective fiscal years. Resources accumulated in the fund to cover future debt service requirements totaled \$81,673,501, \$84,483,244, and \$88,550,109, as of June 30, 2016, 2017, and 2018, respectively.

Self-liquidating state general obligation bonds are bonds for which associated revenues pay for the portion of the costs attributable to certain projects funded by issuance, such as dormitory renovation. Though the bonds are liquidated from the resources of the General Fund, and the General Fund is reimbursed for the associated costs. The Connecticut State University's liability for such issuances was \$445,133 as of June 30, 2016. There was no liability for such issuances as of June 30, 2017 and 2018.

The Connecticut Health and Educational Facilities Authority (CHEFA), which operates primarily under the provisions contained in Chapter 187 of the General Statutes, was created to assist institutions for higher education, health care, nursing homes and qualified nonprofit organizations in the construction, financing, and refinancing of projects. Outstanding principal of CHEFA bonds issued on behalf of the Connecticut State University System totaled \$301,960,000, \$338,745,000, and \$318,690,000 as of June 30, 2016, 2017, and 2018, respectively.

**Connecticut State University System Foundation, Inc.**

The Connecticut State University System Foundation, Inc. is a private nonprofit corporation established to raise funds to support the Connecticut State University System. The foundation is a legal entity separate and distinct from the Board of Regents for Higher Education.

Sections 4-37e through 4-37k of the General Statutes define and set requirements for 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 record keeping 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.

An audit of the books and accounts of the foundation was last performed for the fiscal year ended June 30, 2017, in accordance with Section 4-37f(8) of the General Statutes. The auditor expressed an unmodified opinion on the foundation's financial statements for the fiscal year. In addition, the foundation's audit report disclosed no reportable instances of noncompliance with Sections 4-37e through 4-37j of the General Statutes.

The foundation's audited financial statements reported revenues, gains and other support totaling \$109,964 during the fiscal year ended June 30, 2017. The amount reported as support and revenue reflects \$46,324 in unrealized and realized gains on investments. Net assets were reported as \$509,857 as of June 30, 2017.

**STATE AUDITORS' FINDINGS AND RECOMMENDATIONS**

**Non-Payroll Expenditures and Consolidation of the Purchasing Process**

*Criteria:* Section 10a-89e of the General Statutes requires the Board of Trustees for the CSU System to consolidate the purchasing process for the system at the system office. This became effective July 1, 1998.

The Connecticut State Colleges and Universities Procurement Manual requires properly authorized purchase orders or contracts to be issued to vendors while making purchases.

*Condition:* Our review of the consolidated purchasing process disclosed that some purchasing procedures for the state university system have been centralized at the system office. These include training in the purchasing function, implementation of certain uniform purchasing procedures on a system-wide basis, and some procurement of goods and services at each of the state universities through contracts originated at the system office. However, the four state universities continue to maintain significant purchasing resources on campus, and most purchasing related procedures are still performed at each campus rather than at the system office.

We also reviewed 20 non-payroll system office expenditure transactions, totaling \$118,130, during the audited period. Our testing disclosed 3 instances in which the system office approved purchase orders, totaling \$11,038, after receiving the associated services. In these instances, the purchase orders were approved between 18 and 63 business days after receiving the services.

*Effect:* The system office did not comply with the requirements of Section 10a-89e of the General Statutes. Furthermore, the system office did not realize costs savings associated with consolidating the purchasing process.

Regarding the purchase orders, the system office did not fully comply with the Connecticut State Colleges and Universities Procurement Manual.

*Cause:* The system office informed us that the noncompliance with Section 10a-89e was caused by the lack of a common accounting system for the four state universities.

The system office did not have sufficient controls in place to prevent this condition.

*Prior Audit Finding:* The portion of this finding that relates to the consolidation of the purchasing process has been previously reported in the last 8 audit reports covering 2000 to 2015. The issue regarding the late purchase orders has not been previously reported.

*Recommendation:* The Board of Regents for Higher Education should continue its efforts to comply with Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process at the system office. The system office should also take steps to strengthen controls over the purchasing process by ensuring that purchase orders are in place and approved prior to ordering the related services. (See Recommendation 1.)

*Agency Response:* “Management agrees with the finding and recommendation. The system office has hired a new Vice President of Purchasing and Procurement. The new consolidated purchasing organization is being designed and systems and processes are being identified to support the new consolidated purchasing organization. These systems and processes will help rectify the issue of services being rendered prior to a PO being processed.”

## **Dual Employment**

*Criteria:* Section 5-208a of the General Statutes bars state employees from being compensated by more than 1 state agency unless the appointing authorities at such agencies 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 conflicts of interest exist between or among the positions.

This section also sets forth similar requirements for employees holding multiple positions within the same state agency. The statute prohibits an agency from compensating an employee for services rendered without meeting certain requirements. These requirements include that the appointing authority, or designee, certify that the duties performed are not in conflict with the employee’s primary responsibility, the employee’s hours worked on each assignment are documented and reviewed, and a conflict of interest between the services performed does not exist.

*Condition:* Our audit of 8 dual employment situations disclosed 5 instances in which employees held multiple state positions without the required dual employment certification forms in place. These employees earned a total of \$164,989 in gross pay while dually employed, \$152,058 of which was for work performed in multiple positions within the Connecticut State College and University System.

- Effect:* In some instances, the Board of Regents for Higher Education failed to 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 for dually employed individuals.
- Cause:* The system office did not have sufficient controls in place to prevent this condition.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* The Board of Regents of Higher Education should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by documenting, through signed certifications, that no conflicts exist for employees who hold multiple state positions. (See Recommendation 2.)
- Agency Response:* “The Board of Regents of Higher Education agrees with this finding. In two instances of the sampling population, the Dual Employment Form (CT-HR-25) was completed in a timely manner and electronically distributed before the start of the dual employment period but a hard copy of the form was not included in the employee’s personnel file. Regarding those instances in which a Dual Employment Form was not completed, the Board of Regents of Higher Education Human Resources Department will redistribute DAS General Letter 204 (Dual Employment) to all departments and reemphasize the requirement for the primary and secondary agencies, and the employee to complete and sign form CT-HR-25 prior to commencing the dual employment period, and to provide a copy of the completed form to the Human Resources Department for prompt filing in the employee’s personnel file.”

## **Reconciliations of Asset Management Systems**

- Background:* The system office uses an enterprise administrative information system, Banner, to maintain its accounting and student academic records. It also uses a separate system, eEquip Asset Management System, to track its capital assets. The information from the eEquip system is imported into Banner for financial reporting.
- Criteria:* Proper internal controls dictate that when multiple systems are used to track information, a reconciliation be performed between the systems to ensure that information has been correctly recorded in all systems.

The system office's internal policies require it to perform a quarterly reconciliation between the eEquip Asset Management System and the capital asset records in Banner.

*Condition:* In November 2017, the system office implemented eEquip to track and maintain its capital assets. The system office has not completed any reconciliations between the eEquip and Banner since that time. However, we did note that as of May 2019, the system office had assigned an individual with this task and that the system office has commenced the process of performing these reconciliations.

*Context:* As of June 30, 2018, the system office reported capitalized assets of \$15,238,543.

*Effect:* The lack of reconciliations between these systems increased the risk of loss or theft occurring and going undetected. Failure to perform these reconciliations also decreased assurance that the system office's capital asset records in Banner accurately reflect those reported in eEquip.

In addition, the system office did not fully comply with its policies.

*Cause:* The system office informed us that this issue was the result of staff retirements and the implementation of a new chart of accounts.

*Prior Audit Finding:* This finding has not been previously reported.

*Recommendation:* The Board of Regents for Higher Education should continue its efforts to strengthen controls over asset management by ensuring that it performs reconciliations between its asset management systems on a quarterly basis. (See Recommendation 3.)

*Agency Response:* "Management agrees with this finding and recommendation. Around the same period the fixed asset system went live the system office lost four employees in the accounting group. Two retirements, one accountant left on long term disability and one accountant accepted a new position. Additionally, the CSCU system implemented a new unified chart of accounts which required significant staff resources to manage. Since this audit period we have hired a new accountant and dedicated resources to fixed asset management and accounting."

## **Information System Access**

- Background:* The system office is considered a limited scope agency in relation to Core-CT, Connecticut state government’s centralized financial and administrative information system which the system office uses primarily to process payroll and human resources data. Banner is the system office’s primary information system.
- Criteria:* Proper internal controls dictate that access to information systems be promptly deactivated when access is no longer necessary or upon separation from state service.
- Condition:* Our review of Banner access for 5 employees who left state services disclosed 4 instances in which the system office did not deactivate accounts in a timely manner. In these instances, accounts remained active between 6 and 40 months after separation.
- We also reviewed access to Core-CT for 3 employees who left state service and found an instance in which the system office did not deactivate an account in a timely manner. In this instance, the account remained active for 9 days after separation.
- Effect:* Unauthorized access to a protected information system can jeopardize the security of the information in the system.
- Cause:* The system office told us that the issue with the Banner accounts was caused by a migration of the system to a vendor-hosted cloud environment.
- Regarding the issue with the Core-CT account, we were told that the status change message that should have triggered the lock-out process prior to separation was not sent.
- Prior Audit Finding:* This finding has not been previously reported.
- Recommendation:* The Board of Regents for Higher Education should strengthen controls over its information systems and ensure that access is promptly terminated upon separation from state service. (See Recommendation 4.)
- Agency Response:* “Management agrees with this finding. Status change notices will be sent to individuals responsible for adding and removing access when people are hired or separate from employment. Additionally, annual reviews of system access occur to identify appropriate access. These can occur more frequently to serve as an additional level of control.”

## **Reconciliations of Bank Accounts**

<i>Criteria:</i>	It is good business practice to perform bank account reconciliations on a monthly basis. These reconciliations should be performed in a timely manner after the end of each month.
<i>Condition:</i>	Our review of 15 system office bank account reconciliations from 3 of accounts disclosed 6 instances in which the system office did not perform reconciliations in a timely manner. In these instances, the office performed the reconciliations between 45 and 62 days late.
<i>Effect:</i>	The lack of timely reconciliations increased the risk of loss or theft occurring and going undetected.
<i>Cause:</i>	The system office informed us that lack of staff and competing priorities caused the delay in these reconciliations.
<i>Prior Audit Finding:</i>	This finding has been previously reported in the last audit report covering 2014 to 2015.
<i>Recommendation:</i>	The Board of Regents for Higher Education should improve internal controls over its bank account reconciliation process by ensuring that it performs monthly reconciliations in a timely manner. (See Recommendation 5.)
<i>Agency Response:</i>	“Management agrees. Attrition and positions left vacant have put added workload pressure on existing staff. While in some instances reconciliations were completed beyond the recommended 30-day timeframe, in no circumstance was a reconciliation never completed.”

## **OTHER AUDIT EXAMINATIONS**

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 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. There were no recommendations pertaining to the system office in the report to management for the fiscal year ended June 30, 2018.

## RECOMMENDATIONS

Our prior audit report on the Board of Regents for Higher Education – Connecticut State University System Office contained 4 recommendations. Two have been implemented or otherwise resolved and 2 have been repeated or restated with modifications during the current audit. The following is a summary of the action taken on the prior recommendations.

### Status of Prior Audit Recommendations

- The Board of Regents for Higher Education should comply with Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process at the system office, or seek legislative relief from the requirements of this section. **Our current audit disclosed that further improvement is needed in this area. Therefore, the recommendation is being repeated with modification to reflect our current audit findings. (See Recommendation 1.)**
- The Board of Regents for Higher Education should improve internal controls over the bank reconciliation process by ensuring that reconciliations are performed in a timely manner. **Our current audit disclosed continued issues in this area. The recommendation is being repeated. (See Recommendation 5.)**
- The Board of Regents for Higher Education should improve internal controls over software inventory by ensuring that required software items are included in the inventory and that documentation is maintained to support an annual physical inventory as required by the State Property Control Manual. **Our current audit disclosed that sufficient improvement was made in this area. The recommendation is not being repeated.**
- The Board of Regents for Higher Education should continue its efforts to develop a comprehensive formal written information technology disaster recovery plan. **Our current audit disclosed that sufficient improvement was made in this area. The recommendation is not being repeated.**

## **Current Audit Recommendations**

- 1. The Board of Regents for Higher Education should continue its efforts to comply with Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process at the system office. It should also take steps to strengthen controls over the purchasing process by ensuring that purchase orders are in place and approved prior to ordering the related services.**

Comment:

Our current audit disclosed that the four state universities continue to maintain significant purchasing resources on campus and most purchasing-related procedures are still being performed on campus, rather than at the system office. In addition, our testing disclosed 3 instances in which the system office approved purchase orders, totaling \$11,038, after receiving the associated services.

- 2. The Board of Regents of Higher Education should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by documenting, through signed certifications, that no conflicts exist for employees who hold multiple state positions.**

Comment:

Our audit of 8 dual employment situations disclosed 5 instances in which employees held multiple state positions without the required dual employment certification forms in place. These employees earned a total of \$164,989 in gross pay while dually employed, \$152,058 of which was for work performed in multiple positions within the Connecticut State College and University System.

- 3. The Board of Regents for Higher Education should continue its efforts to strengthen controls over asset management by ensuring that it performs reconciliations between its asset management systems on a quarterly basis.**

Comment:

Our audit disclosed that the system office has not completed any reconciliations between the eQuip system and Banner since the implementation of eQuip in November 2017. As of June 30, 2018, the system office reported capitalized assets of \$15,238,543.

- 4. The Board of Regents for Higher Education should strengthen controls over its information systems and ensure that access is promptly terminated upon separation from state service.**

Comment:

Our review of Banner access for 5 employees disclosed 4 instances in which the system office did not terminate account access in a timely manner after separation from state service had occurred. In these instances, accounts remained active between 6 and 40 months after separation. We also noted an instance in which the office did not terminate access to Core-CT in a timely manner. In this instance, the account was deactivated 9 days after separation.

- 5. The Board of Regents for Higher Education should improve internal controls over its bank account reconciliation process by ensuring that it performs monthly reconciliations in a timely manner.**

Comment:

Our review of 15 system office bank account reconciliations from 3 accounts disclosed 6 instances in which the system office did not perform reconciliations were in a timely manner. In these instances, the office performed the reconciliations between 45 and 62 days late.

**ACKNOWLEDGMENTS**

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

David Paradie  
Michael Stemmler  
Derik Muller  
Kaitlyn Lucas

**CONCLUSION**

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Board of Regents for Higher Education during the course of our examination.

Approved:



John C. Geragosian  
State Auditor



Michael J. Delaney  
Principal Auditor



Robert J. Kane  
State Auditor