

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007*

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

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December 5, 2008

**AUDITORS' REPORT  
UNIVERSITY OF CONNECTICUT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2007**

We have made an examination of the financial records of the University of Connecticut (University) for the fiscal years ended June 30, 2006 and 2007. 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 21 members appointed or elected under the provisions of Section 10a-103 of the General Statutes.

## *Auditors of Public Accounts*

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This Board, subject to Statewide policy and guidelines established by the Board of Governors of Higher Education, prescribes 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, 2007, were:

Ex officio members:

M. Jodi Rell, Governor of the State of Connecticut  
F. Philip Prelli, Commissioner of Agriculture  
Joan McDonald, Commissioner of Economic and Community Development  
Mark K. McQuillan, Commissioner of Education  
Gerard N. Burrow, M.D., Chair, Health Center Board of Directors

Appointed by the Governor:

Louise M. Bailey, West Hartford, Secretary  
Michael A. Bozzuto, Avon  
Peter S. Drotch, Framingham, MA  
Linda P. Gatling, Southington  
Dr. Lenworth M. Jacobs, Jr., West Hartford  
Rebecca Lobo, Granby  
Michael J. Martinez, East Lyme  
Denis J. Nayden, Wilton  
Thomas D. Ritter, Hartford  
Dr. John W. Rowe, New York, Chairman  
Wayne J. Shepperd, Danbury  
Richard Treibick, Greenwich

Elected by alumni:

Philip P. Barry, Storrs  
Dr. Andrea Dennis-Lavigne, Simsbury

Elected by students:

Salmun Kazerounian, Storrs  
Michael J. Nichols, Hartford

Other members who served during the audited period included the following:

James F. Abromaitis, Commissioner of Economic and Community Development  
Stephen A. Kuchta, Storrs  
Betty J. Sternberg, Commissioner of Education

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. President Austin stepped down September 13, 2007. He was succeeded by Michael J. Hogan, who took office on September 14, 2007.

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 new legislation is presented below.

Public Act 06-134 – Section 1 of this Act requires the University's Board of Trustees to select and appoint independent auditors to annually audit UConn 2000 projects. Section 3 of the act establishes a seven-member Construction Management Oversight Committee and requires such committee to review and approve the policies and procedures developed by the University to undertake any UConn 2000 project. Section 4 of the Act requires that the Board of Trustees of the University establish a construction assurance office to be led by a full-time director who will be responsible for reviews of construction performance of UConn 2000 projects. Section 8 of the Act requires public bidding on

UConn 2000 projects which are estimated to cost more than five hundred thousand dollars.

Public Act 06-135 – Section 9 of this Act restores the State’s 50 percent match of private donations made to State of Connecticut public colleges and universities for those donations made between January 1, 2005 and June 30, 2005.

Public Act 07-3 (June Special Session) – Section 55 of this Act prohibits the use of tuition and student fee revenue for repairs performed solely to correct code violations for certain projects completed prior to January 1, 2007

**Enrollment Statistics:**

Statistics compiled by the University's Office of Institutional Research present the following enrollments in the University’s credit programs, including the Health Center, during the audited period.

	2005-2006		2006-2007	
Student Status	Fall	Spring	Fall	Spring
Undergraduates	20,525	19,372	20,784	19,725
Graduates	6,180	5,976	6,341	6,102
Professional (School of Law and Doctor of Pharmacy)	893	868	869	855
Medicine – Students	319	319	328	328
Medicine – Other <sup>(1)</sup>	595	595	586	586
Dental – Students	166	166	159	159
Dental – Other <sup>(1)</sup>	95	95	107	107
Totals	28,773	27,391	29,174	27,862

(1) – 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 those funds 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, while legally controlled by the University, 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
- 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's financial statements are incorporated in the State's Comprehensive Annual Financial Report as an enterprise fund. Significant aspects of the operations of the University, as presented 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 4,304 and 4,360 as of June 2006 and June 2007, respectively.

## *Auditors of Public Accounts*

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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 presents annual tuition charges during the 2005-2006 and 2006-2007 fiscal years.

Student Status	2005-2006			2006-2007		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	\$6,096	\$18,600	\$9,168	\$6,456	\$19,656	\$9,744
Graduates	7,524	19,584	11,322	7,992	20,772	12,006
School of Law	15,648	33,024	23,496	16,608	35,016	24,912

### **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 presented in the University's financial statements for the audited period follows:

	<u>2005-2006</u>	<u>2006-2007</u>
Student Tuition and Fees (net of scholarship allowances)	\$ 177,210,259	183,468,732
Federal Grants and Contracts	79,604,501	81,282,959
State and Local Grants and Contracts	17,305,776	18,994,517
Non-Governmental Grants and Contracts	10,298,876	11,823,648
Sales and Services of Educational Departments	15,504,841	14,937,691
Sales and Services of Auxiliary Enterprises (net of scholarship allowances)	119,203,886	127,527,596
Other Sources	<u>10,231,304</u>	<u>11,059,294</u>
Total Operating Revenue	<u>429,359,443</u>	<u>449,094,437</u>

The rise in Student Tuition and Fees is attributable to an approximate rise in undergraduate enrollment of 1.3 percent, as well as a rise of 5.7 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 presented in the University's financial



statements for the audited period follows:

	<u>2005-2006</u>	<u>2006-2007</u>
Instruction	\$ 245,567,278	\$ 256,079,892
Research	55,933,021	59,641,605
Public Service	31,184,522	32,190,108
Academic Support	74,664,985	82,234,793
Student Services	30,570,516	35,022,525
Institutional Support	60,767,532	67,336,935
Operations and Maintenance	65,676,823	60,611,434
Depreciation	86,528,795	88,030,170
Student Aid	3,822,397	3,971,727
Auxiliary Enterprises	<u>121,955,025</u>	<u>126,828,040</u>
Total Operating Expenses	<u>\$ 776,670,894</u>	<u>\$ 811,947,229</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 presented in the University's financial statements for the audited period follows:

	<u>2005-2006</u>	<u>2006-2007</u>
State Appropriation (including fringe benefits)	\$ 285,675,894	\$ 305,943,066
State Debt Service Commitment for Interest	33,093,947	35,863,883
State Match to Endowment	35,093	93,864
Gifts	20,476,003	24,423,566
Investment Income	9,647,570	12,299,820
Interest Expense	(43,262,087)	(47,462,929)
Other Nonoperating Revenues (Expenses)	<u>(4,204,731)</u>	<u>(686,574)</u>
Net Nonoperating Revenue	<u>\$ 301,461,689</u>	<u>\$ 330,474,696</u>

The State appropriation, the largest source of revenue at the University, increased in the fiscal year ended June 30, 2007, by \$20,267,172 or 7.1 percent when compared to the fiscal year ended June 30, 2006. The State appropriation increased in the fiscal year ended June 30, 2006, by \$12,590,581 or 4.61 percent when compared to the fiscal year ended June 30, 2005. The ratio of the State appropriation to tuition revenue was 1.61 in the fiscal year ended June 30, 2006 and 1.67 in the fiscal year ended June 30, 2007. The ratio of the State appropriation to total operating revenue was .66 in the fiscal year ended June 30, 2006 and .68 in the fiscal year ended June 30, 2007. The ratio of the State appropriation to total operating expenses was .37 and .38 for the fiscal years ended June 30, 2006 and 2007, 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 presented in the University's financial statements for the audited period follows:

	<u>2005-2006</u>	<u>2006-2007</u>
State Debt Service Commitment for Principal	\$ 61,569,575	\$ 65,179,575
Capital Grants and Gifts	9,965,822	3,029,866
Disposal of Property and Equipment, Net	(897,448)	(3,457,020)
Capital Other	<u>(10,593,490)</u>	<u>1,623,610</u>
Total Capital Additions (Deductions)	<u>\$ 60,044,459</u>	<u>\$ 66,376,031</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. Amounts listed as Capital Other for the fiscal year ended June 30, 2006, consist primarily of amounts paid, or to be paid, for landfill remediation and for the correction of certain construction deficiencies for three student residential facilities. Amounts listed as Capital Other for the fiscal year ended June 30, 2007, consist of amounts paid for safety code updates and costs not capitalized under University policy, offset by insurance recoveries related to the University's Hilltop Apartment project.

**Net Assets:**

Net assets are assets minus liabilities. Net assets as presented in the University's financial statements for the audited period follows:

	<u>2005-2006</u>	<u>2006-2007</u>
Invested in Capital Assets, Net of Related Debt	\$1,228,523,269	\$1,200,081,259
Restricted Nonexpendable	13,506,699	14,878,800
Restricted Expendable:		
Research, Instruction, Scholarships and Other	11,273,079	12,646,227
Loans	3,350,071	3,732,539
Capital Projects	21,361,924	53,585,008
Debt Service	11,298,515	10,878,478
Unrestricted	<u>94,338,066</u>	<u>121,847,247</u>
Total Net Assets	<u>\$1,383,651,623</u>	<u>\$1,417,649,558</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, 2006	June 30, 2007	June 30, 2006	June 30, 2007
Assets	\$366,423,000	\$407,900,000	\$16,647,000	\$17,933,000
Liabilities	13,342,000	14,961,000	38,000	1,000
Net Assets	353,081,000	392,939,000	16,609,000	17,932,000
Support and Revenue	73,237,000	86,845,000	2,168,000	2,954,000
Expenditures	45,317,000	46,987,000	1,469,000	1,631,000

## CONDITION OF RECORDS

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

### **Inability to Locate Documents Supporting Contractor Selection:**

*Criteria:* State of Connecticut record retention policies require that documents relating to procurement transactions be retained, at a minimum, until audited.

*Condition:* When reviewing the selection of the construction manager for the University's Landfill Remediation Project we noted that although the University solicited proposals for the project, as demonstrated by an advertisement placed in a major daily newspaper, only the proposal of the construction manager awarded the contract was on file. Payments made to date to the construction manager exceed \$10,000,000.

*Effect:* We were unable to verify that the lowest responsible proposal was selected.

*Cause:* University personnel have stated that they cannot find the other proposals received for this project.

*Recommendation:* The University should take greater care in safekeeping important documents. (See Recommendation 1.)

*Agency Response:* "The University agrees that important procurement documents should be properly maintained. Former Capital Projects and Contract Administration (CPCA) management was replaced in January 2007 and the new director's reporting relationship was assigned to a different senior manager. Despite their repeated efforts, additional documents related to this procurement could not be located.

CPCA developed a new Document Control System in January 2007 and maintains a centralized document control filing system that is both standardized and consistent in locating documents within the procurement files. Files are organized by project number within CPCA's document control system and contain all supporting documentation evidencing appropriate and required contractor selections."

**Greater Involvement of Human Resources Personnel in Special Payroll Payments:**

- Background:* The University’s Special Payroll is primarily used to compensate individuals for short-term non-permanent professional work as well as to pay faculty and graduate students for work beyond the scope of their normal duties.
- Criteria:* Good internal control requires that prospective payments made for personal services be authorized by parties other than the hiring department or the payroll department.
- Condition:* Our review of internal control over the Special Payroll disclosed that requests for payments made under the Special Payroll were initiated by individual operating departments and approved by the University’s Payroll Department.
- Effect:* The lack of scrutiny by the University’s Human Resources Department lessens the level of assurance that Special Payroll transactions have been executed in accordance with management’s intentions, particularly in areas such as the proper amount of compensation as well as conflict of interest issues.
- Cause:* The University apparently believes that the scrutiny provided by the University’s payroll unit is adequate.
- Recommendation:* The University’s Human Resources Department, in consultation with the University’s Office of the Vice President and Chief Financial Officer and the Office of Academic Affairs, should be actively involved in determinations related to the hiring and compensation of employees under the Special Payroll. (See Recommendation 2.)
- Agency Response:* “The University agrees that greater oversight of the Special Payroll is warranted. The Human Resources Department (HR) will develop a process to provide effective review outside of the hiring department. HR will also develop a periodic audit of Special Payroll payments to provide an additional level of monitoring for compliance.”

**Entities Affiliated with the University:**

- Criteria:* Prudent business practice dictates that the University establish agreements with organizations operating within the University environment that define the rights and obligations of each party.
- Condition:* In our prior audit report we noted certain non-profit organizations operating in some manner at the University for which the

University did not have an agreement defining the rights and obligations between the University and the non-profit organization.

Although the University has made an effort to identify those non-profit organizations operating in some manner at the University, agreements between such entity's and the University are not satisfactory.

*Effect:* University resources may have been used in a manner inconsistent with the University's intentions.

*Cause:* The preparation of comprehensive and current agreements between the University and certain non-profit entities operating in some manner at the University has not been deemed a priority.

*Recommendation:* The University should enter into comprehensive and current agreements with non-profit entities affiliated with the University. (See Recommendation 3.)

*Agency Response:* "The University agrees that additional effort is required in this area. During the past two years, the University focused its efforts on identifying non-profits that were physically located at the University and ensuring that proper lease agreements were in place to the extent possible.

We will begin to structure memoranda of agreements or understanding for other non-profit organizations operating within the University environment identified by the Auditors that outline the rights and obligations of the parties."

**Erroneous Payroll Payments:**

*Criteria:* The University operates in an environment of limited resources. As such, when a payment is made in error University personnel should take steps to recover such erroneous payments.

*Condition:* As the result of an allegation of irregular payments made by a whistleblower, we reviewed the payments made to a temporary part-time employee of the Torrington Branch of the University. The payments made to this employee were as follows:

- Fiscal Year 2002 \$ 7,050 (\$ 3,525 fall semester, \$ 3,525 spring semester)
- Fiscal Year 2003 \$7,260 (\$ 3,630 fall semester, \$ 3,630 spring semester)

- Fiscal Year 2004 \$ 7,260 (\$ 3,630 fall semester, \$ 3,630 spring semester)
- Fiscal Year 2005 \$ 7,476 (\$ 3,738 fall semester, \$ 3,738 spring semester)

Based upon University payroll authorizations these payments related to “Coordinating the dance program with the Nutmeg Conservatory for the Arts 3 credits”.

Our analysis of registration data allowed us to conclude that for the Spring 2002, Spring 2003, Fall 2003 and Spring 2004 semesters; the employee was listed as the instructor and had students and gave grades for certain courses (Dram 291, Dram 298, Dram 299), but for the Fall of 2002, Fall 2004 and Spring 2005 semesters we found no evidence of the employee performing instruction related duties.

We contacted the University’s Office of Audit and Compliance to determine if the payments made to the employee for the Fall of 2002, Fall 2004 and Spring 2005 semesters were consistent with University policy or whether such payments were made in error.

Based upon our review of the University’s Office of Audit and Compliance report on these payments, as well as discussion with the University personnel that prepared the report, we concluded that it was not intended that the employee get paid as an instructor but rather as an academic specialist. Persons hired as academic specialists are supposed to support the teaching function. As such the lack of a course for which the employee had students does not necessarily preclude them from receiving payment.

In an effort to determine if payments made for the Fall of 2002, Fall 2004 and Spring 2005 semesters were appropriate, we asked University personnel if anyone could attest to some work being performed by this employee for those periods. It is our understanding that only for the Fall 2002 semester could the persons authorizing payments to the employee attest to work being performed. We also asked University personnel if any evidence was available which would allow us to conclude work was performed (i.e. brochures, seminars, course offerings, web sites). They indicated they were not aware of any.

Based upon the above, we believe that in the absence of attestation by University personnel that work was performed or physical evidence that work was performed, there is no proof that benefit was received by the University and as such the University should seek reimbursement for amounts paid to the employee for

the Fall 2004 and Spring 2005 semesters.

*Effect:* The two \$3,738 payments described above should not have been made as there is no supporting documentation that the University benefited in any way from such payments.

*Cause:* The task of approving certain payments made to temporary part-time employees did not receive adequate attention.

*Recommendation:* Additional scrutiny by someone having knowledge of the work performed should be given to assure the appropriateness of payments made to temporary part-time employees. In those circumstances where payments are determined to have been made in error, the University should seek recovery. (See Recommendation 4.)

*Agency Response:* “The University agrees that appropriate review of work performed is a requirement of those in supervisory positions. Through the Departments of Human Resources and Payroll Services, the University will underscore that responsibility to supervisors who authorize payments. We also agree that upon verification of erroneous payments, the University should seek recovery. In the cases referenced above, after further review, it was determined that the basis to recover payments in question was insufficient.”

*Auditors Concluding Comment:*

The University, at a very minimum, should make a formal request to the former employee in an effort to recover the erroneous payments.

### **Lack of Internal Control Over Travel Expenditures:**

*Criteria:* Good business practice requires that travel expenses be scrutinized in an effort to keep such expenses to the lowest reasonable amounts.

In lieu of extenuating circumstances, OMB Circular A-21 prohibits the use of premium air travel in those instances that travel costs are paid for with Federal funds.

*Condition:* While conducting tests of travel expenditures we noted the following:

- Several instances where the University paid premium airfare without any accompanying explanation as to why premium airfare was necessary.
- Several instances where employees who were attending conferences were reimbursed for lodging for days in excess of



the conference schedule.

- Several instances where payments for lodging were in excess of the Federal General Services Agency (GSA) rate.

*Effect:* The University may have paid more for travel expenditures than was necessary. In those instances where Federal funds were used for premium airfare and extenuating circumstances did not exist, the University may have incurred an “unallowable cost” and therefore un-reimbursable cost.

*Cause:* The University relies to a large extent on the employees traveling to select the lowest cost airfare and accommodations.

*Recommendation:* The University’s Office of Travel Services should require documentation of extenuating circumstances when University personnel use premium airfare. Further, techniques should be developed to detect and reject those expenditures that are unreasonable. (See Recommendation 5.)

*Agency Response:* “The University agrees that stronger policy guidance for these matters is required. The Office of Travel Services has drafted and will submit for Board of Trustees approval in 2008, revisions to the policies and procedures governing use of, and documentation required, for premium air travel and conference related lodging.”

**Failure to Obtain Receiving Reports for Significant Payments to Vendors:**

*Criteria:* University personnel receiving goods and services prepare receiving reports to confirm that items purchased are consistent with what was ordered, are complete, and are in an acceptable condition. Receiving reports also serve as the authorization to Accounts Payable to make payments to vendors.

*Condition:* During our test of expenditures we noted payments of \$518,747 and \$278,879 made to a communications equipment vendor for which no receiving report was prepared. We were informed that these payments utilized “negative receiving”, a procedure in which University personnel receiving goods and services from certain pre-approved vendors, are not required to affirmatively acknowledge that such goods and services have been received. When negative receiving is used the University’s accounts payable departments will pay the invoiced amount unless advised not to by the ordering department.

*Effect:* Making large payments to vendors without confirming the acceptability of the items received reduces the University’s negotiating position should such items be deemed unacceptable.

*Cause:* The University has established the negative receiving report system in an effort to take advantage of vendors' discounts for timely payment, as well as to eliminate some administrative burden. Presumably, vendors approved for negative receiving are those which the University feels comfortable that any disagreements as to the acceptability of an item can be negotiated in a mutually agreeable manner.

*Recommendation:* The University should limit the use of negative receiving to invoice amounts of a reasonable dollar value. (See Recommendation 6.)

*Agency Response:* "The University agrees with the recommendation.

The University limits negative receiving to those vendors who have a favorable history with the University. The value of taking the prompt discounts during the audit period was \$260,000. Vendors are monitored monthly regarding service to the University and are not allowed this privilege if customer complaints have been received. During the audit period, the average negative receiving invoice was valued at approximately \$700"

**Failure to Obtain Gift and Campaign Certifications:**

*Criteria:* Section 4-252, subsection (c), of the Connecticut General Statutes, as well as Governor Rell's Executive Orders No. 1 and No. 7C, require that the University obtain a gift and campaign certification at the time of the execution of a contract and annually thereafter through the term of the contract, from any person, firm or corporation awarded a contract with the University, if such contract exceeds \$500,000 in a calendar or fiscal year.

*Condition:* During our tests of expenditures related to construction contracts, we noted several instances in which the University did not obtain gift and campaign certifications at contract signing and the required annual updates.

*Effect:* The University has not complied with Section 4-252, subsection (c), of the Connecticut General Statutes and Governor Rell's Executive Orders No. 1 and No. 7C.

*Cause:* Departmental personnel were apparently unaware of the requirements described above.

*Recommendation:* The University should obtain the required gift and campaign certifications at contract signing, as well as during the required annual updates. (See Recommendation 7)

*Agency Response:* “The University agrees and effective June 1, 2008, new procedures were implemented to ensure that the gift campaign forms are secured at contract signing and annually for any multi-year contracts.”

**Solicitation of Competition When Conveying Valuable Tangible or Intangible Rights or Property:**

*Criteria:* The University has an obligation to maximize the value it receives when conveying rights or property. Competition among interested parties provides a degree of assurance that the maximum value has been received.

*Condition:* During May 2006, the owner of property on Hunting Lodge Road in the town of Mansfield, requested access to the University’s water and sewage treatment systems. During June 2006, based upon the recommendation of the University’s Water and Wastewater Advisory Committee, the University’s Vice President and Chief Operating Officer granted, subject to a variety of conditions, the requested access.

*Effect:* The granting of the access to the University’s water and sewage treatment systems without soliciting competing proposals reduces the certainty that the University obtained the maximum value for access to such systems.

*Cause:* Obtaining the maximum value for access to the University’s water and sewage treatment systems was not a consideration.

*Conclusion:* In the Auditors of Public Accounts 2007 Annual Report to the General Assembly, dated January 31, 2008, a recommendation was proposed for enacting legislation to require that State assets, whether tangible or intangible in nature, that are to be sold or otherwise conveyed to an outside party, be done so in a competitive manner.

*Agency Comment:* “Since the Hunting Lodge Road property was privately owned, the University could not solicit competing proposals for providing a connection to that property. Since 2006, the University’s Water and Wastewater Advisory Committee has considered requests for water and/or sewer connections from several other private and public property owners. Some have been approved and others rejected based on well established decision making criteria related to the capacity of the utility systems; consistency with University’s land use plans and approval of municipal land use authorities.”

**Granting Paid Leave Time in a Manner Inconsistent with Contractual Obligations:**

*Criteria:* The University's Department of Dining Service's agreement with the Union of Needles Trades, Industrial and Textile Employees, establishes the terms of granting paid leave to Department of Dining Services employees.

*Condition:* We tested the attendance records of 19 Department of Dining Services Employees. Our tests disclosed that nine of the 19 employees tested had been granted paid sick and/or vacation time prior to being eligible to use such paid sick and/or vacation time.

*Effect:* The University has not complied with the terms of its agreement with Union of Needles Trades, Industrial and Textile Employees. Additionally, the University exposes itself to claims of preferential treatment if similarly circumstanced employees are not treated in the same manner.

*Cause:* A manager in the University's Department of Dining Services felt it was appropriate to grant exceptions based upon individual circumstances.

*Recommendation:* The University should adhere to its agreement with Union of Needles Trades, Industrial and Textile Employees. If the University believes additional benefits should be granted in extenuating circumstances, then procedures should be developed to assist in achieving consistent application among employees. (See Recommendation 8.)

*Agency Response:* "We agree with the findings. The manager responsible for this area of the Department of Dining Services Human Resources took it upon himself to make decisions outside of the existing bargaining agreement with UNITE / HEAR. This individual is no longer employed by the Department of Dining Services.

A communication will be issued reiterating the policies relating to the use of earned time to all bargaining unit members. Proper adherence will be assured by oversight by the new Assistant Department Head of Human Resources for the Department of Dining Services."

**Maximization of Interest Income:**

*Criteria:* After considering risk, the University should attempt to maximize interest income on cash balances.

*Condition:* While reviewing the operations of the University's Department of Campus Activities for the period of February 2005 through

November 2006, we noted the Student Organization checking account had significant balances which were not needed in the short term.

Based upon further analysis of such balances, we estimate that had the University invested the cash balances that were not needed in the short term, in the State of Connecticut's Short Term Investment Fund (a low risk money market investment pool), the interest earned would have exceeded \$79,000.

- Effect:* The University did not maximize interest income.
- Cause:* University personnel charged with custodial responsibility over the Student Organization checking account did not consider transferring balances to interest bearing accounts.
- Recommendation:* Procedures should be developed to transfer excess cash balances to an appropriate interest bearing investment. (See Recommendation 9.)
- Agency Response:* "Management agrees with this finding. The University's Department of Student Activities has begun to work with the Cash Operations Unit of the Accounting Office to develop an appropriate, cost efficient, process to determine the banking and cash procedures to maximize investment in the Short Term Investment Fund (STIF) while maintaining appropriate internal controls over such banking activity. It is anticipated that by October 1, 2008, Student Activities will have access to Bank of America Direct to initiate wires from its accounts to STIF. Wires will only be released by the Controller, Associate Controller or Manager of Cash Operations. A daily analysis will be completed by Student Activities to determine the amount of investment to STIF while allowing for the necessary cash flow needs of the recognized student activity organizations. Appropriate internal controls and investment monitoring will be developed in consultation with the Accounting Office."

## **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. The establishment of an organizational structure includes considering key areas of authority and responsibility and appropriate lines of reporting.

- Condition:* The organizational framework in place at the University has the administrative heads of the Human Resources Department and the Payroll Department as well as the administrative heads of the Purchasing Department and the 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 current organizational structure was established as the result of a June 17, 2003, consultant's report.
- Recommendation:* In order to strengthen internal control, the University should consider having the administrative heads of the traditionally financial related departments of Payroll and Accounts Payable report to the Vice President and Chief Financial Officer. (See Recommendation 10.)
- Agency Response:* "The University through its chief operating officer and the new chief financial officer will review the current organizational structure to determine if additional safeguards are needed or if organizational changes should be made. The organizational change referenced in this finding, implemented by the university in 2003, was done to improve service to the university community, improve communications and cohesion between administrative areas that had common "customers". The current organizational structure separates duties and responsibilities of the units by requiring that the managers in these units have different chains of command. While those chains of command do ultimately end at the chief operating officer's level there are safeguards, such as prior to the release of funds for payment there must be a three way match - purchase order to invoice to receipt of goods confirmation, that maintain internal control and division of responsibilities all the way up the chain of command."

**Inappropriate Use of Emergency or Exigent Purchasing Technique:**

- Criteria:* Section 10a-151b, subsection (c), of the Connecticut General Statutes sets forth the circumstances in which emergency purchases may be made without competitive bidding. Such circumstances, which are to some extent mirrored in the University's policy on "Exigent" projects, include extraordinary conditions, contingencies that could not reasonably be foreseen, and unusual trade or market conditions.

*Condition:* During our test of expenditure transactions we became aware of a change order to the North Hillside Road Utility Extension contract, dated February 11, 2005, in the amount of \$391,835. This change order was for site work related to new tennis courts to replace the tennis courts displaced during the construction of the Burton-Shenkman athletic facility. Our analysis of the documents associated with this contract disclosed that the University considered this project to be an exigent project and as such did not utilize public notice in a major daily newspaper to solicit bids or proposals.

Our review of the nature of this project indicated that it did not meet the conditions to warrant emergency or exigent purchasing procedures.

It should be noted that documents provided to us suggest that proposals, other than the selected proposal, were received for this project, but such alternative proposals were never made available to us for inspection.

*Effect:* Failure to utilize public notice in a major daily newspaper to solicit bids or proposals limits competition.

*Cause:* University personnel believed that entering into the contract for the tennis court site work using the emergency or exigent purchasing procedure would allow for quicker completion of the tennis courts.

*Recommendation:* The University should limit the use of emergency or exigent purchasing procedures to those circumstances in which true emergency conditions exist. (See Recommendation 11.)

*Agency Response:* “The University agrees with the recommendation.

Since being reorganized in the fall of 2006, Capital Projects and Contract Administration (CPCA) follows March 2004 Board approved: “Policies Regarding Professional Services and Contractors: UConn 2000 and Other Capital Projects – outlining the authorized use and procedure for Exigent Procurement. The engaging of a contractor requires authorization of CPCA, based on a written request and recommendation from the Associate Vice President of AES prior to final approval from senior administration, for the final determination and acceptance of an Exigent Procurement request. The guidelines for determining an exigent circumstance must meet at least one of the following criteria:

- Prevent loss of grant income or other revenue

- Produce additional revenue or grant income
- Insure renovations are complete for new faculty and staff members
- Provide for safety and health of the University of Connecticut community
- Comply with any Federal or State laws or regulations
- Insure timely and orderly completion of UConn 2000 or 21<sup>st</sup> Century UConn Projects

Upon proper authorization, CPCA may enter into negotiations with the contractor(s) currently performing work at the University and create or modify a contractual relationship in order to facilitate the exigent work. Exigent purchases are reported to the Board of Trustees at its next meeting.”

### **Payments Made to Employees at Separation from Service**

<i>Criteria:</i>	Payments to employees at separation from service should be made in accordance with contractual obligations and/or University policy.
<i>Condition:</i>	We tested payments made to 25 employees who separated from service during the audited period. Our review disclosed errors in the calculation of amounts paid to five of these employees ranging from \$93 to \$835.
<i>Effect:</i>	The former employees were not paid the correct amounts upon separation from service.
<i>Cause:</i>	University personnel did not properly calculate amounts due to the employees. (See Recommendation 12)
<i>Recommendation:</i>	University personnel should exercise greater care when calculating separation payments.
<i>Agency Response:</i>	“Management agrees with the recommendation that greater care should be exercised by Payroll staff members when manually calculating separation payments. Corrections to the five underpayments identified were made in pay period ending May 24, 2007. Shortly thereafter, Payroll Management internally reassigned responsibility for the calculation of non-AAUP unclassified separations. Additionally, automated payment calculations within HCM will greatly reduce the under/overpayment risks associated with manual calculations.”



## RECOMMENDATIONS

### *Status of Prior Audit Recommendations:*

In our previous report on our audit examination of the University, we presented fifteen 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 centralize control over the vehicle fleet by allocating the necessary resources to the Transportation Department and develop a comprehensive motor vehicle policy and procedures manual. The University has implemented the recommendation. The recommendation is not being repeated.
- In those instances in which the lowest proposal is not selected, the University should prepare documentation that provides evidence of the rationale for their decision. We did not find any significant instances in which this condition occurred. Therefore, the recommendation is not being repeated.
- In those instances in which fundamental terms upon which a contract was awarded have changed, the University should take steps to ensure that the new contract is awarded in an open and competitive process. We did not find the conditions upon which this recommendation was based during the current audit. The recommendation is not being repeated.
- The University should assign the responsibility for developing procedures to identify entities affiliated with the University, and should enter into formalized agreements with these entities. This recommendation is being repeated. (See Recommendation 3.)
- The University should publicly advertise to solicit competition for projects that have not previously been publicly advertised and for which less than three bids have been received. We did not find the conditions upon which this recommendation was based during the current audit. The recommendation is not being repeated.
- The University should increase the segregation of duties in the areas of requests for construction contract modifications and the pricing of such construction contract modifications. The University has established new procedures in an effort to implement this recommendation. The recommendation is not being repeated.
- The University should establish the scope and price of services prior to establishing contractual relationships with design professionals and engineers. In those instances in which the scope of a project significantly changes due to unforeseen circumstances, consideration should be given to soliciting new proposals in an open and competitive process. The University has established new procedures in an effort to implement this recommendation. The recommendation is not being repeated.
- For those UCONN 2000 projects for which it is anticipated that expenditures will

exceed authorized amounts, the University should seek the approval of the Board of Trustees to revise the General Obligation indenture and increase authorized amounts, prior to actually incurring the expenditures. The University has established new procedures in an effort to implement this recommendation. The recommendation is not being repeated.

- The University should solicit competitive bids or proposals in those instances in which it is estimated that an expenditure will exceed \$50,000. We did not find the condition upon which this recommendation was based during the current audit. The recommendation is not being repeated.
- The University should annually submit a list of professional staff positions to the Commissioner of Administrative Services. The University has implemented this recommendation. The recommendation is not being repeated.
- All non-routine journal entries should be subject to supervisory review to insure that adequate supporting documentation exists to support the entry. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should not grant dependent tuition waivers to non-university employees. The University has implemented this recommendation. The recommendation is not being repeated.
- The University should not make payments to outside parties who have liabilities to the University. We did not find the condition upon which this recommendation was based during the current audit. The recommendation is not being repeated.
- The University should require that any contract relating to the sale of University property have as a component of such contract a requirement that the University receive at least the fair market value of the property. We did not find the condition upon which this recommendation was based during the current audit. The recommendation is not being repeated.
- The University should inform employees that funds received in exchange for obligations of service by University employees must be deposited in State/University accounts. We did not find the condition upon which this recommendation was based during the current audit. The recommendation is not being repeated.

*Current Audit Recommendations:*

**1. The University should take greater care in safekeeping important documents.**

Comment:

University personnel were unable to locate the proposals from contractors competing for the University's Landfill Remediation Project.

- 2. The University's Human Resource Department, in consultation with the University's Office of Vice President and Chief Financial Officer and the Office of Academic Affairs, should be actively involved in determinations related to the hiring and compensation of employees under the Special Payroll.**

Comment:

Certain amounts paid to personnel are established and executed without active involvement of the University's Human Resources Department.

- 3. The University should enter into comprehensive and current agreements with non-profit entities affiliated with the University.**

Comment:

We found instances in which non-profit entities, operating in some manner at the University, had not entered into agreements with the University establishing the rights and obligations of each party.

- 4. Additional scrutiny by someone having knowledge of the work performed should be given to assure the appropriateness of payments made to temporary part-time employees. In those circumstances where payments are determined to have been made in error, the University should seek recovery.**

Comment:

We found an instance in which a person was paid to perform personal services for which no one could attest that any personal services had been performed. The University never attempted to recover the erroneous payment.

- 5. The University's Office of Travel Services should require documentation of extenuating circumstances when University personnel use premium airfare. Further, techniques should be developed to detect and reject those expenditures that are unreasonable.**

Comment:

We found instances in which University personnel incurring travel expenditures failed to choose the lowest priced option without providing justification.

- 6. The University should limit the use of negative receiving to invoice amounts of a reasonable dollar value.**

Comment:

We found two instances in which the University paid for expensive items without attestation from the ordering department that the items were acceptable and complete.

- 7. The University should obtain the required gift and campaign certifications at contract**
-

**signing, as well as during the required annual updates.**

Comment:

During our tests of construction contracts we noted several instances in which the University did not obtain gift and campaign certifications at contract signing and during the required annual updates.

- 8. The University should adhere to its agreement with Union of Needles Trades, Industrial and Textile Employees. If the University believes additional benefits should be granted in extenuating circumstances, then procedures should be developed to assist in achieving consistent application among employees.**

Comment:

The University allowed certain employees to use paid sick and/or vacation time prior to those employees being eligible to use such paid sick or vacation time.

- 9. Procedures should be developed to transfer excess cash balances to an appropriate interest bearing investment.**

Comment:

The University maintained cash balances in excess of immediate needs in a non-interest bearing account thereby foregoing interest income.

- 10. In order to strengthen internal control, the University should consider having the administrative heads of the traditionally financial related departments of Payroll and Accounts Payable report to the Vice President and Chief Financial Officer.**

Comment:

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

- 11. The University should limit the use of emergency or exigent purchasing procedures to those circumstances in which true emergency conditions exist.**

Comment:

We noted an instance in which a competitive procurement process was not utilized by the University based upon the assertion of the existence of emergency conditions. Our review of the nature of the transaction indicated that it did not meet the conditions to warrant emergency purchasing procedures.

- 12. University personnel should exercise greater care when calculating separation payments.**

Comment:

Our test of 25 payments made to employees at separation disclosed five errors.

## 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 for the fiscal years ended June 30, 2006 and 2007. This audit was primarily limited to performing tests of the University's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the University are complied with, (2) the financial transactions of the University are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the University are safeguarded against loss or unauthorized use. The financial statement audits of the University for the fiscal years ended June 30, 2006 and 2007, 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 University 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:**

In planning and performing our audit, we considered the University'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 University's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the University's internal control over those control objectives.

A *control deficiency* 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 on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to properly initiate, authorize, record, process, or report financial data reliably consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the University's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the University's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the University's financial operations, safeguarding of assets, and compliance with requirements would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the University's financial operations, safeguarding of assets, and compliance with requirements that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the University of Connecticut 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 University'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report as the following items: Recommendation 1 - inability to locate documents supporting contractor selection, Recommendation 7 - failure to obtain gift and campaign certifications, Recommendation 8 - granting of paid leave time in a manner inconsistent with contractual obligations, and Recommendation 11 - the inappropriate use of emergency or exigent purchasing technique.

The University'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 University's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of University 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 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