STATE OF CONNECTICUT

AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT HEALTH CENTER
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

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

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October 7, 2011

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FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010

We examined the financial records of the University of Connecticut Health Center (Health Center) for the fiscal years ended June 30, 2009 and 2010. The Health Center is a component unit of the University of Connecticut system, which includes the University of Connecticut (University), the Health Center, the University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. This report on that examination consists of the Comments, Recommendations and Certification that follow.

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

COMMENTS

FOREWORD:

The University and the Health Center operate primarily under the provisions of Title 10a, Chapter 185, where applicable, Chapter 185b, Part III, and Chapter 187c of the General Statutes. Together, the University and the Health Center are a constituent unit of the state system of public higher education under the central authority of the Board of Governors of Higher Education. The University and the Health Center are governed by the Board of Trustees of the University of Connecticut, consisting of 21 members appointed or elected under the provisions of Section 10a-103 of the General Statutes.

The Board of Trustees, subject to statewide policy and guidelines established by the Board of Governors of Higher Education, makes rules for the government of the University and the Health Center and sets policies for administration of the University and the Health Center pursuant to duties set forth in Section 10a-104 of the General Statutes. The members of the Board of Trustees as of June 30, 2010, were:

Ex officio members:
M. Jodi Rell, Governor
Joan McDonald, Commissioner of Economic and Community Development
Gerard N. Burrow, M.D., Chairperson of the Health Center's Board of Directors
F. Philip Prelli, Commissioner of Agriculture
Mark K. McQuillan, Commissioner of Education

Appointed by the Governor:
Lawrence D. McHugh, Middletown, Chair
Louise M. Bailey, West Hartford, Secretary
Michael A Bozzuto, Avon
Peter S. Drotch, Framingham, Massachusetts
Lenworth M. Jacobs, M.D., West Hartford
Rebecca Lobo, Granby
Michael J. Martinez, East Lyme
Denis J. Nayden, Stamford
Thomas D. Ritter, Hartford
Wayne J. Shepperd, Danbury
Richard Treibick, Greenwich
The Honorable Robert M. Ward, Northford

Elected by alumni:
Francis X. Archambault, Jr., Storrs
Andrea Dennis-LaVigne, Simsbury

Elected by students:
Richard Colon. Jr., Vernon
Corey M. Schmitt, Storrs

Other members who served during the audited period include the following:
Philip P. Barry, Storrs
John W. Rowe, M.D., New York, NY
Linda P. Gatling, Southington
Ross Gionfriddo, West Hartford

Section 10a-104, subsection (c), of the General Statutes authorizes the Board of Trustees of the University of Connecticut to create a Board of Directors for the governance of the Health Center and delegate such duties and authority as it deems necessary and appropriate to said Board of Directors. The members of the Board of Directors as of June 30, 2010, were:

Ex officio members:
Robert Dakers, Executive Finance Officer, Office of Policy and Management
J. Robert Galvin, Commissioner, Department of Public Health
Philip Austin, Interim President, University of Connecticut

Appointed by the Chair of the Board of Trustees:
Gerard N. Burrow, Chair, Hamden
Lenworth M. Jacobs, M.D., Hartford
Wayne J. Shepperd, Danbury

Appointed by the Governor:
Karen Christiana, West Hartford
Kathleen Woods, Avon
Teresa Ressel, Stamford

Members at Large:
Richard Barry, Avon
Mark Bertolini, Avon
Andy F. Bessette, Orono, Minnesota
Francisco Borges, Farmington
Cheryl Chase, Hartford
Sanford Cloud Jr., Farmington
John Droney, Farmington
Robert T. Samuels, West Hartford
Tim Holt, Glastonbury

Other members who served during the audited period include the following:
Michael J. Cicchetti, Deputy Secretary, Office of Policy and Management
David B. Friend, M.D., Lincoln, MA
A. Jon Goldberg, Farmington
Brian Hehir, Port Washington, New York
Jay L. Haberland, Round Pond, ME
Michael Hogan, President, University of Connecticut
Teresa M. Ressel, Stamford

Pursuant to Section 10a-108 of the General Statutes, the Board of Trustees of the University of Connecticut are to appoint a president of the University and the Health Center to be the chief executive and administrative officer of the University and the Health Center and of the Board of Trustees. Michael J. Hogan served as president until he resigned in June of 2010. Philip E. Austin was appointed interim president, effective June 11, 2010.

The Health Center's Farmington complex houses the John Dempsey Hospital, the School of Medicine, the School of Dental Medicine, and related research laboratories. Additionally, the Schools of Medicine and Dental Medicine provide health care to the public, through the UConn Medical Group (including its UConn Health Partners unit) and the University Dentists, in facilities located at the Farmington campus and in neighboring towns.

The University of Connecticut Health Center Finance Corporation (Finance Corporation), a body politic and corporate, constituting a public instrumentality and political subdivision of the state, operates generally under the provisions of Title 10a, Chapter 187c of the General Statutes. The Finance Corporation exists to provide operational flexibility with respect to hospital operations, including the clinical operations of the Schools of Medicine and Dental Medicine.

The Finance Corporation is empowered to acquire, maintain and dispose of hospital facilities and to make and enter into contracts, leases, joint ventures and other agreements and instruments; it acts as a procurement vehicle for the clinical operations of the Health Center. The Hospital Insurance Fund (otherwise known as the John Dempsey Hospital Malpractice Fund), which accounts for a self-insurance program covering claims arising from health care services, is administered by the Finance Corporation in accordance with Section 10a-256 of the General Statutes. Additionally, Section 10a-258 of the General Statutes gives the Finance Corporation the authority to determine which hospital accounts receivable shall be treated as uncollectible.

The Finance Corporation acts as an agent for the Health Center. In the past, it operated on a pass-through basis; it did not accumulate any significant assets or liabilities. However, construction of the Health Center's new Medical Arts and Research Building during the fiscal years ended June 30, 2004 and 2005, was administered through the Finance Corporation. The building is an asset of the Finance Corporation and the associated debt a liability. Similarly, the Health Center's acquisition of the facility located at 16 Munson Road during the fiscal year ended June 30, 2005 was administered through the newly incorporated UCHCFC Munson Road Corp., a wholly owned subsidiary of the Finance Corporation.

The Finance Corporation is administered by a Board of Directors, consisting of five members appointed under the provisions of Section 10a-253 of the General Statutes. The members of the Board of Directors as of June 30, 2010, were:

Ex officio members:
- Philip Austin, Interim President, University of Connecticut
- Cato T. Laurencin, M.D., Ph.D., Executive Vice President for Health Affairs
- Robert Dakers, designee of the Secretary of the Office of Policy and Management

Appointed by the Governor:
- Lawrence D. McHugh, Middletown
- Wayne J. Shepperd, Danbury

Other members who served during the audited period include:
- Michael J. Hogan, President of the University of Connecticut
- John W. Rowe, M.D., New York, NY

Recent Legislation:

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

- Public Act 09-2, June Special Session, effective June 26, 2009, authorized a deficiency appropriation for the Health Center of $22,200,000.
- Public Act 09-03, June Special Session, Section 74, requires the sum of $10,000,000 be transferred from the University of Connecticut Health Center Medical Malpractice Trust Fund and credited to the resources of the General Fund for each of the fiscal years ending June 30, 2010 and June 30, 2011.
- Public Act 09-03, September Special Session, Section 60, requires that John Dempsey Hospital fund the University of Connecticut Health Center Medical Malpractice Trust Fund at a level deemed necessary by Board of Trustees of the University of Connecticut. Previously, the Medical Malpractice Trust Fund was to be funded on an actuarially sound basis.
- Public Act 10-104, effective July 1, 2010, provides funding, with certain conditions, for (1) the construction of a new bed tower and renovations of academic, clinical, and research space at the Health Center/John Dempsey Hospital and (2) the development of regional health network initiatives. The act also establishes provisions for transferring, from John Dempsey Hospital to Connecticut Children's Medical Center, licensure and control of 40 neonatal intensive care unit beds; confers the benefits of an enterprise zone to certain businesses in Hartford, Farmington, New Britain, and Bristol; and requires the Health Center to report biennially on the progress of the health network initiative and the Health Center/John Dempsey Hospital construction and renovation.

Enrollment Statistics:

Statistics compiled by the Health Center's registrar present the following enrollments in the Health Center's credit programs during the audited period and prior fiscal year.

Student Status	2007-2008		2008-2009		2009-2010	
	Fall	Spring	Fall	Spring	Fall	Spring
Medicine - Students	323	323	331	331	346	346
Medicine – Residents	585	585	585	585	585	585
Dental – Students	164	164	172	172	170	170
Dental - Residents	109	109	121	121	111	111
Totals	1,181	1,181	1209	1209	1212	1212

RÉSUMÉ OF OPERATIONS:

Under the provisions of Section 10a-105, subsection (a), of the General Statutes, fees for tuition were fixed by the University's Board of Trustees. The following summary presents annual tuition charges during the audited period and prior fiscal year.

	School of Medicine			School of Dental Medicine		
Student Status	2007-2008	2008-2009	2009-2010	2007-2008	2008-2009	2009-2010
In-State	$18,889	$19,833	$20,824	16,674	17,508	$19,592
Out-of-State	$41,525	$42,480	$43,869	40,519	42,545	$45,120
Regional	$33,056	$34,709	$36,442	29,180	30,639	$34,285

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

- General Fund appropriation accounts.
- The University of Connecticut Health Center Operating Fund (Section 10a-105 of the General Statutes).
- The University of Connecticut Health Center Research Fund (Section 10a-130 of the General Statutes).
- The University Bond Liquidation Fund (Special Act 67-276, Section 26, and others - used for both the University and the Health Center).
- The University Health Center Hospital Fund (Section 10a-127 of the General Statutes).
- The John Dempsey Hospital Malpractice Fund (Section 10a-256 of the General Statutes).
- Accounts established in capital project and special revenue funds for appropriations financed primarily with bond proceeds.

The Finance Corporation previously maintained a separate accounting system. However, it was combined with the Health Center's primary accounting system during the fiscal year ended June 30, 2009. In the past, virtually all of the Finance Corporation's activity and balances were also recognized in the University of Connecticut Health Center Operating and Hospital funds. However, as noted above, this changed with the recent construction of the Health Center's new Medical Arts and Research Building and the acquisition of the facility located at 16 Munson Road. These buildings are assets of the Finance Corporation and the associated debt a liability.

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

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

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

The agreement called for the Health Center to provide comprehensive medical, mental health, dental services and medical support services such as laboratory, pharmacy and radiology to Department of Correction inmates at a capitated, or fixed, cost. However, as actually implemented, the program functions on a cost reimbursement basis. This was recognized in a new memorandum of agreement executed in March 2006.

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

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

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

Health care providers and support staff of the Health Center are fully protected by state statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against the Health Center's malpractice self-insurance fund. Effective July 1, 1999, the Health Center developed a methodology by which it could allocate malpractice costs between the Hospital, the UConn Medical Group and University dentists. For the years ended June 30, 2009 and 2010, these costs are included in the statement of revenues, expenses and changes in net assets.

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

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

Health Center employment remained relatively stable during the audited period. Health Center position summaries show that permanent full-time filled positions aggregated 4,724, 4700 and 4,722 as of June 2008, June 2009 and June 2010, respectively.

Operating Revenues:

Operating revenue results from the sale or exchange of goods and services that relate to the Health Center's missions of instruction, research and patient services. Major sources of operating revenue include patient services, federal grants, state grants, and contract and other operating revenues.

Operating revenue as presented in the Health Center's financial statements for the audited period and prior fiscal year follows:

	2007-2008	2008-2009	2009-2010
Student Tuition and Fees (net of scholarship allowances)	10,857,096	$ 11,578,853	12,163,266
Patient Services (net of charity care)	399,252,009	413,226,263	405,660,387
Federal Grants and Contracts	61,214,230	60,479,262	59,357,473
Non-Governmental Grants and Contracts	25,787,409	27,784,536	28,673,290
Contract and Other Operating Revenues	50,418,339	52,017,838	58,790,499
Total Operating Revenue	547,529,083	565,086,752	564,644,915

The largest source of operating revenue, Patient Services, is derived from fees charged for patient care. Patient services revenue increased 3.5 percent in the fiscal year ended June 30, 2009 followed by a decrease of 1.9 percent in fiscal year 2010. The decrease is primarily attributable to reduced revenues from the Corrections Managed Health Care program.

Operating Expenses:

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

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

	2007-2008	2008-2009	2009-2010
Educational and General			
Instruction	$ 109,503,140	$ 115,260,386	$ 126,205,942
Research	60,274,554	59,329,330	59,967,127
Patient Services	445,745,818	471,209,020	464,366,234
Academic Support	15,686,832	16,110,423	14,469,371
Institutional Support	62,514,306	59,122,168	55,016,299
Operations and Maintenance	23,549,107	27,073,219	26,222,949
Depreciation	28,225,548	29,168,032	28,881,299
Loss on Disposal	228,173	280,860	37,593
Student Aid	417,306	659,089	480,034
Total Operating Expenses	$ 746,144,784	$ 778,212,527	$ 775,646,848

The largest source of operating expenses relates to Patient Services. Patient Services expenses increased 5.7 percent in the fiscal year ended June 30, 2009 followed by a decrease of 1.5 percent in fiscal year 2010. The fluctuation in Patient Services expenses has been attributed primarily to fluctuations in patient volume. Instruction expenses, the second largest operating expense, increased 5.2 percent in the fiscal year ended June 30, 2009 and 9.5 percent in the fiscal year ended June 30, 2010. The increases in instruction expenses are associated with increased salaries and fringe benefits.

Nonoperating Revenues and Expenses:

Non-operating revenues and expenses are those revenues and expenses that are neither operating revenues/expenses nor capital additions/deductions. Non-operating revenues and expenses include items such as the state's general fund appropriation, gifts, investment income and interest expense.

Non-operating revenue (expenses) as presented in the Health Center's financial statements for the audited period and prior fiscal year follows:

	2007-2008	2008-2009	2009-2010
State Appropriations	$ 190,742,826	$ 208,531,369	$ 218,483,899
Transfers to State		-	(10,000,000)
Gifts	2,698,560	981,803	1,602,111
Investment Income	6,624,737	5,884,533	2,506,113
Interest on capital assets - related debt	(2,767,549)	(2,574,423)	(2,364,379)
Net Nonoperating Revenue	$ 197,298,574	$ 212,823,282	$ 210,227,744

The State Appropriations increased in the fiscal year ended June 30, 2009, by $17,788,543 or 9.33 percent when compared to the fiscal year ended June 30, 2008. The State Appropriations increased in the fiscal year ended June 30, 2010, by $9,952,530 or 4.77 percent when compared to the fiscal year ended June 30, 2009.

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

Capital Appropriations:

Capital appropriations as presented in the Health Center's financial statements for the audited period and prior fiscal year follows:

	2007-2008	2008-2009	2009-2010
Total Capital appropriations	($ 165,790)	$ 40,275,800	$ 35,610,000

The capital appropriations amounts for the fiscal years ended June 30, 2009 and June 30, 2010 are primarily related to amounts allocated to the Health Center under the UCONN 2000 capital improvement program.

Net Assets:

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

	2007-2008	2008-2009	2009-2010
Invested in Capital Assets, Net of Related Debt	$197,694,344	$216,043,925	$243,088,238
Restricted for Non-expendable			
Scholarships	61,451	61,451	61,451
Restricted for Expendable:			
Research	4,030,868	4,250,376	4,358,925
Loans	2,512,492	2,400,875	1,863,644
Capital Projects	14,361,529	32,802,019	30,648,940
Unrestricted	52,370,752	55,446,097	65,819,357
Total Net Assets	$271,031,436	$311,004,743	$345,840,555

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

Related Entities:

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

University and the Health Center. Its financial statements reflect balances and transactions associated with both entities, not only those exclusive to the Health Center.

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

	Foundation		
	Fiscal Year Ended		
	June 30, 2008	June 30, 2009	June 30, 2010
Assets	$396,802,000	$322,142,000	$348,244,000
Liabilities	16,801,000	16,745,000	13,329,000
Net Assets	380,001,000	305,397,000	334,915,000
Support and Revenue	32,758,000	(31,337,000)	66,289,000
Expenditures	45,696,000	43,267,000	36,771,000

The negative support and revenue appearing above for the fiscal year ended June 30, 2009 is primarily attributable to negative net total investment return.

CONDITION OF RECORDS

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

Collection of Delinquent Accounts Receivables:

Criteria: The maximization of accounts receivable collections is a component of sound financial management.

Connecticut General Statutes Section 12-742 establishes a process for the withholding of state income tax refunds of those persons or entities owing debts to the state. This process is commonly referred to as the State Tax Intercept Program.

Condition: The Health Center uses a variety of techniques in an effort to collect delinquent patient accounts receivable. Such techniques include the use of in-house staff, outside collection agencies and consultation with staff of the Attorney General's Office. After exhausting the above collection techniques, the Health Center ultimately writes off approximately $4,000,000 in patient accounts receivable per year.

The Health Center does not currently use the State Tax Intercept Program as one of its collection techniques. It is our understanding that the Tax Intercept Program has been used successfully at other state agencies.

Effect: The Health Center may not be maximizing patient accounts receivable collections.

Cause: The Health Center has been using traditional collection techniques.

Recommendation: The Health Center should investigate whether the use of the State Tax Intercept Program will assist in maximizing accounts receivable collections. (See Recommendation 1.)

Agency Response: "Management agrees and will contact the Department of Administrative Services to investigate UCHC's participation in the State's Tax Intercept Program."

Health Center Paid Long Term Disability Insurance:

Background: Many employees of the State of Connecticut Higher Education System are members of the State of Connecticut's Alternate Retirement Plan (ARP). Unlike the State of Connecticut State

Employee Retirement System (SERS), the ARP plan does not have a provision for disability retirement. Because of this, ARP plan members are provided employer paid coverage under a long-term disability plan.

Criteria: The Health Center should not incur unnecessary expenses.

Condition: The Health Center currently pays long-term disability coverage for approximately 300 SERS employees. This expense is unnecessary since the SERS plan contains provisions for disability retirement.

Effect: We estimate the cost of providing the long-term disability coverage to SERS employees is approximately $100,000 annually.

Cause: Unknown.

Recommendation: The Health Center should eliminate SERS employees from their employer provided long-term disability plan. (See Recommendation 2.)

Agency Response: "SERS members appear to have been added in 1991 as a result of UHP negotiations. The UHP Contract states the following:

Article 21.2 b. Employees in the bargaining unit whose assignment authorizations are at least fifty (50) percent and who are in TIAA/CREF shall receive disability insurance coverage under the same disability policy as is provided to Health Center faculty.

Effective on or about January 1, 1991, the long term disability insurance plan shall be extended to all other members of the bargaining unit whose assignment authorizations are at least fifty (50) percent, and referenced in Section 11.3c.

The University agrees that it should not incur any unnecessary expenses and will address the issue, as required under collective bargaining. To the extent non-unionized SERS participants have been extended the benefit, the University will cease extending that coverage."

Lack of Segregation of Duties:

Criteria: Proper internal control requires the segregation of duties between the initiation of requests for purchases, the selection of the vendor providing the goods or services, and the receiving of those goods or services.

Condition: During our test of expenditures, we noted two vendors who provided the Health Center's library with goods and services costing approximately $690,000 and $390,000, respectively. Our review of the process related to the purchase of these goods and services found that library personnel initiated the request for such purchases, selected and negotiated with the vendors, and approved the receipt of the goods and services without the assistance of the Health Center's Procurement Department.

Upon further investigation, we found several other large purchases for library related materials that were processed in a similar manner.

Effect: The lack of segregation of duties between the initiation of a request to purchase, the selection of the vendor, and the receipt of the goods or services increases the risk that a transaction might be processed in a manner inconsistent with management's intentions. Further, purchasing department professionals presumably possess negotiating skills that might lead to lower prices.

Cause: Library purchases have traditionally been outside the purview of the Procurement Department.

Recommendation: All significant purchases should require the involvement of the Procurement Department. (See Recommendation 3.)

Agency Response: "Management agrees. All library requisitions will be reviewed by the Procurement Department beginning July 1, 2011."

Execution of Contracts:

Criteria: Contractors should not be authorized to begin work prior to the execution of a contract. Formal written agreements establishing rights and responsibilities are a safeguard for all parties involved.

Condition: In December 2001, the Health Center promulgated new contracting procedures. According to these procedures, new contracts must be fully executed prior to the beginning of work. However, it appears that this requirement continues to be unsuccessful in practice.

Based on our analysis of the Health Center's contract management database, 347 personal service agreements were executed by the Health Center during the period from April 1, 2009 through June 30, 2010. Twenty-six of the 347 were amendments of existing contracts. The remaining 321 agreements included 181 research related agreements and 140 other agreements.

Our review disclosed that 164 of the 181 research related agreements were signed after the start date. Delays ranged from one to 714 days; the average lag time was 116 days. Further, 103 of the other 140 agreements were signed after the start date. Delays ranged from one to 449 days; the average lag time was 134 days. The delays were calculated by comparing the contract start date to the date the contracts were signed by a representative of the Health Center.

Effect: Unforeseen liabilities may be incurred if work is started on a project before all of the key terms have been agreed to and the contract has been signed. This is a critical concern, especially if disagreements arise regarding the nature or quality of the work involved.

Cause: Those responsible for initiating the process did not allow sufficient lead-time. The magnitude of the time lags involved indicates that, in at least some instances, initiation of the process may have been delayed until the need to process payments to contractors became apparent, payments are not processed until a contract is in place.

It should be noted that letters mailed to prospective contractors included a warning that the Health Center is not liable for payment until contracts are executed and emphasized that contracts must be executed prior to the expiration date of the agreement. These letters should state that contracts must be executed before the contractors can commence working.

Recommendation: The Health Center should not authorize contractors to begin work prior to the execution of a contract. (See Recommendation 4.)

Agency Response: "Management continues to focus on ways to reduce the number of contracts signed after the start date. As previously mentioned, UCHC will not pay invoices until the contract is signed. Most contracts have agreed on all terms and conditions beforehand. The delay is in the routing of the contract for signatures. To address the concern in the Effect section above, UCHC is reviewing ways to incorporate language that will include dates when all terms have been agreed upon. The Health Center has not had any disputes over key financial or performance terms."

Inappropriate Use of Paid Leave Time:

Criteria: Payments made to employees should be limited to the minimum amounts necessary to achieve Health Center objectives.

Condition: We noted an instance in which the Health Center paid an employee for 19 days while they were not at work (paid leave). Upon further investigation, we determined that the 19 days represented the employee's attendance in an executive MBA program during their normal working hours.

Effect: Health Center resources were wasted.

Cause: Health Center personnel apparently believe that the granting of paid leave time for the attendance of an executive MBA program is an appropriate expense.

Recommendation: The Health Center should require that persons wishing to attend executive MBA courses during their normal working hours charge either their vacation time or incur unpaid leave. (See Recommendation 5.)

Agency Response: "The Health Center agrees that prudent use of its financial resources is essential. Further guidance to managers and supervisors regarding appropriate use of paid or unpaid leave will be provided."

Limitations on Employee Reimbursements:

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

Condition: During our tests of employee reimbursements, we noted instances in which tuition reimbursements to Health Center employees appeared excessive. In one instance, an employee received $15,690 in tuition reimbursements, which, based upon our calculations, exceeded the University of Connecticut tuition rate by $7,800. Upon further investigation, we determined that the Health Center has not established a maximum tuition reimbursement rate. This is inconsistent with the University of Connecticut-Storrs policy, which states that when a course is taken at an institution other than the University of Connecticut, tuition reimbursement is limited to the University's tuition or the other institution's tuition, whichever is less.

Effect: The Health Center is providing benefits to its employees in excess of what is necessary.

Cause: The establishment of a maximum tuition reimbursement rate has not been deemed a priority.

Recommendation: The Health Center should establish a tuition reimbursement policy similar to the one established by the University of Connecticut-Storrs. (See Recommendation 6.)

Agency Response: "The University agrees that a formal policy on tuition reimbursement is appropriate and will pursue establishment of reasonable guidelines."

Failure to Establish Scope When Contracting for Consulting Services:

Criteria: Cost is a major consideration in any procurement process. An important objective in negotiating with consulting professionals is to reach a complete and mutual understanding of the scope of services to be provided, as well as the compensation for such services.

Condition: The Health Center entered into a contract (in the amount of $50,000) for consulting services intended to identify opportunities to improve financial performance, on October 15, 2007. From the period of November 14, 2007 to October 9, 2008, the scope of the services provided by the consultant increased in cost to approximately $4,100,000.

Effect: The Health Center's approach to establishing the scope and price for the consulting services makes establishing a firm budget difficult, increases the risk of misunderstandings between the Health Center and the vendor, and may put the Health Center in a weak negotiating position

Cause: It is our understanding that the original contract was established for limited services because of budgetary constraints.

Recommendation: The Health Center should establish the scope and price of consulting contracts prior to establishing a contractual relationship. In those instances in which the scope or price of a project significantly changes, consideration should be given to soliciting new proposals in an open and competitive process. (See Recommendation 7.)

Agency Response: "Management agrees in part with the recommendation. Some consulting contracts, like the one mentioned above, are for process improvement and redesign, and also implementation services for recommended changes. The fees for the implementation services cannot and should not be negotiated until after the initial review is performed. Doing so could put UCHC in weaker negotiating positions since neither party would have the information that would support the extent of services needed to properly and

effectively complete the engagement. It allows the Health Center to then negotiate scope and price based on the findings."

Hypothecation Reports:

Criteria: Unnecessary expenses should be avoided.

Condition: Section 10a-128 of the General Statutes requires that the Health Center submit a quarterly report of the book value of its patient accounts receivable, known as hypothecation reports, to the State Comptroller. These reports cost the Health Center approximately $36,000 per year. Based upon our discussion with various parties involved, the cost of these reports may exceed their value.

Effect: Costs are being incurred which may be unnecessary.

Cause: The Health Center is complying with statutory requirements.

Recommendation: The Health Center should consider seeking legislation changing the requirements for the quarterly hypothecation reports. (See Recommendation 8.)

Agency Response: "Management agrees and will work with UCHC Government Relations department to seek the recommended changes. Another alternative to save the $36,000 would be to have the report prepared by the Auditors of Public Accounts."

Monitoring of Service Organizations:

Criteria: When the Health Center uses outside service organizations to facilitate significant financial tasks, it should obtain assurance that the service organization's internal controls are functioning in an appropriate manner. The standard method of obtaining such assurance is by requesting and reviewing the service organization's Service Organization Control Report (formerly known as a SAS 70 report.)

Condition: GE Healthcare provides the Health Center with significant computer-based services that include owning and operating critical software and the servers that support such software. The Health Center did not request the SAS 70 reports for GE Healthcare for the fiscal years ended June 30, 2009 or June 30, 2010.

Effect: The Health Center may be exposed to more risk in areas such as security and privacy of data than it deems acceptable.

Cause: The duty of periodically requesting and reviewing SAS 70 reports has not been properly assigned.

Recommendation: The periodic request of SAS 70 reports and the review of such reports should be assigned to the Health Center's Audit Services Unit. (See Recommendation 9.)

Agency Response: "Management will include language in contracts that will request that vendors that have a "Service Organization Control Report" (formerly known as a SAS 70 report) completed and provide the Health Center with such report. We will also use the vendor management group to request that outside service organizations that facilitate significant financial tasks at the Health Center submit their "Service Organization Control Report" (formerly known as a SAS 70 report) if available. Review of these reports will be performed by the managing Department and by the Office of Audit, Compliance and Ethics as part of its ongoing risk assessment process."

Finance Corporation Non-Competitive Procurements:

Criteria: Purchasing policies and procedures should be designed to encourage a strong element of competition. Free market forces, acting in an open and competitive environment, are vital to an efficient and cost-effective procurement process. Public solicitation of competitive bids is an essential element of a competitive procurement process.

Condition: Finance Corporation policies and procedures for purchasing and contracting provide for non-competitive procurement actions on the approval of the chief financial officer. Further, the policies and procedures adopted by the Finance Corporation's Board of Directors, in accordance with Section 10a-255, allow a procurement action to be defined as competitive even when it does not involve competitive bidding.

In certain circumstances, a competitive selection process may not be the most efficient method of conducting purchasing and contracting. However, because of the innate potential for abuse, we believe that all procurement actions that are not competitive in nature should be reported to the boards of the Finance Corporation and the Health Center, even if they are relatively minor in amount. The report should disclose the reasons why a competitive selection process was not followed.

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Effect: Non-competitive procurement action can result in higher costs through reduced competition.

Cause: The policies and procedures for purchasing and contracting were designed for maximum flexibility.

Recommendation: The Health Center should revise Finance Corporation policies and procedures for purchasing and contracting to mandate that all non-competitive procurement actions be reported to the boards of the Finance Corporation and the Health Center, regardless of amount. Further, all competitive procurement actions that do not include the open and public solicitation and consideration of bids or proposals, should be defined as non-competitive. (See Recommendation 10.)

Agency Response: "Management agrees and starting with the June 2011 Finance Corporation Board of Directors meeting, management has noted the type of procurement for all contracts processed over $1,000."

Convenience Contracts:

Background: In our prior audit report we noted the Health Center's use of convenience contracts. A convenience contract is a contracting process that results in contract awards to all qualified vendors that submit proposals. We requested that the Health Center seek an opinion from the Attorney General to determine if the use of convenience contracts was in accordance with statutory provisions.

Criteria: Section 10a-151b of the General Statutes requires all non-emergency purchases over $50,000 be subject to a formal procurement process that requires public notice soliciting competition and the public opening of sealed bids or proposals.

Competition among qualified vendors is an important component of the public procurement process.

Condition: During our tests of expenditures we noted a purchase of a laser scanning microscope for $393,802. The Health Center was not able to provide us with evidence of public notice soliciting bids or proposals for this item or evidence of opening of sealed bids or proposals for this item. Additionally, we saw no evidence that procurement department personnel had attempted to ensure that qualified vendors competed for the ability to sell the item to the Health Center. Finally, we saw no evidence that procurement department personnel attempted to obtain documentation showing that what was ultimately purchased was properly priced.

Effect: The Health Center may have paid more than necessary for the acquired item.

Cause: The techniques used by the Health Center to purchase the item described above is apparently consistent with their use of convenience contracts.

Recommendation: When purchasing items of significant cost, the Health Center should attempt to seek competition among qualified vendors. (See Recommendation 11.)

Agency Response: "Management agrees with the recommendation and that prior to issuing a purchase order all requests $50,000 and over on convenience contracts will require documentation in the purchasing system that a review of the pricing was performed and the item price was verified before the PO is issued."

Other Audits:

The John Dempsey Hospital, the Finance Corporation and the UConn Medical Group were audited by public accounting firms during the audited period. Combined management letters were issued each year communicating the recommendations developed as a result of these audits. They recommended the following:

Fiscal year ended June 30, 2009:

- Perform quarterly reconciliations between the general ledger and fixed assets sub-ledger.
- Management should examine the reconciliation process over the cash clearing account.
- Management should implement a formal review process for IDX (healthcare software) system changes.

Fiscal year ended June 30, 2010:

- Strengthen procedures surrounding the closure of the accounts payable and accruals system through a more detailed review of operating expenses and outstanding purchase orders/receiving documents and open invoices.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

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

- The Health Center should invest funds held in excess of anticipated cash needs at the fund level and distribute earnings to individual accounts based on average daily cash balances as reflected in the accounting system. The Health Center is in the process of implementing this recommendation. This recommendation is not being repeated.

- The University should prepare, annually, a comprehensive cost/benefit analysis for the Office of Technology Commercialization. The Health Center has implemented this recommendation. This recommendation is not being repeated.

- The Health Center should submit all contracts for professional services to the Attorney General for review. The Health Center has revised its procedures in an effort to comply with this recommendation. This recommendation is not being repeated.

- The Health Center should not authorize contractors to begin work prior to the execution of a contract. We continued to find significant delays in the execution of certain contacts. This recommendation is being repeated. (See Recommendation 4.)

- The Health Center should develop detailed written standards for performing and documenting whistle blower reviews to help ensure that the agency's whistle blower program operates effectively. The Health Center has implemented this recommendation. This recommendation is not being repeated.

- The Health Center should conduct all employment processes in an open and competitive manner as specified in its published guidelines. We did not identify the conditions which this recommendation was based on during the current audit. The recommendation is not being repeated.

- The Health Center should make sure that all compensation paid is in compliance with the provisions of the laws, by-laws and rules of the University of Connecticut. Supporting documentation should be required for all reimbursements of business expenses incurred. We did not identify the conditions which this recommendation was based on during the current audit. The recommendation is not being repeated.

- The Health Center should establish rigorous pre-approval, supervision and documentation standards for compensatory time. The Health Center should consult with the Attorney General to determine if efforts should be made to recover payments made in connection with unsupported compensatory time accruals. We did not identify the conditions which this recommendation was based on during the current audit. The recommendation is not being repeated.

- The Health Center should ensure that an instance of apparent non-compliance with state ethics requirements is reported to the Office of State Ethics. The apparent instance of non-compliance with state ethics requirements has been reported to the Office of State Ethics. The recommendation is not being repeated.

- The Health Center should enhance control of the procurement process by increasing segregation of duties and clarifying policies/procedures addressing the Board of Directors approval of major contracts and staff approval of vendor invoices. The Health Center has taken steps to implement this finding through the implementation of a new information system. This recommendation is not being repeated.

- The Health Center should revise Finance Corporation policies and procedures for purchasing and contracting to mandate that all non-competitive procurement actions be reported to the boards of the Finance Corporation and the Health Center, regardless of amount. Further, all competitive procurement actions that do not include the open and public solicitation and consideration of bids or proposals should be defined as non-competitive. This recommendation is being repeated (see recommendation 10.)

- The Health Center should seek the opinion of the Attorney General regarding whether or not the existing practice of issuing convenience contracts is in accordance with existing statutory provisions. This recommendation is being repeated in a revised format (see recommendation11.)

- The Health Center should not make noncompetitive purchases on an emergency basis unless a practical alternative is not available. We did not identify the conditions upon which this recommendation was based during the current audit. The recommendation is not being repeated.

Current Audit Recommendations:

1. **The Health Center should investigate whether the use of the State Tax Intercept Program will assist in maximizing accounts receivable collections.**

   Comment:

   Other state agencies have found the use the State Tax Intercept Program an effective way of assisting in the collection of delinquent accounts receivable.

2. **The Health Center should eliminate SERS employees from their employer provided long term disability plan.**

   Comment:

   The inclusion of SERS employees in the Health Center's employer provided long term disability plan is an unnecessary expense.

3. **All significant purchases should require the involvement of the Procurement Department.**

   Comment:

   We noted that purchases for the Health Center library, of a significant dollar value, were initiated, negotiated and approved by library personnel without the assistance of the Procurement Department.

4. **The Health Center should not authorize contractors to begin work prior to the execution of a contract.**

   Comment:

   We noted numerous instances in which the Health Center entered into personal service agreements which were not fully executed until after the start date.

5. **The Health Center should require that persons wishing to attend executive MBA courses during their normal working hours charge either their vacation time or unpaid leave.**

   Comment:

   We noted an instance in which the Health Center granted 19 paid leave days to an employee for the purpose of attending executive MBA classes.

6. **The Health Center should establish a tuition reimbursement policy similar to the one established by the University of Connecticut-Storrs.**

   Comment:

   We noted instances where reimbursements to employees for tuition were overly generous.

7. **The Health Center should establish the scope and price of consulting contracts prior to establishing a contractual relationship. In those instances in which the scope or price of a project significantly changes, consideration should be given to soliciting new proposals in an open and competitive process.**

   Comment:

   The Health Center entered into a contract with a consultant for an amount originally established at $50,000. By the time the consultant had finished rendering the services originally contemplated by the Health Center, the price for such services had increased to $4,100,000.

8. **The Health Center should consider seeking legislation changing the requirements for the quarterly hypothecation reports.**

   Comment:

   The cost of the Health Center's hypothecation reports appears to exceed their value.

9. **The periodic request of SAS 70 reports and the review of such reports should be assigned to the Health Center's Audit Services Unit.**

   Comment:

   A request for a SAS 70 report should be made in any instances in which service organizations provide significant services to the Health Center. Additionally, these reports should be scrutinized by appropriate Health Center personnel.

10. **The Health Center should revise Finance Corporation policies and procedures for purchasing and contracting to mandate that all non-competitive procurement actions be reported to the boards of the Finance Corporation and the Health Center, regardless of amount. Further, all competitive procurement actions that do not include the open and public solicitation and consideration of bids or proposals, should be defined as non-competitive.**

    Comment:

    Certain purchases by the Finance Corporation are defined as competitive even when no competitive bidding has occurred.

11. **When purchasing items of significant cost, the Health Center should attempt to seek competition among qualified vendors**

    Comment:

    We noted an instance in which a significant purchase by the Health Center was not supported by evidence of competition among vendor or evidence of proper pricing.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the University of Connecticut Health Center (Health Center) for the fiscal years ended June 30, 2009 and 2010. This audit was primarily limited to performing tests of the Health Center's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Health Center's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Health Center are complied with, (2) the financial transactions of the Health Center are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Health Center are safeguarded against loss or unauthorized use. The financial statement audits of the Health Center for the fiscal years ended June 30, 2009 and 2010, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

Management of the Health Center is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Health Center's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Health Center's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Health Center's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Health Center's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be a significant deficiency: Recommendation 4 –Execution of Contracts. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Health Center's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

The Health Center's response to the findings identified in our audit are described in the accompanying Condition of Records section of this report. We did not audit the Health Center's response and, accordingly, we express no opinion on it.

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

CONCLUSION

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

Gregory J. Slupecki
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts