

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

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

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February 16, 2005

**AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have made an examination of the financial records of the University of Connecticut (University) for the fiscal years ended June 30, 2002 and 2003. The University is a component unit of the University of Connecticut system, which includes the University, the Health Center, the University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation). This report thereon consists of the Comments, Recommendations and Certification which 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 University of Connecticut's compliance with certain provisions of financial related laws, regulations and contracts, and evaluating the University's internal control structure policies and procedures established to ensure such compliance.

**COMMENTS**

**FOREWORD:**

The University of Connecticut operates generally under the provisions of Title 10a, Chapter 185, where applicable, and Chapter 185b, Part III, of the General Statutes. The University is 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 is governed by a Board of Trustees of the University of Connecticut, consisting of 19 members appointed or elected under the provisions of Section 10a-103 of the General Statutes.

This Board, subject to Statewide policy and guidelines established by the Board of Governors of Higher Education, makes rules for the governance of the University and sets policies for administration of the University pursuant to duties set forth in Section 10a-104 of the General Statutes. The members of the Board of Trustees at June 30, 2003, were:

Ex officio members:

John G. Rowland, Governor of the State of Connecticut  
Bruce Gresczyk, Acting Commissioner of Agriculture  
Theodore S. Sergi, Commissioner of Education

Appointed by the Governor:

James F. Abromaitis, Unionville  
Louise M. Bailey, West Hartford, Secretary  
William R. Berkley, Greenwich  
Michael H. Cicchetti, Litchfield  
Linda P. Gatling, Southington  
Roger A. Gelfenbien, Wethersfield, Chairman  
Dr. Lenworth M. Jacobs, Jr., West Hartford  
Claire R. Leonardi, Harwinton  
Michael J. Martinez, East Lyme  
Denis J. Nayden, Wilton  
David W. O'Leary, Waterbury  
Richard Treibick, Greenwich

Elected by alumni:

Philip P. Barry, Storrs  
Frank A. Napolitano, Manchester

Elected by students:

Richard Twilley, Hartford  
Christopher S. Hattayer, Hartford

Effective June 30, 2001, Irving R. Saslow of Hamden completed his term and was succeeded by Denis J. Nayden of Stamford. Effective August 31, 2001, Louise S. Berry completed her term and was succeeded by Philip P. Barry. Effective June 30, 2002, Christopher J. Albanese of Gales Ferry completed his term. Richard Twilley succeeded him. In March of 2003 Commissioner of Agriculture, Shirley C. Ferris, was replaced by Bruce Gresczyk, Acting Commissioner of Agriculture. Further, June 30, 2003 marked the completion of the term of Christopher S. Hattayer of Hartford.

Pursuant to Section 10a-108 of the General Statutes, the Board shall appoint a President of the University to be the chief executive and administrative officer of the University and of the Board of Trustees. Philip E. Austin served as President during the audited period.

The University's main campus is located at Storrs, Connecticut. The University maintains additional facilities and carries out programs at locations across the State. These facilities and programs include:

Avery Point:

University of Connecticut at Avery Point  
Marine Sciences Program  
National Undersea Research Center  
Connecticut Sea Grant College Program

Hartford area:

University of Connecticut at Hartford  
University of Connecticut School of Law  
MBA Program at Hartford  
School of Social Work

Farmington:

University of Connecticut Health Center

Stamford:

University of Connecticut at Stamford  
MBA Programs at Stamford

Torrington:

University of Connecticut at Torrington

Waterbury:

University of Connecticut at Waterbury

Operations of the University Health Center are examined and reported upon separately by the Auditors of Public Accounts.

Section 10a-112a of the General Statutes states that the museum of natural history at the University shall be the State Museum of Natural History. Similarly, the University's William Benton Museum of Art is designated the State Museum of Art by Section 10a-112g.

**Recent Legislation:**

During the period under review legislation was passed by the General Assembly affecting the University. The most significant of which is presented below.

Public Act 02-3 (May Special Session) – This Act known as “21<sup>st</sup> Century UConn” adds a third phase of 51 new capital improvements to the UConn 2000 construction program. The Act establishes the scheduled completion date for these new capital improvements as of June 30, 2015. It also allows the University Board of Trustees to borrow \$1.25 billion for phase III projects and increases the Trustees borrowing authority for Phase I and II projects from \$980 million to \$1.03 billion.

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Public Act 03-6 (June Special Session) - Section 180 of this Act eliminates the requirement that the University's microchemistry laboratory test racing dog urine samples. The Act also eliminates the requirement that the Auditors of Public Accounts audit the accounts and records of the microchemistry laboratory at the University of Connecticut.

Public Act 03-6 (June Special Session) - Section 201 of this Act eliminates the University's graduate assistant's eligibility for insurance benefits described in section 5-259 of the General Statutes.

### **Enrollment Statistics:**

Statistics compiled by the University's registrar showed the following enrollments in the University's credit programs, including the Health Center, during the audited period.

	2001-2002		2002-2003	
Student Status	Fall	Spring	Fall	Spring
Undergraduates	17,630	17,299	18,662	17,690
Graduates	5,317	4,966	5,907	5,736
Professional (School of Law and Doctor of Pharmacy) <sup>(1)</sup>	633	745	804	803
Medicine – Students	316	316	311	311
Medicine – Other <sup>(2)</sup>	570	590	590	590
Dental – Students	155	155	158	158
Dental – Other <sup>(2)</sup>	111	98	93	93
Totals	24,732	24,169	26,525	25,381

(1) – Includes the new Doctor of Pharmacy programs as of Spring of 2002.

(2) – Other includes residents, interns and post-graduate clinical enrollment.

### **RÉSUMÉ OF OPERATIONS:**

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

- General Fund appropriation accounts.
- The University of Connecticut Operating Fund.
- The University of Connecticut Research Foundation Fund.
- The University Bond Liquidation Fund (used for both the University and the Health Center).

The University maintained additional funds that were not reflected in the State Comptroller's records. The most significant of which relate to the UCONN 2000 infrastructure improvement program. Such funds are used to account for the revenue from the issuance of UCONN 2000 bonds and expenditures related to the UCONN 2000 capital improvement program.

The University of Connecticut also maintains a "Special Local Fund" which is used by the University to account for endowments, scholarships and designated funds, loans, agency funds and miscellaneous unrestricted balances.

Additionally, there are certain activity funds associated with the University which, though they are legally controlled by the University they are not considered part of the University of Connecticut system reporting entity. These include the following University activity funds:

- Graduate Student Senate Activity Fund
- Storrs Associated Student Government Activity Fund
- Connecticut Daily Campus Activity Fund
- WHUS Radio Station Activity Fund
- Student Organizations Activity Fund
- UConn PIRG (Storrs) Activity Fund
- Student Bar Association Activity Fund
- Legal Clinic Activity Fund
- Law Review Activity Fund
- School of Social Work Activity Fund
- Hartford Associated Student Government Activity Fund
- UConn Public Interest Research Group (Hartford) Activity Fund
- Torrington Associated Student Government Activity Fund
- Torrington Snack Bar Activity Fund
- Stamford Associated Student Government Activity Fund
- Southeastern (Avery Point) Associated Student Government Activity Fund
- Waterbury Associated Student Government Activity Fund
- Student Television Activity Fund

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

The University financial statements are adjusted as necessary, combined with those of the State's other institutions of higher education and incorporated in the State's Comprehensive Annual Financial Report using the discrete presentation format. Significant aspects of the operations of the University, as shown on Agency prepared financial statements, are discussed in the following sections of this report.

University employment remained relatively stable during the audited period. University position summaries show that permanent full time filled positions aggregated 4,151 and 4,121 as of May 2002 and May 2003, respectively.

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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 shows annual tuition charges during the 2001-2002 and 2002-2003 fiscal years.

Student Status	2001-2002			2002-2003		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$4,448	\$13,566	\$6,672	\$4,730	\$14,425	\$7,095
Graduates	5,478	14,230	8,216	5,825	15,130	8,738
School of Law	11,374	23,992	17,060	12,094	25,510	18,141

### **Operating Revenues:**

Operating revenue results from the sale or exchange of goods and services that relate to the University's missions of instruction, research and public service. Major sources of operating revenue include tuition, Federal grants, State grants and sales from auxiliary service enterprises such as room and board charges.

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

	<u>2001-2002</u>	<u>2002-2003</u>
Student Tuition and Fees (net of scholarship allowances)	\$ 102,200,333	\$ 120,275,694
Federal Grants and Contracts	67,753,605	73,342,732
State and Local Grants and Contracts	17,859,232	16,511,793
Non-Governmental Grants and Contracts	12,760,474	10,329,075
Sales and Services of Educational Departments	12,020,682	13,514,914
Sales and Services of Auxiliary Enterprises (net of scholarship allowances)	81,002,139	89,438,533
Other Sources	<u>10,442,761</u>	<u>8,228,181</u>
Total Operating Revenue	<u>\$ 304,039,226</u>	<u>\$ 331,640,922</u>

The significant rise in Student Tuition and Fees is attributable to an approximate rise in undergraduate enrollment of 6 percent, as well as a similar rise of 6 percent in fees charged for undergraduate tuition.

### **Operating Expenses:**

Operating expenses generally result from payments made for goods and services to assist in achieving the University's missions of instruction, research and public service. 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 shown in the University's financials statements for the audited period follows:

	<u>2001-2002</u>	<u>2002-2003</u>
Instruction	\$ 198,738,445	\$ 210,682,856
Research	49,310,979	56,170,809
Public Service	21,754,712	25,125,045
Academic Support	61,853,232	61,117,844
Student Services	23,785,758	25,494,540
Institutional Support	46,956,545	50,604,026
Operations and Maintenance	39,588,031	45,246,949
Depreciation	50,624,858	63,402,505
Student Aid	241,509	557,919
Auxiliary Enterprises	<u>90,957,783</u>	<u>93,185,331</u>
Total Operating Expenses	<u>\$ 583,811,852</u>	<u>\$ 631,587,824</u>

**Nonoperating Revenues and Expenses:**

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

Nonoperating revenue (expenses) as shown in the University's financials statements for the audited period follows:

	<u>2001-2002</u>	<u>2002-2003</u>
State Appropriation (including fringe benefits)	\$ 259,447,742	\$ 258,751,010
State Debt Service Commitment for Interest	25,907,563	29,907,563
Gifts	16,202,233	18,936,287
Investment Income	5,572,628	3,565,261
Interest Expense	(33,955,787)	(39,794,329)
Other Nonoperating Revenues (Expenses)	<u>(2,715,738)</u>	<u>522,514</u>
Net Nonoperating Revenue	<u>\$ 270,458,641</u>	<u>\$ 271,209,262</u>

The State appropriation, the largest source of revenue at the University, actually decreased in fiscal year 2002-2003, by \$696,732 or less than 1 percent when compared to fiscal year 2001-2002. The ratio of the State appropriation to tuition revenue was 2.54 in fiscal year 2002 and 2.15 in fiscal year 2003. The ratio of the State appropriation to total operating revenue was .85 in

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fiscal 2002 and .78 in the fiscal year 2003. The ratio of the State appropriation to total operating expenses was .44 and .41 for the fiscal years ended 2002 and 2003 respectively.

The State debt service commitment for interest listed above refers to amounts paid by the State for interest expense on University of Connecticut General Obligation Bonds. The gifts component of non-operating revenue is comprised of amounts received from the University of Connecticut Foundation and other nongovernmental organizations and individuals.

**Capital Additions (Deductions):**

Capital additions and deductions are associated with the acquisition and disposal of capital assets and include items such as capital grants, endowments and gains/losses on the sale or disposal of capital assets.

Capital additions and expenses as shown in the University's financial statements for the audited period follows:

	<u>2001-2002</u>	<u>2002-2003</u>
State Debt Service Commitment for Principal	\$ 100,000,000	\$ 96,210,000
Capital Grants and Gifts	12,316,127	7,558,843
Disposal of Property and Equipment, Net	(3,102,251)	(2,454,738)
Capital Other	<u>13,357,569</u>	<u>(2,405,030)</u>
Total Capital Additions (Deductions)	<u>\$ 122,571,445</u>	<u>\$ 98,909,075</u>

The amounts listed as State debt service commitment for principal refer to University General Obligation Bonds issued during the respective years for which the State has committed to pay the principal as it becomes due.

**Net Assets:**

Net assets are assets minus liabilities. Net assets as shown in the University's financial statements are shown below:

	<u>2001-2002</u>	<u>2002-2003</u>
Invested in Capital Assets, Net of Related Debt	\$1,020,536,235	\$1,148,711,532
Restricted Nonexpendable	6,674,263	9,717,395
Restricted Expendable:		
Research, Instruction, Scholarships and Other	12,907,097	12,515,767
Loans	3,044,756	3,126,304
Capital Projects	89,436,633	34,431,219
Debt Service	12,457,244	8,141,983
Unrestricted	<u>83,666,969</u>	<u>82,250,432</u>
Total Net Assets	<u>\$1,228,723,197</u>	<u>\$1,298,894,632</u>

Amounts above listed 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 nonexpendable assets are primarily comprised of permanent endowments. Restricted expendable assets are assets whose use by the University is subject to externally imposed stipulations. Unrestricted assets are assets not subject to externally imposed restrictions.

**Related Entities:**

Two related, but independent, corporate entities also support the mission of the University. The University of Connecticut Foundation and the University of Connecticut Law School Foundation operate to solicit and administer donations of properties, monies and securities. These resources are then used, in accordance with the terms under which they were given, to aid the University.

A summary of the Foundations' assets, liabilities, support and revenues and expenditures follows:

	Foundation		Law School Foundation	
	Fiscal Year Ended		Fiscal Year Ended	
	June 30, 2002	June 30, 2003	June 30, 2002	June 30, 2003
Assets	\$244,375,000	\$257,491,000	\$11,139,000	\$11,509,000
Liabilities	15,815,000	15,521,000	39,000	48,000
Net Assets	228,560,000	241,970,000	11,100,000	11,461,000
Support and Revenue	25,186,000	48,438,000	1,331,000	941,000
Expenditures	33,455,000	35,028,000	599,000	580,000

**Microchemistry Laboratory:**

During fiscal years 2002 and 2003, the Microchemistry Laboratory performed drug tests on urine samples of greyhound racing dogs. The samples were collected by personnel of the State of Connecticut Division of Special Revenue. The responsibilities of the Microchemistry Laboratory and the Division of Special Revenue, with respect to this activity, were defined in a Memorandum of Understanding dated July 30, 1985. The laboratory's objective was to determine if any banned drugs were present in the urine.

Initially the Microchemistry Laboratory was compensated by the Division of Special Revenue on a per sample basis. This was changed when Public Act 85-471 created the Microchemistry Laboratory Fund. Public Act 85-471 directed that, to pay for the laboratory testing, one quarter of one percent of the total money wagered on dog racing events be paid into the Fund. Revenues in excess of the actual cost of the testing were to be returned to the General Fund.

When Public Act 89-324 abolished the Microchemistry Laboratory Fund it also eliminated this source of funding. Effective with the fiscal year beginning July 1, 1989, the Microchemistry Laboratory began submitting annual budgets to the Division of Special Revenue for review and approval. Each year, the University's accounting department prepares a transfer invoice requesting payment of the budgeted amount from the Division of Special Revenue. The transfer is funded from the Division of Special Revenue's General Fund appropriation. The University also submits to the Division of Special Revenue annual reports that summarize the year's revenue and expenditures for the laboratory.

Section 14 of Special Act 99-1 (June Special Session), effective July 1, 1999, revised Section 12-577 of the General Statutes and provides that the microchemistry laboratory shall conduct, within available appropriations, such number of tests on such specimens as required, provided the total number of such tests conducted does not exceed twenty thousand in any fiscal year and provided, if only one facility for dog racing is operating, the total number of such tests conducted does not exceed sixteen thousand samples in each fiscal year.

Section 180 of Public Act Public Act 03-6 (June Special Session), effective August 30, 2003, eliminates the requirement that the University's microchemistry laboratory test racing dog urine samples. The act also eliminates the requirement that the Auditors of Public Accounts audit the accounts and records of the microchemistry laboratory at the University of Connecticut.

During the audited period two racing facilities were open and the laboratory tested 17,520 samples for the 2001-2002 fiscal year and 18,600 in the 2002-2003 fiscal year.

Expenditures for the laboratory consist primarily of payroll, lab supplies, equipment and repairs. The laboratory has six permanent full time employees and also utilizes some student labor. The revenues and expenditures of the Microchemistry Laboratory were recorded in the University's accounting system and reported to the Division of Special Revenue on, essentially, a cash basis. The Microchemistry Laboratory's recorded revenues and expenditures for the fiscal year ended June 30, 2002 and 2003 are shown below:

	<u>Fiscal Year Ended June 30,</u>	
	<u>2002</u>	<u>2003</u>
Revenues:		
Transfers in from Special Revenue	\$463,000	\$463,000
Other Revenue	<u>19,089</u>	<u>14,450</u>
Total Revenues	<u>\$482,089</u>	<u>\$477,450</u>
Expenditures:		
Personal Services	\$273,898	\$292,827
Outside Professional Services	120	93

Fringe Benefits	-	379
Travel	4,203	4,406
Repairs	45,220	48,352
Laboratory Supplies	83,577	54,643
Equipment	20,678	17,123
Other Expenditures	<u>77,841</u>	<u>69,095</u>
Total Expenditures	<u>\$511,037</u>	<u>\$486,702</u>

Traditionally, the State has not processed, against agency appropriations, fringe benefit assessments for employees paid out of the General Fund. The majority of the personal services expenditures charged to the Microchemistry Laboratory were for employees paid out of the General Fund. As a result, the Microchemistry Laboratory expenditures shown above include only a minor portion of the fringe benefit charges associated with the personal service costs incurred. A comparison of such fringe benefit charges with those actually posted follows.

<u>Fiscal Year Ended June 30,</u>	<u>Full (Calculated) Charges</u>	<u>Posted Charges</u>	<u>Unrecorded Costs</u>
2002	\$91,880	\$ 0	\$91,880
2003	\$94,212	\$ 0	\$94,212

## **PROGRAM EVALUATION:**

In accordance with Section 2-90 of the Connecticut General Statutes, the Auditors of Public Accounts are authorized to perform evaluations of agency operations for effectiveness and compliance with laws and regulations. We selected the University's Purchasing Card Program for review.

### **Audit Objective:**

Our review was conducted to determine if:

- The Purchasing Card was being used to acquire goods and services effectively and efficiently.
- The Purchasing Card policies and procedures were being followed.
- Purchasing Card transactions were properly authorized and recorded.

### **Scope and Methodology:**

Our audit addressed the use and administration of the University Purchasing Card Program. We focused on controls established to ensure that purchasing cards were used only for appropriate purposes and that they were in accordance with applicable policies and procedures. Part of our focus included a review of the adequacy of the procedures established for the Purchasing Card Program and a review of transactions for compliance with University procedures.

To accomplish our objective we obtained a copy of the University of Connecticut Purchasing Department Purchasing Card User's Manual, which we reviewed for overall adequacy and sound business practices. We also interviewed the Purchasing Card Program Administrator to determine how the University monitors the program and to obtain statistical information. We interviewed selected department Record Managers and reviewed relevant records and supporting documentation for the Purchasing Card Program. Purchasing card transactions were sampled and tested for compliance with University procedures.

We concentrated our efforts on five departments that actively used a Purchasing Card. We judgmentally selected purchasing card transactions made from each of the five departments. For four departments, we selected transactions from fiscal year 2001-2002. For the other department, we selected transactions in fiscal year 2002-2003, through March 23, 2003.

In summary, we tested 183 transactions totaling \$46,633. For the fiscal year ended June 30, 2002, purchasing card transactions totaled \$3,520,029.

### **Background:**

The University implemented the Purchasing Card Program, which is co-sponsored by the Purchasing Department and the Office of the State Comptroller, in November 1997. In response to departmental requests for greater autonomy, the Purchasing Card Program was

established as an alternative to the existing University procurement processes. A University of Connecticut Purchasing Card User's Manual was promulgated to provide procedures for the procurement of goods and services through purchasing card purchases. The Purchasing Card Program Administrator serves to coordinate, monitor, and oversee the University's Program and ensure that key controls are in place and operating as designed. Per the active cardholder list, dated January 21, 2003, there were 264 cardholders, representing 138 departments, who were using the purchasing card.

The program utilizes a MasterCard that can be used to purchase approved items (over the phone, by mail, in person or through the Internet) with a value of less than \$1,000. The Purchasing Card program is designed to delegate authority and capability to quickly and conveniently purchase approved commodities directly from the vendors that accept MasterCard.

Purchasing authority is delegated to the ordering departments enabling the authorized cardholders to place orders directly with the suppliers. The vendor validates purchases made with the purchasing card at the point-of-sale. The MasterCard system validates the transaction against pre-set limits established by the University. The authorization process occurs through an electronic system that supports the purchasing card processing services under the University's agreement with Bank One.

Before the University issues a card, the Cardholder and Record Manager (the person assigned at the department level to assure compliance with purchasing card policies) must attend a training session. The Cardholder is required to read the Purchasing Card User's Manual and must adhere to all purchasing card policies and procedures outlined therein. Misuse of the purchasing card can result in consequences depending on the severity of the infraction.

The University's documentation process includes requiring Cardholders to maintain a Purchasing Card Log detailing all transactions immediately upon purchase and for maintaining all supporting documentation. The Cardholder is also responsible for the monthly reconciliation of the Purchasing Card Log to the bank statements and the accounting system, unless this responsibility has been designated to the Record Manager.

Initially, expenditures made using a purchasing card are charged to a procard clearing subcode and eventually to an account designated by the department. The subcode is to be used as a temporary subcode until the department reallocates the charges to a more appropriate subcode. The Accounting Office reviews the reallocation entered by the departments and makes any necessary corrections it can. Then Accounting approves and processes the batches. Departments are allowed 15 business days from receipt of the bank credit card statement for the combined process of reconciliation to the accounting system (FRS) and reallocation of charges. The Accounting Office compiles a list of batches that cannot be processed and notifies the person responsible for the batch of any discrepancies to be corrected. Also, a monthly reallocation report is run in Accounting. The Accounting Office contacts departments that have transactions older than two months that appear on the report with a warning that their card will be taken away if they continue to have untimely reallocations.

Post-audits are performed on a quarterly rotation in teams of two (purchasing and accounts payable staff members). Each new Cardholder has a post-audit done after four months of use and then annually thereafter. A Purchasing Card Program Post Audit Checklist/Report is used

to monitor conformance to the Purchasing Card Program procedures. The Purchasing Card Program Administrator also reviews a hardcopy report of procard daily transactions that she reviews for propriety. The Administrator also has access to certain Human Resources reports for monitoring terminating employees that may have a purchasing card issued to them, on the accounting system. Record Managers are contacted when an unusual transaction is noted (i.e., vendor, dollar amount, etc).

**Conclusion:**

Except as noted below, we found that the University of Connecticut's Purchasing Card Program was in compliance with relevant purchasing laws, policies, and regulations. In addition, adequate controls have been established to prevent material non-compliance. Further, the benefits anticipated from utilizing the Purchasing Card Program appear to have been achieved.

**Purchasing Card Usage and Issuance:**

*Criteria:* The University of Connecticut Purchasing Card User's Manual, updated November 1, 2001, lists restricted purchases when using a purchasing card as well as who is permitted to receive a purchasing card.

*Condition:* We reviewed the source documents for selected transactions and the related Purchasing Card Logs from five University departments that are using purchasing cards for the procurement of goods and services with a value of less than \$1,000. Our objective was to determine whether the purchasing card policies and procedures were being followed. During our review, we noted the following exceptions:

- Testing indicated that in five instances, purchases were made by two departments that exceeded the University's pre-set dollar limit for single transactions made using a purchasing card. In each of these instances, the Purchasing Card Program Administrator allowed the costs to be "split" as the transactions had already been initiated. Additionally, one of the purchases made was for a system for studying DNA-protein interactions. This purchase should not have been made using a purchasing card as the cost exceeded \$1,000. Also, the total cost of \$1,485 was split between two different grants, which does not seem appropriate as the item was ordered by a Cardholder who is a researcher that is not associated with the other grant charged. The Office of Sponsored Programs should review this transaction to determine whether a cost transfer needs to be made for \$742.50 from the other grant account charged in order to properly allocate the charges among the grants.
- Three of the five departments had restricted purchases. In most cases, the Purchasing Card Program Administrator questioned the transactions and warned the Cardholders against making restricted purchases, which included purchases of prohibited items - attaché (\$92) and frames (\$22),



business/travel - (\$950 and \$1,228), contractual agreements - (\$83, \$83 and \$70), construction renovation - (\$624, \$263 and \$137) and grant equipment - (\$910).

- We also noted lack of documentation as follows:
  - (1) Information recorded on the Purchasing Card Log was incomplete -
    - a) One department Record Manager did not fill in the "how item was ordered" or "date received" columns at all. Also, the "date received" column was left blank in ten other instances where department Record Managers were unable to determine the date received for phone and internet purchases made using a purchasing card.
    - b) Cardholder signatures and Record Manager signatures were missing in 8 and 2 of 206 Purchasing Card Logs reviewed, respectively.
  - (2) There was a lack of supporting documentation for nine purchases.
  - (3) In three instances, Dean/director approval for conference registrations paid for with a purchasing card was not included with backup in the Purchasing Log.
- One primary Cardholder and several secondary users who were granted purchasing card authority were not regular full or part-time employees of the University. These employees were either paid on the Special Payroll, which is to be used for hiring temporary staff for short-term, non-permanent work or were Graduate Assistants.

*Effect:* Purchasing regulations are being circumvented.

*Cause:* Cardholders/Record Managers did not always adhere to the policies and procedures set forth in the Purchasing Card User's Manual.

*Recommendation:* The Purchasing Card Program Administrator should notify Cardholders, in writing, of the consequences of purchasing card misuse. The department's Reporting Authority should also be informed of any misuse of a purchase card by a Cardholder/Record Manager. (See Recommendation 1.)

*Agency Response:* "We agree with the recommendation and routinely follow this procedure.

Our Purchasing Department conducts quarterly audits of Departmental Records Managers' records and every account is audited at least annually. Cardholders and record managers are notified in writing of detected irregularities or misuse and a copy is placed the individual Cardholder's file."

## **Purchasing Card Responsibilities of the Cardholder and Record Manager**

*Criteria:* The University of Connecticut Purchasing Card User's Manual describes the responsibilities of use and states that the reconciliation process shall be completed within ten business days from receipt of the bank statement. The combined process of reconciliation and reallocation shall not exceed 15 business days from receipt of the bank statement. The reconciliation of the Purchasing Card Log to the bank statements and the accounting system (FRS) is to be done on a monthly basis.

*Condition:* Of the five departments we selected for review, we noted the following:

- The combined process of reconciliation and reallocation was not completed within 15 business days from receipt of the bank statement by the Cardholder in 33 of 206 (16 percent) Purchasing Card Logs reviewed. The exceptions involved three of the five departments, the remaining two departments had perfect timeliness in completing the reconciliation and reallocation process. Delays ranged from 1 to 35 business days late, the average being 8 business days late.
- None of the departments date stamped the credit card statements with the date of receipt.
- None of the departments we reviewed recorded a monthly total of purchases made on the Purchasing Card Log. There is a column on the Purchasing Card Log to check if the individual purchase recorded on the log reconciles with the bank statement. However, if there were a space on the Purchasing Card Log to indicate the monthly total of purchases made, this would serve as a quick indicator for determining if there were reconciling items for the Cardholder/Record Manager to account for.

*Effect:* It is important that the reconciliation and reallocation process be completed in a timely manner as the bank has no responsibility for any transaction that is disputed more than 60 days after receipt of the monthly statement on which the transaction appears. Additionally, if charges are not reallocated from the Procard clearing account subcode to an appropriate subcode in a timely manner, the University's financial statements will not accurately reflect the type of expenditures being made. Without a date received stamp on the credit card statement, it is not possible to determine compliance with the University's requirements for timeliness of reconciliation and reallocation. Also, information to make a quick comparison of total purchases recorded on the Purchasing Card Log against those billed on the bank credit card statement cannot readily be made without a monthly total amount recorded on the Purchasing Card Log.

*Cause:* Supporting documentation needs to be submitted by the Cardholder to the

Record Manager in a timely manner, and the Record Manager has to give sufficient priority to this task, in order for the reconciliation and reallocation process to be completed within purchasing guidelines. Current purchasing regulations do not call for departments to use a date received stamp or that monthly purchases recorded on the Purchasing Card Log be totaled.

*Recommendation:* Formal action should be taken by the Purchasing Administrator against Cardholders that consistently fail to complete the reconciliation and reallocation process within the timeframes specified by the University. Monthly bank credit card statements should be date stamped when received at the department. Also, the Purchasing Card Log should be revised to include a space for recording the total amount of purchases made during the monthly cycle in order to improve the reconciliation process. (See Recommendation 2.)

*Agency Response:* “We agree with this recommendation and are implementing it.

Departmental administrators identified this as a problem during interviews conducted by the VP&COO during the Fall of 2003. They suggested that the delays were attributed to the difficulty in reconciling the accounts. The COO and the CFO organized a team co-chaired by Accounting and Purchasing Department staff along with major users to confirm the cause of reconciliation delay and to identify a solution. The team has completed its work and has recommended the creation of a reconciliation screen, which will simplify the reconciliation process. The screen has been designed and is being programmed by UITS. The new screen is expected to be available to users in September 2004. At that point, we plan to institute a deadline to reconcile accounts.”

## CONDITION OF RECORDS

Areas in need of improvement, along with discussions concerning improvements in managerial control, are presented in this section of the report.

### **Entities Affiliated with the University:**

*Criteria:* Sections 4-37e through 4-37j of the General Statutes set the requirements for private foundations affiliated with State agencies.

In those instances in which an affiliated entity does not fall under the purview of Sections 4-37e through 4-37j, prudent business practice dictates that the University establish an agreement with the organization that defines the rights and obligations of each party.

*Condition:* We noted that with respect to one affiliated entity, the University of Connecticut Foundation, the University has not complied with Section 4-37g, subsection (b), of the General Statutes, which requires that the executive authority of the University sign a letter indicating that he has reviewed the Foundation's audit report and transmit a copy of the letter and audit report to the Auditors of Public Accounts.

Additionally, there appears to be no procedures in place to monitor non-profit entities operating on the University of Connecticut campuses for compliance with Sections 4-37e through 4-37j or when applicable, agreements that establish the rights and obligations of each party.

*Cause:* The University has not assigned responsibility for monitoring the compliance of non-profit entities operating on the University campuses.

*Recommendation:* The University should assign the responsibility for developing procedures to identify entities affiliated with the University, should enter into formalized agreements with these entities when appropriate, and should ensure that those entities that fall under the provisions of Sections 4-37e through 4-37j of the General Statutes are in compliance with the Statutes. (See Recommendation 3)

*Agency Response:* "We agree with this recommendation.

As required by sections 4-37e through 4-37j of the General Statutes, the University maintains a formal agreement with its primary private foundation, the University of Connecticut

Foundation, and, through its Law School with the University of Connecticut Law School Foundation.

The University has submitted to the Auditors of Public Accounts copies of the University of Connecticut Foundation's audited financial statements for FY 2002 & 2003. In the future, copies of audited financial statements will be conveyed timely to the Auditors of Public Accounts.

We will develop an inventory of "other than 4-37 non-profit organizations" domiciled on the University's campuses that are subject to a lease agreement. The University's Property Management Office will require that new leases and renewals evidence documentation as may be appropriate of any terms/conditions between the parties that extend beyond the terms of the lease. Further, we will work with senior administrative and academic leaders to identify any significant financial relationships with "other than 4-37 non-profit organizations" that merit the establishment of a written affiliation agreement."

#### **Unapproved Construction Projects:**

*Criteria:* Connecticut General Statutes Section 10a-109e, subsection (a), specifies the construction projects that may be funded with UCONN 2000 bond funds.

Under Connecticut General Statutes Section 10a-109e, subsection (d)(3), a material addition of a project requires formal approval of the Board of Trustees as well as a public or special act approving such addition.

*Condition:* The University constructed new buildings to be used for fraternity and sorority housing, commonly known as the Greek Housing project. This project's costs to date are approximately \$12,000,000. The source of the funds expended for this project are UCONN 2000 bond funds. The construction of the Greek Housing is not specified as a project under Connecticut General Statutes Section 10a-109e, subsection (a).

*Effect:* The use of UCONN 2000 bond funds for the construction of a project not specified within Connecticut General Statutes Section 10a-109e, subsection (a), without formal approval of the Board of Trustees as well as a public or special act approving such project is a violation of the statutes.

*Cause:* Apparently the University believes that the expenditures associated

with the Greek Housing Project constitute a revision of an approved project, the Tower's Renovation, rather than an addition of a new project.

*Recommendation:* The University should use UCONN 2000 bond funds in the manner specified in Section 10a-109e, subsection (a), of the Statutes. (See Recommendation 4.)

*Agency Response:* "We believe we complied with the statute and that the auditors have interpreted the statute's requirement in an extraordinarily restrictive manner.

The University is authorized pursuant to Section 5(d) of the Act to make material revisions to any particular UConn 2000 project when such revision is dictated by a change in the University's planning as determined by its Board of Trustees, provided such revision is made by a form approving vote by the Board of Trustees of the University upon a finding and determination that (1) the revision is consistent with the intent and purpose of the original project, and (2) that as a result of such revision and any reallocation of funding to accommodate such revision, all other Projects shall be able to be completed within the remaining amount of funds allocated to such Projects.

In keeping with the advice of bond counsel, the University administration recommended and our Board of Trustees approved the Fourth Supplemental Indenture with language authorizing such a material revision to the UConn 2000 Projects by revising the Towers Renovations to include student housing for fraternities and sororities in the same complex with the Towers Renovation. This decision was supported by physical proximity of the buildings as well as the decision to offer meal plans for these students in the new central dining hall constructed as part of the Towers project. We believe this to be a revision of project scope, within the Board's statutory authority, not the addition of a separate project."

*Auditors' Concluding  
Comments:*

Our review of evidential matter prepared by the University in September of 2001 or earlier and pre-dating the Fourth Supplemental Indenture, led us to conclude that the Greek Housing project was contemplated as an undergraduate residential facility distinct from the Towers Dorms. The Greek housing project involved the construction of six new undergraduate residential buildings, not the renovation of existing dormitories. Although these buildings provide residential housing for undergraduates, they are not technically dormitories and are located at least 100 yards away from the nearest Towers dormitory. Finally, the estimated \$12,000,000 value of the Greek Housing project would

seem significant enough to justify standing as a separate project.

Although the University understandably considers its actions to have constituted a properly authorized and executed revision of the scope of the Towers project as provided for by statute, we believe and appropriate interpretation of the statutes would instead require the Greek Housing project to have been treated not as a modification of project scope, but rather as the addition of a new project requiring a statutory amendment.

**Construction Policies and Procedures Manual:**

*Criteria:* A manual which specifies the policies and procedures to be followed when obtaining construction services will assist the University in informing employees of what is expected of them, assigning responsibility, demonstrating the impartiality of the selection process and achieving statutory compliance. Further, a properly designed policies and procedures manual can serve as a training tool for new employees.

*Condition:* The University started to administer significant construction projects shortly after receiving the statutory authority to do so with the passage of Public Act 95-230. During the early stages of administering these projects the University used traditional design-bid-build procurement methods/delivery techniques. As such, the policies and procedures followed by the University seemed to be in agreement with policies and procedures established by the State Department of Public Works. Over time, the University has adopted non-traditional procurement methods/delivery techniques without establishing new policies and procedures that address these new techniques.

Specifically we have noted the following:

- Lack of evidence demonstrating why procurement methods/delivery techniques were chosen.
- Lack of evidence demonstrating why construction firms were chosen.
- Lack of evidence demonstrating clearly established firm budgets.
- An apparent lack of segregation of duties between negotiation and approval of contract modifications.
- Lack of a centralized and standardized filing system.

*Effect:* The lack of standardized policies and procedures increases the risk that the intent of the University's administration will not be followed.

*Cause:* The development of a Construction Policies and Procedures Manual has not been deemed a priority.

*Recommendation:* The University should develop a comprehensive Construction Policies and Procedures Manual. (See Recommendation 5.)

*Agency Response:* "We agree with this recommendation and are working to complete a draft of the Construction Policies and Procedures Manual by the end of January 2005.

In addition, the Storrs and UCHC campuses have jointly selected a centralized capital asset and facilities management system, and implementation will begin during FY 2005."

**UConn 2000 Construction Projects:**

*Criteria:* Fostering competition in an open market environment is generally the best way to obtain quality products at the lowest possible price. This principle is reflected in the State statutes governing procurement by constituent units of the State's system of higher education. Section 10a-151b of the General Statutes, which addresses overall procurement actions by constituent units, requires them to utilize, when possible, a formal competitive process when contracting for services. The statutes specific to UConn 2000 construction contracts are less definitive, but still reflect the same guiding principle.

*Condition:* In implementing the UConn 2000 capital improvement program, the University has relied heavily on a procurement technique described as "Construction Manager at Risk with a Guaranteed Maximum Price." This involves, basically, contracting on a cost-plus basis with a vendor selected before the project design details have been finalized. The "Guaranteed Maximum Price" proviso is intended to shift a certain degree of risk to the construction manager. However, it does not change the essential nature of the contract, as the cap is not negotiated until relatively late in the process.

It is our understanding that the University believes that adequate cost control is provided by competitive solicitations by the construction manager, i.e., the competitive letting of subcontracts. However, in our opinion, this merely highlights the fact that open,



competitive solicitation of bids is a good business practice that should be employed at every level. Additionally, the percentage of a project subject to even this limited amount of competition will vary depending on the amount of work performed by employees of the firm acting as construction manager.

*Effect:* Reliance on the "Construction Manager at Risk with a Guaranteed Maximum Price" delivery method/procurement technique described above may have caused the State to incur higher than necessary costs.

*Cause:* University administrators have informed us that it is their belief that this practice, which allows the University to consult with and be advised by the construction manager during the design process, leads to a more collaborative process that allows for a better project.

*Recommendation:* The University should enhance competition by publicly soliciting open competitive bids on construction projects after finalizing project design details. (See Recommendation 6)

*Agency Response:* "We disagree that solicitation of open competitive bids on construction projects after finalizing project design details would enhance competition or produce the best price.

Under the Construction Manager (CM) at Risk with Guaranteed Maximum Price GMP method, the CM is selected through a pre-qualification process followed by a competitive selection process. Since the project design is in process, the GMP isn't established at that time. This is the advantage of the CM method. The CM brings to the table their knowledge of costs, constructability, risks, schedule, etc. which increases the probability of a successful, on-time, and on-budget project. This is particularly relevant when construction materials are subject to large inflationary increases, as in the current construction market. As with the selection of the CM, all subcontractors are competitively bid.

The CM at Risk project delivery method has been used in both the public and private sector for more than 50 years, both at the State and the national levels."

**Organizational Structure:**

*Criteria:* An entity's organizational structure, a component of internal control, provides the framework within which its activities for achieving entitywide objectives are planned, executed, controlled and monitored. Establishing an organizational structure includes considering key areas of authority and responsibility and appropriate lines of reporting.

*Condition:* The University recently restructured its organizational framework. This restructured framework has the administrative heads of the Human Resources Department and the Payroll Department, as well as the administrative heads of the Purchasing Department and Accounts Payable Department, reporting to the Vice President and Chief Operating Officer.

*Effect:* Having the aforementioned administrative heads report to the same Vice President lessens the degree of assurance that human resources and payroll, as well as purchasing and accounts payable, transactions are authorized and executed in accordance with management's wishes.

*Cause:* The University's restructuring of its organizational structure was done in accordance with recommendations made by a recent consultant's report.

*Recommendation:* In order to strengthen internal control, the University should consider having the administrative heads of the Payroll Department and the Accounts Payable Department report to the Vice President and Chief Financial Officer. (See Recommendation 7.)

*Agency Response:* "We disagree with this finding and observe that these functions reported to a single Vice President prior to the administrative reorganization.

We carefully weighed this recommendation prior to its implementation and are confident the functional synergies resulting from having these interrelated functions operating in tandem, with proper safeguards, exceed the weaknesses noted.

At many higher education institutions, Payroll and HR report to one manager. The more unusual action is that of putting Accounts Payable and Purchasing under one manager. Therefore, once the final plan for putting Accounts Payable and Purchasing together is complete, and prior to its implementation, Internal Audit will be asked to review the plan from a control perspective and recommend necessary changes to ensure internal control."

**Human Resources Department:**

*Criteria:* A properly functioning human resources department can assist the University in establishing hiring standards, authorizing appropriate compensation levels, enforcing ethical behavior and when necessary, implementing disciplinary action.

*Condition:* We found the following conditions during the course of our audit:

- Several instances were noted in which documents authorizing payment to employees was completed after the work had been performed.

- Several instances were noted in which Director level employees were placed on administrative leave with pay until a specified date. After the specified date they were terminated. We reviewed the personnel files for these employees and concluded that administrative leave previously described above was a separation payment. We were unable to determine why these employees were granted these apparently gratuitous separation payments.

- Several instances were noted in which faculty bonuses, commonly known as extra compensation, were in excess of intended maximums and lacked approval of the University's Provost as required by University mandated policy.

- An instance was noted in which, when apprised of evidence indicating a University employee had either intentionally falsified or erroneously prepared their timecard, the University's Human Resources department failed to take any action to remedy the condition.

- An instance was noted in which a faculty member participated in a University decision to hire their spouse.

*Effect:* The performance of work prior to authorization subjects the University to risk of litigation should such work not be authorized. It also fosters contempt for the authorization process.

Separation payments to employees characterized as administrative leave with pay, in excess of contractual obligations, is a waste of University resources. The University is also at risk of being subjected to claims of inequitable treatment by employees not receiving similar payments.

Faculty bonus payments in excess of intended limitations wastes University resources.

Failure to act upon being apprised of information relating to a falsified or otherwise erroneous time card, wastes University resources and causes disdain for the time reporting system.

the  
Allowing the spouse of a prospective employee to participate in the hiring process is in conflict with the University's ethics policy as well as being a potential violation of Section 1-85 of the Connecticut General Statutes.

*Cause:* The University's Human Resources Department appears to have evolved into an employee benefits unit with a corresponding de-emphasis on the Human Resources Department as a component of the University's internal control system.

*Recommendation:* The University should re-establish the Human Resources Department as an integral component of the control environment. (See Recommendation 8.)

*Agency Response:* "We agree and are taking action to resolve the issues. A new Associate Vice President for Human Resources and Payroll Services was recruited as a result of a national search and joined the University on August 6, 2004. She has been charged with making recommendations by March 1, 2005, for strengthening HR's control function while providing the flexibility required in an academic environment.

The University will establish a policy that prohibits and employee from providing final approval for their spouse's employment, evaluation, compensation, promotion, or any other employment authorization."

**Use of Consultants:**

*Criteria:* The University operates in an environment of limited resources. Those resources should be allocated in a manner in which it can be demonstrated that sufficient value has been obtained for the resources expended. Further, Section 1-86e, subsection (a)(2), of the General Statutes states that a consultant shall not accept a State contract that will impair the independent judgement of the consultant in the performance of an existing contract.

*Condition:* In October of 2001 the University entered into an agreement with Pappas Consulting Group, Inc. (Pappas Consulting) to perform an "Institutional Synergy Assessment". The proposal submitted by Pappas Consulting Group Inc. stated that the fees and expenses for this "Institutional Synergy Assessment" would not exceed \$639,417. Amounts paid to Pappas Consulting through June 30, 2003, and May 5, 2004, totaled \$1,027,950 and \$1,426,724

respectively. The significant increase in the amount paid to Pappas Consulting is primarily attributable to an employee of the Pappas Group being designated as the University's Interim Vice Chancellor of Information Technology and paid at a rate of \$200 per hour. This \$200 per hour rate, which based upon a 40-hour workweek and 50 weeks per year, equates to an annualized salary of \$400,000. This is significantly in excess of the median amount paid to Chief Information Systems Officers of doctoral-granting institutions of \$144,000, as published in the Chronicle of Higher Education issue of March 3, 2004. It is also significantly in excess of the maximum amount payable to the State of Connecticut Chief Information Officer of \$140,450, as designated by the applicable State salary schedule.

*Effect:* The University has paid more for the services of a temporary Chief Information Officer than it would be expected to pay for a permanent Chief Information Officer. Further, the utilization of a Pappas Group employee working on the "Institutional Synergy Assessment", a significant component of which was making recommendations relative to the Information Technology function, as the effective head of the University's Information Technology Department creates the appearance of a lack of impartiality, as well as a potential violation of Section 1-86e, subsection (a)(2), of the General Statutes.

*Cause:* The University administration apparently lacked faith in the abilities of current staff to function as the Interim Vice Chancellor of Information Technology.

*Recommendation:* The University should hire personnel with the required abilities and at an appropriate compensation level rather than rely on outside consultants. (See Recommendation 9.)

*Agency Response:* "We agree with the recommendation and have taken the following action.

Mr. Bell's tenure as Interim CIO ended on May 31, 2004, and Mr. Mike Kerntke of the Storrs IT Department is serving as Interim CIO at an annual salary of \$166K per year until the permanent CIO is recruited. It should be noted that we are a complex research institution and a top public undergraduate institution competing in a national market. We likely will not attract a permanent CIO of the caliber required at the salaries quoted above. A salary in the range of \$190-\$220K is anticipated."

**Cancellation of Uncollectible Claims:**

*Criteria:* Section 3-7, subsection (b), of the Connecticut General Statutes authorizes the Secretary of the Office of Policy and Management to cancel uncollectible claims for amounts in excess of \$1,000.

*Condition:* The University has in excess of \$100,000 of accounts receivable that, after having attempted various techniques in an effort to collect, they have determined to be uncollectible. Although such uncollectible accounts receivable have been treated as doubtful accounts in accordance with generally accepted accounting principles, the University has not requested cancellation of such accounts by the Secretary of the Office of Policy and Management.

*Effect:* The University has not complied with the intent of Section 3-7, subsection (b), of the Connecticut General Statutes.

*Cause:* Unknown.

*Recommendation:* The University should make a list of any known uncollectible accounts receivable and submit such list to the Secretary of the Office of Policy and Management requesting that they be cancelled. (See Recommendation 10.)

*Agency Response:* “We agree in part with this recommendation and have implemented it.

Write-off of accounts requiring only University approval (accounts with balances less than or equal to \$1,000) was completed in Fiscal Years 2003 and 2004.

We determined that those accounts requiring Office of Policy and Management (OPM) approval (greater than \$1,000) should not be submitted at that time because State budget constraints warranted waiting longer for possible success in collection efforts. Following the University’s written request on July 12, 2004 OPM approved the cancellation of uncollectible amounts totaling \$213,648.44 covering the period through March 31, 2004.”

**Calculation of Retroactive Payments:**

*Criteria:* The Maintenance and Service Union Contracts (NP-2), effective July 1, 1999 through June 30, 2002 and effective July 1, 2002 through June 30, 2005, specified that general wage increases were effective July 1<sup>st</sup> of each year of the contract period.

*Condition:* We reviewed retroactive payments made to four employees in our audit sample of 20 terminated employees. The three maintenance employees' retroactive payments were incorrectly calculated for the first pay period ending in July 1999, July 2000 and July 2001. This resulted in a small overpayment for each employee. For our sample of employees, the overpayments totaled \$66, \$82 and \$92, respectively.

Further analysis allowed us to conclude that the incorrect effective date was used for all NP-2 employees for fiscal years ending 1999, 2000, 2001 and 2002.

*Effect:* All retroactive payments made, for the pay period ending September 6, 2001, to maintenance bargaining unit employees, were overstated as the effective date should have been July 1, 1999, 2000 and 2001, rather than the pay period starting date that included July 1. Also, all maintenance bargaining unit employees were overpaid one day (6/28/02) at the rate of pay effective July 1, 2002. We estimate the total amount of overpayments to be \$39,000.

*Cause:* The University used the historic method of implementation of the NP-2 general wage increase rather than the method specified in the applicable contract.

*Recommendation:* The University should pay employees in accordance with contractual mandates. (See Recommendation 11)

*Agency Response:* "We agree in part with the recommendation.

The University is currently preparing to pay NP-2 employees in accordance with the conditions of the most recent contract.

We do not believe, however, that recouping the prior period overpayments, caused by a technical calculation error, would be prudent. There are approximately 630 employee pay records that require analysis to identify the extent of the problem for each. Once identified, the process would involve considerable collection efforts to include mailings, phone calls, the tracking of retirees and most assuredly the answering of union grievances. Given the relatively small amount of overpayment (\$39,000), we believe the cost of recovery would far exceed the recouped amount."

**Illegal, Irregular or Unsafe Handling of State Funds:**

*Criteria:* Section 4-32 of the General Statutes requires that a State agency receiving money or revenue amounting to \$500 or more, deposit such receipts within 24 hours. Total receipts of less than \$500 may be held until the total receipts to date amount to \$500, but not for a period of more than seven calendar days.

*Condition:* In January and February of 2003, we tested seven days of cash receipts relating to the University's Hilltop Apartments. We found that receipts totaling \$304,134 were deposited from three to seven days late.

*Effect:* State funds were handled in an illegal, irregular or unsafe manner.

*Cause:* The private management company that was handling the initial processing of the cash receipts was apparently unaware of the applicable deposit requirements.

*Recommendation:* The University should take steps to inform all persons handling University receipts of depository requirements and amend control procedures to prevent late deposits. (See Recommendation 12.)

*Agency Response:* "We agree with the recommendation.

Periodic notices to Deans, Directors, Departments Heads, etc. are sent reminding University Staff of the deposit requirements. The sample tested by the State Auditors for Hilltop Apartments dates to a period when an outside private management company provided these services. This company no longer provides the services for this facility. At the time that this management company provided the collection function, the University's Office of Residential Life had instructed the outside company as to State deposit requirements. Currently, most Hilltop Apartments collections are processed through the Bursar as part of the student billing system and therefore State and University policy is followed."

**Equipment Inventory:**

*Criteria:* The University's equipment inventory is a significant asset of the University. As such, controls should be in place to minimize the theft, loss or unauthorized use of such equipment.

*Condition:* During our test check of equipment we noted two recently purchased computers with a value of \$5,348 had been taken off the University's equipment inventory. Upon further investigation we determined that the computers had been purchased for, and sent to,



a former employee who had resigned nine months earlier.

*Effect:* University resources were inappropriately transferred to a former University employee.

*Cause:* Departments involved in the authorization and execution of the purchase and the transfer of the computers were unclear as to under what circumstances a transfer of equipment is appropriate.

*Recommendation:* The University should inform departments of the criteria and process to follow prior to transferring University resources. (See Recommendation 13.)

*Agency Response:* “We agree with this recommendation.

Periodic notices are sent to Deans, Directors, Department Heads, etc. reminding them of procedures for completion of the ACT 39 transfer form. The most recent memorandum setting forth procedures was sent to departments in May 2004. In addition, the University Inventory Control unit of Accounting completes periodic inventories of all equipment recorded in its fixed asset system. Items not located are presented to departments to research and determine their status, i.e. lost, stolen, moved, etc.”

**Other Matters:**

We wrote to the Governor and Other State officials on another reportable condition that did not result in a finding.

- On September 13, 2002 we reported that our investigation of a whistle blower complaint revealed that a University employee had deposited \$2,638 of State funds into a personal checking account. We informed University officials of the misuse of State funds and recommended that they take steps to correct the problem.

## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

In our previous report on our audit examination of the University, we presented nine recommendations pertaining to University operations. The following is a summary of those recommendations and the actions taken thereon:

#### Recommendations addressing University operations:

- The University should consider structuring its manpower hours to more accurately reflect the time that the Nutmeg Grille restaurant is open. Additionally, the University should consider whether expanding the restaurant's hours of operation might enhance its profitability. Finally, the University should consider if funding the continuing deficits of the Nutmeg Grille is a desirable and appropriate use of resources. Effective June of 2004 the Nutmeg Grille ceased operations. The recommendation is not being repeated.
- The University should develop procedures to identify entities affiliated with the University, should enter into formalized agreements with these entities when appropriate, and should ensure that those entities that fall under the provisions of Sections 4-37e through 4-37j of the General Statutes are in compliance with the Statutes. This recommendation is being repeated. (See Recommendation 3.)
- The University should request a formal opinion from the Attorney General to determine if the methods used by the University to obtain certain construction services are in compliance with bidding requirements of Section 10a-109n of the General Statutes. The University has implemented this recommendation. The recommendation is not being repeated.
- Procedures that provide for positive supervisory verification that temporary non-academic employees are entitled to the salary payments they receive should be improved. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should establish policies that assign responsibility for the collection of delinquent non-grant/non-student accounts receivable. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should clearly delineate the duties of the Daily Campus's Board of Directors, the University's Office of Campus Activities and the Executive Officers of the Daily Campus thereby assigning operational accountability. Additionally, consideration should be given to using outside professional accountants to compile monthly financial statements. The University has put forth a significant effort towards implementing this recommendation. The recommendation is not being repeated.

- The University should develop a comprehensive set of procedures that address the use of petty cash funds and cash advances. Such procedures should include techniques for enforcement and penalties for non-compliance. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should take additional steps to inform employees of depository requirements and amend control procedures to prevent late deposits. This recommendation is being repeated. (See Recommendation 9.)
- For all new pieces of equipment the University should assign a custodian at the user department level. Such custodians would be responsible for adequately safeguarding and monitoring the equipment assigned to them. Budgetary sanctions should be applied to those departments that have failed to adequately safeguard equipment in their custody. We did not find the conditions upon which this recommendation was based in the current audit. Therefore, the recommendation is not being repeated.

*Current Audit Recommendations:*

- 1. The Purchasing Card Program Administrator should notify Cardholders, in writing, of the consequences of purchasing card misuse. The department's Reporting Authority should also be informed of any misuse of a purchase card by a Cardholder/Record Manager.**

Comment:

We noted instances in which University purchasing regulations were being circumvented.

- 2. Formal action should be taken by the Purchasing Administrator against Cardholders that consistently fail to complete the reconciliation and reallocation process within the timeframes specified by the University. Monthly bank credit card statements should be date stamped when received at the department. Also, the Purchasing Card Log should be revised to include a space for recording the total amount of purchases made during the monthly cycle in order to improve the reconciliation process.**

Comment:

The timely performance of reconciliation and reallocation of purchasing card transactions is an important component in resolving disputed transactions should they occur.

3. **The University should develop procedures to identify entities affiliated with the University, should enter into formalized agreements with these entities, when appropriate, and should ensure that those entities that fall under the provisions of Sections 4-37e through 4-37j of the General Statutes are in compliance with the Statutes.**

Comment:

We found the University's procedures for monitoring the compliance of non-profit entities operating on the University's campuses with Sections 4-37e through 4-37j of the General Statutes to be inadequate.

4. **The University should use UCONN 2000 bond funds in the manner specified in Section 10a-109e, subsection (a), of the General Statutes.**

Comment:

We found that the University used UCONN 2000 bond funds for a project not specified within Connecticut General Statutes 10a-109e, subsection (a), without obtaining the required public or special act.

5. **The University should develop a comprehensive Construction Policies and Procedures Manual.**

Comment:

The existence of a well constructed Construction Policies and Procedures Manual and adherence to such policies and procedures assists in providing reasonable assurance that objectives will be obtained.

6. **The University should enhance competition by publicly soliciting open competitive bids on construction projects after finalizing project design details.**

Comment:

The University's use of the "Construction Manager at Risk with a Guaranteed Maximum Price" delivery method/procurement technique may have caused the State to incur higher than necessary costs.

7. **In order to strengthen internal control, the University should consider having the administrative heads of the Payroll Department and the Accounts Payable Department report to the Vice President and Chief Financial Officer.**

Comment:

Having the Payroll Department and the Accounts Payable Department report to the Vice President and Chief Financial Officer would achieve greater segregation of duties.

**8. The University should re-establish the Human Resources Department as an integral component of the control environment.**

Comment:

Our testing revealed several instances in which the Human Resources department failed to detect and prevent inappropriate transactions.

**9. The University should hire personnel with the required abilities and at an appropriate compensation level rather than rely on outside consultants.**

Comment:

The University has paid more for the services of a temporary Chief Information Officer than it would be expected to pay for a permanent Chief Information Officer. Further, the use of a consultant working on the “Institutional Synergy Assessment”, a significant component of which was making recommendations relative to the Information Technology function, as the effective head of the University’s Information Technology Department creates the appearance of a lack of impartiality, as well as a potential violation of Section 1-86e, subsection (a)(2), of the General Statutes.

**10. The University should make a list of any known uncollectible accounts receivable and submit such list to the Secretary of the Office of Policy and Management requesting that they be cancelled.**

Comment:

The University failed to comply with the intent of Section 3-7, subsection (b), of the Connecticut General Statutes.

**11. The University should pay employees in accordance with contractual mandates.**

Comment:

The University overpaid members of the NP-2 bargaining unit by an estimated \$39,000.

**12. The University should take steps to inform all persons handling University receipts of depository requirements and amend control procedures to prevent late deposits.**

Comment:

Our examination of University operations disclosed significant amounts of cash receipts deposited in an untimely manner.

**13. The University should inform departments of the criteria and process to follow prior to transferring University resources.**

Comment:

The University transferred computers purchased with State funds to a former employee.

## 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 (University) for the fiscal years ended June 30, 2002 and 2003. The University is a component unit of the University of Connecticut system, which includes the University, the Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. This audit was primarily limited to performing tests of the University's compliance with certain provisions of laws, regulations, contracts and grants and to understanding, and evaluating the effectiveness of, the University's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the University are complied with, (2) the financial transactions of the University are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the University are safeguarded against loss or unauthorized use. The financial statement audit of the University for the fiscal year ended June 30, 2002 and 2003, is included as a part of our Statewide Single Audit 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 University complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

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

As part of obtaining reasonable assurance about whether the University complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the University's financial operations for the fiscal years ended June 30, 2002 and 2003, we performed tests of its compliance with certain provisions of the laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying "Condition of Records" and "Recommendations" sections of this report. This finding is the use of bond funds in a manner not consistent with State Statutes.

We also noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

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

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

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

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

This report is intended for the 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 University for the cooperation and courtesies extended to our representatives during this examination.

Gregory J. Slupecki  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts