STATE OF CONNECTICUT

AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013

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

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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July 29, 2015

AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013

We have audited certain operations of the University of Connecticut (UConn) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The University of Connecticut is a component unit of the University of Connecticut system, which includes UConn, the University of Connecticut Health Center (UConn Health Center) and the University of Connecticut Foundation, Inc. We also audit the financial statements of UConn and the UConn Health Center and report on those audits separately. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2012 and 2013. The objectives of our audit were to:

1. Evaluate UConn's internal controls over significant management and financial functions.

2. Evaluate UConn's compliance with policies and procedures internal to the university or promulgated by other state agencies, as well as certain legal provisions.

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the university, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions, could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the university's management and was not subjected to the procedures applied in our audit of the university. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of UConn.

COMMENTS

FOREWORD

The University of Connecticut, a constituent unit of the state system of higher education, operates generally under the provisions of Title 10a, Chapter 185b, Part III, of the General Statutes. UConn is governed by the Board of Trustees of the University of Connecticut, consisting of 21 members appointed or elected under the provisions of Section 10a-103 of the General Statutes. The board 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 as of June 30, 2013 were:

Ex officio members:

Dannel P. Malloy, Governor
Sanford Cloud Jr., Chairperson of the UConn Health Center Board of Directors
Stefan Pryor, Commissioner of Education
Steven K. Reviczky, Commissioner of Agriculture
Catherine Smith, Commissioner of Economic and Community Development

Appointed by the Governor:

Lawrence D. McHugh, Middletown, Chair
Louise M. Bailey, West Hartford, Secretary
Peter S. Drotch, Framingham, Massachusetts
Lenworth M. Jacobs, M.D., West Hartford
Rebecca Lobo, Granby

Denis J. Nayden, Stamford
Thomas D. Ritter, Hartford
Juanita T. James, Stamford
Wayne J. Shepperd, Danbury
Richard Treibick, Greenwich
Marilda L. Gandara, Hartford
Thomas E. Kruger, Stamford

Elected by alumni:

Francis X. Archambault, Jr., Storrs
Richard T. Carbray Jr., Rocky Hill

Elected by students:

Brien T. Buckman, Storrs
Rose A. Barham, Storrs

Dannel P. Malloy served as Governor during the audited period.

Cory Schmitt of Storrs, Michael A. Bozzuto of Avon and Michael J. Martinez of East Lyme completed their terms June 30, 2011; they were succeeded by Brien T. Buckman of Stamford, Marilda L. Gandara of Hartford and Thomas E. Kruger of Stamford, effective July 1, 2011.

Andrea Dennis-LaVigne completed her term on August 31, 2011 and was succeeded by Richard T. Carbray Jr., effective September 1, 2011.

George A. Coleman served as Acting Commissioner of Education until he was succeeded by Stefan Pryor, effective September 7, 2011 and Gerard N. Burrow, M.D., served as chairman of the UConn Health Center's Board of Directors until he was succeeded by Sanford Cloud, Jr., effective September 1, 2011.

Adam Scianna completed his term on June 30, 2012 and was succeeded by Rose A. Barham, effective July 1, 2012.

Lenworth M. Jacobs, Rickhard Treibick, Peter S. Drotch, Wayne J. Shepperd, and Brien T. Buckman completed their terms June 30, 2013. They were succeeded by Andy F. Besette, Charles F. Bunnell, Shari G. Cantor, Michael K. Daniels, and Andrea Dennis-LaVigne, effective July 1, 2013.

Pursuant to Section 10a-108 of the General Statutes, the board of trustees is to appoint a president of UConn to be the chief executive and administrative officer of the university and the board. Susan Herbst was appointed on December 20, 2010 and serves as the 15th president of the university.

UConn'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
Connecticut Sea Grant College Program
National Underwater Research, Technology & Education Center

Farmington:

University of Connecticut Health Center

Greater Hartford:

University of Connecticut at Hartford
Graduate Programs at Hartford
University of Connecticut School of Law
School of Social Work
Graduate Business Learning Center

Stamford:

University of Connecticut at Stamford
Graduate Programs at Stamford

Torrington:

University of Connecticut at Torrington

Waterbury:

University of Connecticut at Waterbury
Graduate Programs at Waterbury

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

Autonomy

Statutes governing the state's constituent institutions of higher education provide the University of Connecticut notable autonomy and flexibility. The most significant changes were effectuated by Public Act 91-256, which greatly expanded certain limited authorities granted by Public Act 90-201. Subsequent legislation increased the degree of independence granted the institutions.

This independence is most notable with respect to procurement. Institutions of higher education may, under Section 10a-151b of the General Statutes, purchase equipment, supplies and contractual services, execute personal service agreements or lease personal property without the approval of the Comptroller, the Secretary of the Office of Policy and Management or the Commissioner of the Department of Administrative Services. Personal service agreements are not subject to the restrictions codified under Sections 4-212 through 4-219. As a compensating measure, personal service agreements executed by institutions of higher education must satisfy the same requirements generally applicable to other procurement actions.

Under Section 3-25 of the General Statutes, higher education institutions may, subject to the approval of the Comptroller, pay most non-payroll expenditures (those funded from the proceeds of state bond issuances being an exception) directly instead of through the State Comptroller. UConn issues checks that are drawn on a zero balance checking account controlled by the State Treasurer. Under the approved procedures, funds are advanced from the university's civil list funds to the Treasurer's cash management account. The Treasurer transfers funds from the cash management account to the zero balance checking account on a daily basis, as needed to satisfy checks that have cleared.

Although Section 3-25 clearly states that "payments for payroll…shall be made solely by the Treasurer…," UConn does pay the majority of its food service employees directly. This arrangement is discussed in more detail in the Condition of Records section of this report.

UConn also enjoys a significant degree of autonomy with respect to personnel matters. Section 10a-108 of the General Statutes grants the board of trustees the authority to employ professional employees and establish the terms and conditions of employment. Section 10a-154b allows institutions of higher education to establish positions and approve the filling of vacancies within the limits of available funds.

UConn 2000

Public Act 95-230, known as The University of Connecticut 2000 Act, authorized a massive infrastructure improvement program to be managed by UConn. Although subsection (c) of Section 7 of the act provided that the securities issued to fund this program are to be issued as general obligations of UConn (see Section 10a-109g subsection (c) of the General Statutes), it also committed the state to fund the debt service, both principle and interest, on these securities, for the most part, from the resources of the General Fund. Per subsection (c) of Section 5 of the act, codified as Section 10a-109e subsection (c) of the General Statutes, "As part of the contract of the state with the holders of the securities secured by the state debt service commitment and pursuant to section 21 of this act, appropriation of all amounts of the state debt service commitment is hereby made out of the resources of the general fund and the treasurer shall pay such amount in each fiscal year, to the paying agent on the securities secured by the state debt service commitment or otherwise as the treasurer shall provide."

These securities are not considered to be a state bond issue as referred to in Section 3-25 of the General Statutes. Therefore, UConn is able to make payments related to the program directly, rather than process them through the State Comptroller.

Subdivision (1) of subsection (b) of Section 9 of Public Act 95-230 established a permanent endowment fund, the net earnings on the principal of which are to be dedicated and made available for endowed professorships, scholarships and programmatic enhancements. To encourage donations, subparagraph (A) of subdivision (2) of subsection (b) of Section 9 of the act provided for state matching funds for eligible donations deposited into the fund, limiting the total amount matched to $10,000,000 in any one year and to $20,000,000 in the aggregate. It specified that the match, which was to be financed from the General Fund, would be paid into the fund during the fiscal years ending June 30, 1998, 1999 and 2000.

Effective July 1, 1998, Section 28 of Public Act 98-252 authorized the deposit of state matching funds in the university, or in a foundation operating pursuant to Sections 4-37e and 4-37f, consistent with the deposit of endowment fund eligible gifts. This provision was made to clarify the issue of whether state matching funds could become foundation assets or must be deemed assets of the associated constituent unit of higher education.

The enabling legislation for this program was subsequently amended to extend it through the fiscal year ending June 30, 2014. The state's maximum commitment was set as an amount not exceeding ten million dollars for the fiscal year ending June 30, 1999; seven million five hundred thousand dollars for each of the fiscal years ending June 30, 2000, June 30, 2002, June 30, 2003, June 30, 2004, and June 30, 2005; five million dollars for the fiscal year ending June 30, 2001; ten million dollars for the fiscal years ending June 30, 2006 and June 30, 2007; and fifteen million dollars for the fiscal years ending June 30, 2008 to June 30, 2014, inclusive, per Section 10a-109c of the General Statutes.

Furthermore, the amending legislation, codified in Section 10a-109i of the General Statutes, reduced the state match from a one-to-one ratio to a one-to-two ratio (one state dollar for two private dollars) beginning with the fiscal year ended June 30, 1999, except for eligible gift amounts certified for the fiscal years ended June 30, 1999 and 2000, for which written commitments were made prior to July 1, 1997. The ratio was further reduced to a one-to-four ratio beginning with the fiscal year ended June 30, 2008; similar caveats were established providing for a one-to-two match for gifts made during the period from January 1, 2005 to June 30, 2005, and multi-year commitments for periods beginning prior to December 31, 2004, but ending before December 31, 2012.

However, in accordance with the provisions of Section 10a-8c of the General Statutes, the timing of the state match payment is affected by the state's financial condition. Funds are not to be disbursed unless the state's budget reserve (rainy day fund) exceeds ten percent of the net General Fund appropriation for the fiscal year in progress. That requirement has not been met since it was established by Public Act 05-3, in the June Special Session. As a result, as of June 30, 2013, approximately $24,778,000 in state match has been earned by UConn and the UConn Health Center, but not yet disbursed.

In the past, the state match has been deposited in the University of Connecticut Foundation, Inc. when received, as permitted by subsection (b) of Section 10a-109i of the General Statutes. The University of Connecticut Foundation, Inc. has not recognized the outstanding amount as revenue or as an asset, as it does not meet the standards established for recognition under generally accepted accounting principles.

Recent Legislation

Noteworthy legislation affecting UConn and the UConn Health Center that became effective during the period under review and thereafter is presented below:

- Public Act 11-2, of the October Special Session, established the Connecticut Bioscience Collaboration Program within Connecticut Innovations, Incorporated, to support the establishment of a bioscience cluster anchored by a research laboratory housed at the UConn Health Center. It directed the State Bond Commission to authorize up to $290,685,000 for the program.

- Public Act 11-6, Section 42, provided for the funding of the UConn Health Center hospital fringe rate differential from the resources appropriated to the State Comptroller in an amount not to exceed $13,500,000 per year for fiscal years 2011-2012 and 2012-2013. Section 44 capped expenditures for institutional administration at 3.13 percent and 3.1 percent of the annual General Fund appropriation plus operating fund expenditures, for fiscal years 2011-2012 and 2012-2013, respectively. Section 56 required the president of UConn to submit recommendations for cost savings to the General Assembly by January 1, 2012.

- Public Act 11-48 eliminated the Board of Governors of Higher Education, removing the requirement for UConn to comply with statewide policy and guidelines of constituent units of the state system of higher education and providing for the university to submit its budget directly to the Office of Policy and Management. Certain responsibilities of the Board of Governors of Higher Education regarding the university, most notably the responsibility for approving new academic programs, were transferred to the newly established Board of Regents for Higher Education. The act also requires the constituent units of the state system of higher education to use their best efforts to fully utilize Core-CT and to initiate the process of determining consistent classification and compensation for employees not represented by an employee organization, as defined in Section 5-270 of the General Statutes.

- Public Act 11-57, Section 92, gave the State Bond Commission the authority to authorize up to $172,500,000 for the development of a technology park at UConn.

- Public Act 11-75 modified the UConn Health Center initiative established by Public Act 10-104, increasing the authorized amount of bond funding for UConn Health Center renovations by $262,900,000. It removed the requirement to obtain $100,000,000 in grant or other funding before expending state bond funds for the project, replacing it with the requirement that the UConn Health Center contribute not less than $69,000,000 from operations, special eligible gifts or other sources and provide for construction of a new ambulatory care center through debt or equity financing obtained from one or more private developers.

- Public Act 12-97 amended Section 10a-151b of the General Statutes to allow for non-competitive purchases for the purpose of testing any technology, product or process.

- Public Act 12-129 removed certain responsibilities of the Board of Regents for Higher Education regarding UConn, but left intact the responsibility for approving new academic programs.

- Public Act 13-118 removed the responsibility of the Board of Regents for Higher Education to approve new academic programs at UConn, leaving the authority to approve new academic programs to the Board of Trustees of the University of Connecticut.

- Public Act 13-143 requires a report from the Board of Regents for Higher Education and the Board of Trustees for the University of Connecticut regarding administrative salaries and the ratio of administrators to faculty and students.

- Public Act 13-177 established a process for the awarding of design-build contracts by UConn and amended Section 10a-151b of the General Statutes to allow for noncompetitive purchases of agricultural products in an amount of $50,000 or less.

- Public Act 13-233 established the Next Generation Connecticut initiative as part of the UConn 2000 program, increasing the authorized amount of state bond funding by $1,551,000,000.

- Public Act 14-98 authorizes the issuance of state bonds to the State Comptroller for enhancements and upgrades to the Core-CT human resources system at UConn, not exceeding $7,000,000. It also reduces the amount authorized for the development of a technology park at UConn from $172,500,000 to $169,500,000.

- Public Act 14-112 clarified the university's authority to acquire and dispose of land.

UConn 2000 Authorizations

As of June 30, 2013, projects totaling $4,619,300,000 were authorized by the legislature under the enabling legislation for the UConn 2000 program.

Authorizing Legislation	Cumulative Project Authorizations	Cumulative Funding		
		UConn Bonds	State Bonds [a]	Other
PA 95-230	$1,250,000,000	$962,000,000	$18,000,000	$270,000,000
PA 02-3	2,598,400,000	2,262,000,000	18,000,000	318,400,000
PA 10-104	2,805,400,000	2,469,000,000	18,000,000	318,400,000
PA 11-75	3,068,300,000	2,731,900,000	18,000,000	318,400,000
PA 13-233	4,619,300,000	4,282,900,000	18,000,000	318,400,000

[a] Under Section 5 subsection (b) of Public Act 95-230, the funding for UConn 2000 included $18,000,000 in state general obligation bonds authorized under Section 1 of Public Act 95-270 and $962,000,000 in UConn bonds authorized under Section 4 subsection (a) of Public Act 95-230.

The legislature authorized additional funding through the issuance of state general obligation bonds. These bonds are obligations of the state and are not included as debt in the UConn financial statements. Several projects were funded in this manner; the most significant was the provision, under Public Act 11-57, as amended by Public Act 14-98, of up to $169,500,000 for the development of a technology park at the university.

Enrollment Statistics

Statistics compiled by the UConn registrar present the following enrollments in the university's credit programs during the audited period.

Student Status	2011-2012		2012-2013	
	Fall	Spring	Fall	Spring
Undergraduates	22,472	21,630	22,301	21,501
Graduates	6,662	6,261	6,613	6,234
Professional (School of Law and Doctor of Pharmacy)	860	834	814	778
Medicine – Students	355	355	359	359
Medicine – Other (1)	611	611	625	625
Dental – Students	176	176	169	169
Dental – Other (1)	112	112	117	117
Totals	31,248	29,979	30,998	29,783

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

RÉSUMÉ OF OPERATIONS

Under the provisions of Section 10a-105 subsection (a) of the General Statutes, fees for tuition are fixed by the board of trustees. The following summary presents annual tuition charges during the audited period.

Student Status	2011-2012			2012-2013		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
Undergraduates	$8,256	$25,152	$14,448	$8,712	$26,544	$15,240
Graduates	10,224	26,532	17,892	10,782	27,990	18,882
School of Law	21,240	44,736	37,152	22,416	47,184	39,192

Generally, the State Comptroller accounts for UConn operations in:

- General Fund appropriation accounts.
- The University of Connecticut Operating Fund.
- The University of Connecticut Research Foundation Fund.
- The University Bond Liquidation Fund.
- Accounts established in capital project and special revenue funds for appropriations financed primarily with bond proceeds.

UConn maintains additional accounts that are not reflected in the state's civil list financial system. The most significant relate to the UConn 2000 infrastructure improvement program. They are used to account for the revenue from the issuance of UConn 2000 bonds and related expenditures.

UConn also maintains a special local fund that is used to account for endowments, scholarships and designated funds, loans, agency funds and miscellaneous unrestricted balances. The special local fund was authorized by Governor William A. O'Neill under Section 4-31a subsection (b) of the General Statutes in 1987 to encompass existing local funds which had traditionally been under university control.

Additionally, there are certain trust accounts associated with UConn which, while legally controlled by the university, are not considered part of the University of Connecticut system reporting entity. These include the following university trust accounts:

- 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

The UConn financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. The university utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

The UConn financial statements are adjusted as necessary and incorporated into the state's Comprehensive Annual Financial Report. The financial balances and activity of the university are combined with those of the UConn Health Center, including the John Dempsey Hospital, and presented as an enterprise fund.

UConn employment grew slightly during the audited period. The university reported 4,510, 4,624 and 4,757 full and part-time faculty and staff (excluding graduate assistants, dining services employees and student labor) as of the Fall 2011, 2012 and 2013 semesters, respectively.

UConn's total net position increased by $93,747,396 from $1,395,355,409 as of June 30, 2011, to $1,489,102,805 as of June 30, 2012. It then decreased by $37,050,053 to $1,452,052,752 as of June 30, 2013. These changes did not accurately reflect fluctuations in the results of operations. Rather, they were caused by the timing of the provision of state capital appropriation support to the university.

UConn received $115,400,000 in state capital appropriations in the form of the state debt service commitment for principle attendant on the sale of bonds in connection with the UConn 2000 infrastructure improvement program in the fiscal year ended June 30, 2012. No bonds were sold in the fiscal year ended June 30, 2013.

The net increase in total net position during the audited period was primarily attributable to an increase in the amount of net position restricted for investment in capital assets from $1,144,923,350 as of June 30, 2011, to $1,222,167,483 as of June 30, 2013. UConn's unrestricted net position balance decreased by $21,155,808 from $175,373,890 as of June 30, 2011, to $154,218,082 as of June 30, 2013. The university's cash and cash equivalents balance decreased by $9,690,367 from $276,484,964 as of June 30, 2011, to $266,794,597 as of June 30, 2012, and again by $22,008,793 during the following fiscal year to $244,785,804 as of June 30, 2013.

UConn revenues, operating and non-operating, and other additions, totaled $1,099,832,476 and $1,007,306,672 for the fiscal years ended June 30, 2012 and 2013, respectively. General Fund support, primarily in the form of annual appropriations for operating expenses, in-kind fringe benefit support and the state debt service commitment for principle and interest on UConn 2000 related bonds, was the university's largest source of revenue. It totaled $455,525,330 (41 percent) and $349,026,963 (35 percent) of total revenues and other additions for the fiscal years ended June 30, 2012 and 2013, respectively. The decrease in the second year of the audited period was primarily attributable to the timing of the provision of state capital appropriation support in the form of the state debt service commitment for principle.

Other significant sources of revenue included student tuition and fees, sales and services of auxiliary enterprises, and grant and contract revenues. Student tuition and fees were $251,016,679 and $261,641,000 for the fiscal years ended June 30, 2012 and 2013, respectively. Sales and services of auxiliary enterprises were $181,974,163 and $185,240,404 for the fiscal years ended June 30, 2012 and 2013, respectively. Grant and contract revenues totaled $159,696,741 and $159,825,151 for the fiscal years ended June 30, 2012 and 2013, respectively.

UConn expenses, operating and non-operating, and other deductions totaled $1,006,085,080 and $1,044,356,727 for the fiscal years ended June 30, 2012 and 2013, respectively. Most were classified as operating expenses. A schedule of operating expenses by functional classification, as presented in the university's financial statements for the audited period follows:

	2011-2012	2012-2013
Instruction	$291,370,499	$302,201,568
Research	73,508,341	74,948,222
Public Service	35,477,844	39,067,856
Academic Support	108,339,599	117,678,945
Student Services	35,255,666	33,315,154
Institutional Support	53,465,323	63,301,666
Operations and Maintenance of Plant	100,401,506	101,661,524
Depreciation	88,478,214	91,712,989
Student Aid	6,107,357	7,153,704
Auxiliary Enterprises	164,388,850	167,473,719
Total Operating Expenses	956,793,199	998,515,347

The non-operating expenses during the audited period consisted primarily of interest payments. Interest expense was $47,117,080 and $45,401,894 for the fiscal years ended June 30, 2012 and 2013, respectively. This expense was, for the most part, offset by transfers from the state General Fund. The state debt service commitment for interest was $39,755,112 and $40,571,126 for the fiscal years ended June 30, 2012 and 2013, respectively.

UConn did not hold significant endowment and similar fund balances during the audited period, as it has been the university's longstanding practice to deposit funds raised with the University of Connecticut Foundation, Inc. or the University of Connecticut Law School Foundation, Inc. The University of Connecticut Foundation, Inc. provides support for UConn and the UConn Health Center. Its financial statements reflect balances and transactions associated with both entities, not only those exclusive to the university. A summary of the two foundations' assets, liabilities, net position, revenue and support, and expenses, as per those audited financial statements, follows:

	University of Connecticut Foundation, Inc. Fiscal Year Ended		Law School Foundation Fiscal Year Ended	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013
Assets	$408,861,000	$459,101,000	$17,038,672	$18,650,952
Liabilities	24,921,000	45,632,000	89	8,410
Net position	383,940,000	413,469,000	17,038,583	18,642,542
Revenue and Support	50,489,000	79,574,000	2,260,926	3,076,679
Expenses	44,656,000	50,045,000	1,598,671	1,472,720

STATE AUDITORS' FINDINGS AND RECOMENDATIONS

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

OUTPATIENT PAVILION

Background: Section 10a-109e subsection (f) of the General Statues provides that "The University of Connecticut Health Center shall … (2) provide for construction of a new ambulatory care center through debt or equity financing obtained from one or more private developers who contract with the university to construct such new ambulatory care center." It appears that the legislature intended that this project be pursued as a public-private partnership. Typically, a public-private partnership involves the assumption of a significant degree of risk by the private partner. Additionally, it can provide the public partner with off-balance-sheet financing.

Criteria: In its *Guidelines for Public Debt Management*, the International Monetary Fund clearly articulates the main objective of public debt management. It is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.

Condition: The university determined that it was not feasible to fund the ambulatory care center project through debt or equity financing obtained from one or more private developers, as directed by the legislature. Accordingly, in December 2012, the university, acting through the University of Connecticut Health Center Finance Corporation, secured a $203,000,000 loan from TIAA-CREF to fund the project. The TIAA-CREF loan bears interest at a rate of 4.809 percent. Interest payments over the life of the loan will total $158,595,860. In December 2012, the university issued special revenue refunding bonds with a total interest cost of 2.480 percent. If the TIAA-CREF loan bore the same interest rate, interest payments over the life of the loan would total $81,787,842, or $76,808,018 less.

To provide the lender, TIAA-CREF, with assurance regarding the collectability of this loan, the university asked the Attorney General to "confirm that: (i) the financial obligations of the Health Center under the Lease are not subject to appropriation risk; and (ii) in the extraordinary unlikely event that the Health Center were to default on its Lease obligations, these obligations would become general, unrestricted legal obligations of the State of Connecticut and unrelated to any appropriation to the Health Center." The Attorney General concluded that "(1) although in the normal course required payments under the Lease will be made from available Health Center funds, the Lease payment obligations of the Health Center create legal obligations to the State of Connecticut; and (2) as a legal obligation of the State of Connecticut, required payments under the Lease are not subject to the risk of legislative non-appropriation for the Lease payments. Rather, like any claim against the State, a claim against the Health Center could proceed as provided by law."

Effect: This transaction will burden the state with significant unnecessary interest costs. As the Attorney General has determined, the promissory note is a general obligation of the state. In practice, it exposes the state to the same level of risk as would a standard bond issuance, but at a far higher interest cost.

Also, the UConn Health Center is subsidized from the state's General Fund. Any profit or loss related to ancillary operations of the UConn Health Center, such as the ambulatory care center, will affect the amount that must be provided from the General Fund. Therefore, excessive costs incurred by ancillary operations of the UConn Health Center will, in the end, be borne by the state.

Additionally, issuing general obligation debt instruments may fall within the broad powers granted the University of Connecticut Health Center Finance Corporation by Section 10a-254 of the General Statutes. However, in addition to the excessive interest costs involved, the propriety of issuing this promissory note without obtaining specific legislative approval seems questionable, given the existing legislative directive to proceed in a different fashion.

Cause: When it became apparent that it was not feasible to fund the ambulatory care center project through debt or equity financing obtained from one or more private developers, the university sought an alternative financing method. The university determined that the TIAA-CREF loan was the lowest cost alternative it had the authority to pursue. The university sought and obtained the approval of the state's Office of Policy and Management before it executed the promissory note.

Recommendation: The University of Connecticut should seek legislative authorization for the issuance of state bonds to refinance the TIAA-CREF loan when market conditions are appropriate. The cost savings that can be achieved will vary depending on both the state general obligation bond interest rate and, due to yield maintenance prepayment penalty on the TIAA-CREF loan, current Treasury rates. (See Recommendation 1.)

Agency Response: "Whether State bonds should be issued to refinance the University's loan is not a University decision to make. The University respectfully offers that the Auditors of Public Accounts should provide its recommendations to the legislature and executive branch offices with authority over the issuance of State bonds. The University agrees that it is sound policy to achieve savings whenever possible, and will provide a copy of the Auditor's recommendation to the legislature and the Office of Policy and Management."

BUSINESS CONTINUITY AND DISASTER RECOVERY

Criteria: A business continuity plan documents the processes and procedures to be carried out to ensure that essential business functions continue to operate in the event of a disaster. It provides a comprehensive framework for actions to be taken in response to disruptive events in order to minimize their effect on operations. Once a determination is made of which systems and business units are essential, disaster recovery plans can be developed. Disaster recovery plans are more detailed technical plans. They involve the identification of all critical systems and detailed plans for recovery.

Condition: Many information technology systems provide mission critical support functions. In our previous report, we noted that University Information Technology Services (UITS), which maintains the university's core systems, did not have a disaster recovery plan on file.

We followed up on this issue on December 12, 2014. The university had not developed a business continuity plan and UITS was still working towards developing a disaster recovery plan.

Effect: The lack of business continuity and disaster recovery planning will hamper the ability of the university to respond in a timely fashion if a disaster seriously compromises its core information technology systems. If key personnel crucial to the process are unavailable, the university's ability to recover will be severely limited.

Cause: The cause could not be readily determined.

Recommendation: The University of Connecticut should make business continuity and disaster recovery planning a priority. (See Recommendation 2.)

Agency Response: "The University Information Technology Services (UITS) has contracted with IBM to deliver cold site disaster recovery infrastructure. UITS is currently planning the first test disaster recovery exercise for June, 2015 and is creating disaster recovery documentation to support that activity. The disaster recovery documentation will be updated based on testing results, and considered active by July, 2015. The IBM facility is available now, in the event a disaster is declared."

SAFEGUARDING CONFIDENTIAL INFORMATION

Criteria: Data maintained by the university includes information that is confidential under the Family Educational Rights and Privacy Act (FERPA), Payment Card Industry Data Security Standard (PCI DSS), Health Insurance Portability and Accountability Act (HIPAA), and Personally Identifiable Information (PII) laws and regulations. Therefore, hard drives need to be securely erased when computers are taken out of service to prevent the inadvertent release of confidential information.

Condition: When university departments transfer computers to Central Stores for redistribution, sale, or disposal, the departments are required to remove all data from the hard drives prior to transfer. It is a good practice to remove all confidential data before computers leave the user department.

Securely erasing hard drives is not a regular departmental level procedure and some department personnel may lack sufficient expertise with this aspect of computer maintenance. A supplementary erasure should be performed by Central Stores when computers are received to safeguard confidential information.

Effect: The lack of a centralized process carried out by experienced personnel increases the risk of the inadvertent release of confidential information.

Cause: The university has classified this task as a department level responsibility.

Recommendation: The University of Connecticut should ensure that computer hard drives are securely erased by experienced personnel after they are transferred to Central Stores. (See Recommendation 3.)

Agency Response: "Departments are required to remove all confidential data from hard drives prior to removing personal computers or servers from service. The University 'Confidential Data, Information Technology' policy specifies that the data on any device containing confidential data must be destroyed when a device is removed from service. University Central Stores provides the capability to physically destroy or degauss hard drives and the aforementioned policy makes reference to central stores drive destruction capabilities and procedures. Since the finding was issued it has become standard practice that Central Stores destroys all drives for any desktop, laptop or server it receives, regardless of data classification."

PERFORMANCE BONUSES

Criteria: Performance bonuses should be awarded in accordance with a structured plan with pre-established criteria. The plan should be properly documented and the criteria applied objectively.

Condition: The university normally processes salary payments through its own payroll system, which functions as a front end to the state payroll system. In some instances, unusual salary payments are initiated directly in the state payroll system. When we reviewed a sample of such payments, we noted that performance bonuses in the aggregate amount of $93,268 were paid to six Finance and Budget Division employees.

We asked for documentation supporting these performance bonuses. We were told that they were one time payments based on the employees' current salaries and their work on the Kuali financial system implementation. The only documentation we were able to obtain supporting these payments consisted of payroll authorizations specifying the amounts to be paid. We were told that no plan existed.

Effect: The lack of a structured plan with pre-established criteria gives the impression that the payments were determined in an arbitrary and subjective manner.

Cause: We were unable to readily determine why these payments were made in an arbitrary and subjective manner.

Recommendation: The University of Connecticut should not pay performance bonuses without first developing a structured plan with criteria for determining when bonuses should be awarded and the amounts to be paid. (See Recommendation 4.)

Agency Response: "Performance bonuses were paid to select management-exempt Finance and Budget employees, who were not paid for overtime or comp time for their efforts in the successful implementation of the Kuali Financial Systems (the University's general ledger and financial system). During the project these individuals spent a significant amount of time in addition to their normal work schedule on this implementation. Their efforts contributed significantly to this project being implemented on time and under budget. In the future, if senior management decides to award performance-based pay for successful delivery of major projects, a formal plan will be developed."

FOOD SERVICES EMPLOYEES

Background: The Associated Student Commissaries was an association of student-operated commissaries occupying UConn residences that was formed to provide central administrative services for the member commissaries. It operated as an activity fund established under the authority of Section 4-53 of the General Statutes, in accordance with procedures established by the State Comptroller.

In 1979, the Connecticut State Board of Labor Relations was asked to determine whether the employer of cooks and kitchen assistants in the member commissaries was the Associated Student Commissaries or the individual member commissaries. The Board of Labor Relations concluded that they were employed by the individual student commissaries, as the power to hire, discharge and discipline the kitchen employees, as well as to control the wages, hours, and other conditions of employment, was vested in the individual commissaries, not in the Associated Student Commissaries.

Employees of the member commissaries comprised only a portion of the UConn food service employees at that time. Employees serving in the large dining halls were state employees paid through the State Comptroller.

The degree of independence and authority possessed by the member commissaries gradually eroded over time. Eventually, the smaller dining halls formerly controlled by the member commissaries closed and the Associated Student Commissaries activity fund effectively ceased operations.

Currently, students are served by several large dining halls operated by the Department of Dining Services of the Division of Student Affairs. The power to hire, discharge and discipline staff and to control the wages, hours, and other conditions of employment rests with UConn administrators. However, most of the food service operations employees staffing these large dining halls are now paid directly by the university in a manner similar to the way the former employees of the member commissaries were compensated.

Most food service operations employees are not members of the state retirement system. Instead, they are eligible to participate in two other retirement plans, the Department of Dining Services Money Purchase Pension Plan or the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

UConn filed a request for a ruling regarding the status of the Department of Dining Services pension plans on May 17, 1999. In a ruling dated February 24, 2000, the Internal Revenue Service agreed that the food service operations employees are employees of an agency or instrumentality of the state and that the plans are governmental plans.

Criteria: Under Section 10a-108 of the General Statutes, the board of trustees has the authority to “employ the faculty and other personnel needed” and “fix the compensation of such personnel.” The board’s authority to fix compensation does not extend to employees in state classified service. The work done by most food service operations employees appears to be the type typically performed by employees in state classified service. Section 10a-108 does not address participation in retirement plans.

Section 3-25 of the General Statues authorizes constituent units of the state system of higher education to pay certain claims directly, rather than through the State Comptroller. However, Section 3-25 specifically excludes payments for payroll.

Condition: The approximately 500 food service operations employees at UConn are generally referred to as dining services employees to distinguish them from other university employees. However, the Department of Dining Services is a unit of the university and, therefore, of the state. Accordingly, the employees of the university’s food service operation are employed by the state.

Unlike other UConn employees, they are paid directly by the university instead of through the State Comptroller. Additionally, as noted above, they participate in separate retirement plans.

Effect: Though there are sound operational reasons for the UConn method of compensating its food service operations employees, the legal basis for the direct payment of wages by the university is unclear, as is the participation of these employees in separate retirement plans.

Cause: UConn did not seek clear statutory authority to compensate its dining service operations employees in this manner.

Recommendation: The University of Connecticut should seek clear statutory authority for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. (See Recommendation 5.)

Agency Response: “In response to the Auditors’ concerns, the University is actively investigating alternatives that will continue to meet the operational needs of Dining Services and will clarify the relationship between the University and this workforce consistent with statutory requirements.”

COST SHARING

Background: Sponsored research projects benefit the universities that carry out the research, providing important educational opportunities for students and professional development for faculty. Since universities benefit from the projects, it is reasonable for them to share in the costs of the projects by funding a portion of those costs from their own unrestricted resources.

Grantors may require universities to commit specified resources to the projects (mandatory cost sharing) and universities may volunteer to assume a share of the cost to give their proposals a competitive advantage (voluntary committed cost sharing). Additionally, faculty may voluntarily devote additional effort over and above what has been committed because of their personal interest in the projects (voluntary uncommitted cost sharing).

Criteria: Cost sharing is commonly achieved by paying researchers out of unrestricted UConn resources (i.e., funding provided to the university from the resources of the state's General Fund) while they work on sponsored projects. UConn's default functional classification on faculty effort is instruction. When voluntary uncommitted cost sharing is not broken out, the amount reported as spent on instruction will be overstated and the amount spent on research understated. University administrators, and others with oversight responsibilities, including the legislature, need accurate functional reporting to evaluate if state funds are being used prudently and as intended.

Condition: In our prior report, we noted that UConn tracks mandatory and voluntary committed cost sharing in its time and effort reporting system. It does not track voluntary uncommitted cost sharing. Our prior reviews indicated that there was a significant amount of voluntary uncommitted cost sharing at the university.

Effect: The use of unrestricted UConn resources for sponsored research is in keeping with the university's goal of recognition as one of the nation's top-20 public research universities, according to the annual *U.S. News and World Report* rankings. However, without effective monitoring of the amount of unrestricted university resources directed to sponsored research projects by researchers, the university cannot reasonably estimate the associated costs and determine whether the amount used is appropriate.

Though we acknowledge that, given the UConn environment, time and effort reporting is necessarily imprecise, we believe that tracking voluntary uncommitted cost sharing in the university's time and effort reporting system would increase the accuracy of the university's breakdowns of costs incurred by function, especially the breakdown between instruction and research. This would allow the university to make more informed financial decisions.

Cause: Management believes that the cost of tracking voluntary uncommitted cost sharing would exceed the value of any benefits resulting from the process. We believe that it would not significantly increase costs, as researchers are already required to provide a reasonable breakdown of all their time and effort to document compliance with grantor requirements – it would simply require more accurate reporting of the distribution of their time and effort between instruction and research.

Recommendation: The University of Connecticut should track voluntary uncommitted cost sharing in its time and effort reporting system. (See Recommendation 6.)

Agency Response: "The University disagrees.

The University of Connecticut's mission includes creating and disseminating knowledge for the public good. And, like most research universities, UConn achieves this goal largely through the important research, scholarship, and creative activities of its faculty. Much of the scholarly activity of faculty has limited cost, and faculty carry out this work with time and supporting resources provided by the university. However, there are also research projects and scholarly pursuits where external funding is necessary.

The federal government requires time and effort reporting per OMB Circular A-21 for personnel who have formally committed some level of effort to the government in the grant proposal or who work on the project and charge a portion of their salary to the grant.

However, this has not always been the case. Prior to 2001, Universities had to track all effort on a federal project, even if not directly charged or committed to the project. This tracked effort was required to be counted as cost share to the project. Cost share has the effect of lowering federal reimbursement to the University as it lowers the university indirect cost rate. Many researchers over reported the amount of time they were spending on research projects out of a concern that sponsors must be monitoring how much they were voluntarily contributing to the project. After extensive work by Universities and University Associations during the 1990s to reduce the administrative burden of effort reporting and streamline the requirements for cost shared effort, the Office of Management and Budget (OMB) clarified the treatment of voluntary uncommitted cost sharing in a memorandum dated January 5, 2001 which states that voluntary uncommitted effort (above what is committed in the proposal or charged to the grant) is excluded from the effort reporting requirements of OMB Circular A-21. UConn is consistent with other

universities in excluding the specific tracking of voluntary uncommitted effort through effort reporting.
The University is opposed to collecting voluntary uncommitted effort as part of the effort reporting process:

- Universities were successful in making the case to the OMB that the collection of voluntary effort through effort reporting was burdensome and nearly impossible to gather accurately given the role of faculty and the mission of a research University. The University does not want to take steps to undermine this position.

- If the University was able to collect voluntary uncommitted effort, we may run the risk of having the government require us to count the effort as cost share and apply it to the calculation of our indirect cost rate which would cost the university significantly in terms of facilities and administrative revenue collected from the federal government.

- Some faculty members get limited or no external funding for their research and therefore do not complete effort reports.

UConn's treatment of these costs is consistent with other research universities and with the guidance in OMB Circular A-21 section J.8.b (1).c, "Payroll Distribution," that a precise documentation of faculty effort is not always feasible, nor is it expected, because of the inextricably intermingled functions performed by the faculty in an academic setting (i.e., teaching, research, service and administration)."

While the University disagrees with capturing voluntary uncommitted effort through effort reporting, we have contacted the Council on Government Relations to inquire about what studies may have been prepared which explain the full costs of research. We also believe that academic leadership is already in a position to manage the voluntary efforts of their faculty by other means - such as annual activity reports, scholarly publications, courses taught and students advised as a few examples."

Auditors' Concluding Comment:

We believe that the university needs to know the total (required and voluntary) percentage of effort faculty are devoting to research in order to make more informed financial decisions. We are recommending that the university track voluntary uncommitted cost sharing in its time and effort reporting system, as this is a system for tracking faculty effort that is already in place. If the university believes that the disadvantages of using the time and effort reporting system for this purpose outweigh the advantages, it should develop a different method of obtaining a quantitative measurement of the total percentage of effort faculty are devoting to research.

PURCHASING CARDS

Background: Under the University of Connecticut MasterCard Purchasing Card Program, cardholders can pay for goods and services using a University Purchasing Card, a credit card issued by JP Morgan Chase. This is a procurement tool that provides an alternative to the standard UConn procurement processes.

Criteria: Credit card purchases are not subject to the controls established for standard UConn procurement processes. Completion and approval of a monthly purchasing card log is a key compensating control. The log lists all purchases made and is signed by the cardholder and the record manager.

The cardholder signs the log, certifying that it, and by extension, the listed transactions, are consistent with UConn policies and procedures. Another staff member, designated as the record manager, then reviews and signs the report, attesting to the accuracy of the cardholder's statement.

Condition: In our previous report, we noted that the record managers signing off on the purchasing logs were co-workers, subordinates, lower level staff or the cardholders themselves.

Effect: The effectiveness of this key control is greatly reduced when the individual reviewing and approving the purchasing card log has no authority over, or is under the authority of, the cardholder.

Cause: It is unclear why UConn does not require that the responsibility for signing off on purchasing card logs be assigned to staff with supervisory authority over the cardholders.

Recommendation: The University of Connecticut should require that purchasing card logs be approved by a staff member with supervisory authority over the cardholder. (See Recommendation 7.)

Agency Response: "As stated in the response within the previous report, the University has established robust controls and active oversight of the Purchasing Card (PCARD) Program and the reconciliation of program transactions. Additional controls have been implemented, including the re-enforcement of the separation of duties pertaining to financial activities within the system of record. Although the individuals fulfilling these roles within the financial system may not necessarily reflect an administrative supervisory title/role, the established separation of duties, ensures that proper checks-and-balance controls exist, independent of the cited, suggested recommendation."

Auditors' Concluding Comment: Supervisory review of credit card usage is standard practice and an effective control. The university's reluctance to institute this simple and effective control is difficult to comprehend.

NON-COMPETITIVE PROCUREMENT

Criteria: Section 10a-151b of the General Statutes requires constituent units of the state system of higher education to solicit competitive bids or proposals, when possible, when contracting for professional services. The statutory requirement for open, competitive procurement is intended to facilitate obtaining goods and services at the lowest prices, avoid favoritism and award public contracts in an equitable manner.

In some instances, there may be only one source for goods or services. If so, competition is not possible. This type of non-competitive procurement action is commonly referred to as a sole source purchase.

Condition: The university contracted with an engineering firm for design services in connection with the Reclaimed Water Facility Project at a proposed cost of $133,400. The university did not solicit competitive bids or proposals for this contract. Instead, it characterized this service as a sole source purchase.

Documentation on file provided a logical rationale for the university's preference for engaging this firm. The firm had, under a previous contract, modeled and developed the initial design. The university concluded that, because of the firm's familiarity with the project, it was "both cost and time effective to contract directly with them to complete the design, bidding and construction phases of the project."

It appears that there were other engineering firms that could have provided the design services. The university's preference for engaging this firm does not make it a sole source purchase or justify noncompliance with the statutorily mandated competitive procurement requirements established by Section 10a-151b.

Effect: This transaction did not comply with the provisions of Section 10a-151b. It is possible that the needed services could have been obtained at a lower price if an open, competitive procurement process had been followed. In addition, other potential vendors were denied the opportunity to bid on the contract. Open access to state contracts is in the public interest.

Cause: It appears the university felt that engaging the engineering firm was the best possible alternative. However, the university does not have the authority to put aside the competitive procurement requirements of Section 10a-151b.

Recommendation: The University of Connecticut should comply with the competitive procurement requirements of Section 10a-151b of the General Statutes. Procurement actions should not be characterized as sole source purchases, unless no other source exists that is capable of meeting the requirements. (See Recommendation 8.)

Agency Response: "The University does in fact comply with 10a-151b and has fully integrated the statutory requirements into its policies and procedures. Pursuant to Section 10a-151b (b), the University competitively procures purchases whenever possible. However, as the statute acknowledges, competitive procurement is not possible under all circumstances, as was the case with this procurement. Determinations as to whether competitive procurement is possible in any particular instance, including the determination documented in the cited instance, are made consistent with the statutory requirements and with established policies and procedures.

As stated, the firm modeled and developed the initial design. If a new vendor was contracted with to carry that design forward, it would implicate questions about liability and insurance coverage in the event of a design defect. This would expose the University to a degree of risk that is generally unacceptable. For this reason, it is extremely unusual for one designer to modify the work of another. However, the documentation on file expresses this rationale imprecisely. The University should ensure that its sole source rationales are more precisely worded."

Auditors' Concluding Comment: The performance of initial design work by one engineer does not preclude further development by another qualified engineer. In fact, if the original engineer was not available, further development would have to be handled by another engineer. Engaging the firm was convenient and the university may have felt that it made good business sense. However, the university is required to comply with Section 10a-151b of the General Statutes even if it does not feel that compliance would provide the best outcome from a business standpoint.

RECEIVING REPORTS FOR PREPAYMENTS

Criteria: Payments for goods or services should be supported by a documented confirmation by a responsible party as to the satisfactory receipt of goods or services.

Condition: UConn contracted with a performing arts provider on April 27, 2014, at the Jorgensen Center for the Performing Arts in the amount of $20,000. Payment was made in advance, which is common for this type of transaction. Staff did not prepare, subsequent to the event, a receiving report to document that the vendor had fulfilled its contractual obligations.

Effect: The lack of a receiving report lessens the assurance that the services were provided in accordance with the contract.

Cause: UConn procedures do not adequately address transactions that require payment prior to or at the time of service.

Recommendation: The University of Connecticut should prepare receiving reports when payment is required prior to a performance to document that the vendor has fulfilled its contractual obligations. (See Recommendation 9.)

Agency Response: "Jorgensen Center for the Performing Arts management will add an additional step to the existing controls, by entering a note in the Kuali Financial System (KFS) stating that the performance occurred and all services were rendered."

ETHICS CERTIFICATIONS

Criteria: Pursuant to the General Statutes and executive orders of Governor M. Jodi Rell, certain state contracts must be accompanied by ethics certifications designed to encourage ethical behavior.

Condition: In our prior report, we noted that the required certifications were not obtained for purchases of library materials. We also found that the required certifications were not obtained for other purchases that were also handled at the department level, rather than processed through the purchasing department. During our current audit, we noted five instances in which certifications were not obtained as required. Two of the purchases pertained to library materials; however, three were processed through the purchasing department.

Effect: With respect to these transactions, the university did not comply with state requirements designed to encourage ethical behavior.

Cause:	We were unable to determine the cause.
Recommendation:	The University of Connecticut should comply with the applicable General Statutes and executive orders of Governor M. Jodi Rell regarding ethics certifications. (See Recommendation 10.)
Agency Response:	"The University has begun to implement training programs and has further enhanced procurement procedural safeguards. For example, the University has implemented a procurement contracts application solution that will reduce such errors in the future. Also, in 2013 a new unit was created to more effectively manage UConn Libraries' (UCL) e-resources. One of the first priorities of this unit was the implementation of the open source Centralized Online Resource Acquisitions and Licensing System (CORAL) in order to create a comprehensive accounting of the complex and wide ranging types of electronic resources the UCL purchases and licenses, a capability currently lacking in KFS or Voyager. The number of e-resources that need to be identified and entered into the CORAL system is significant and data entry work continues along with a systematic review of all relevant data in order to improve entry standards, workflows and to identify and remedy missing or inaccurate information. Through CORAL customizations designed specifically for this purpose, the E-Resource Services Unit is now effectively storing and tracking CT State Certificates/Affidavits. Additionally, using KFS reports for FY14 expenditures by vendor, UCL identified e-resource vendors with FY15 projected costs that exceeded \$50,000 (10) and those that exceeded \$500,000 (3) and submitted requests for the required forms to all vendors.

CONSTRUCTION PROJECT ACCOUNTABILITY

Background:	UConn 2000, a twenty-nine year, \$4.6 billion capital project program, is administered by the university. The university's Planning Architectural & Engineering Services is responsible for overseeing UConn 2000 construction projects.
Criteria:	To enhance accountability, documentation of reviews performed by the department should clearly identify who conducted the review and prepared the related documentation. Minutes should be formally approved to provide an attestation as to their accuracy and completeness.
Condition:	We reviewed construction project oversight conducted by Planning Architectural & Engineering Services. During our review, we noted that:

- Project coordination meeting minutes incorporated a statement that failure to object to their content within seven days of receipt would constitute acceptance. The minutes should be formally approved, providing an attestation as to their accuracy and completeness that the current negative confirmation process does not.

- Daily field reports did not always identify who conducted the reviews and prepared the report. This information should be included in each report.

Effect: Implementing these additional documentation standards would add accountability.

Cause: University personnel considered these control elements to be implicit in the processes.

Recommendation: The University of Connecticut's Planning Architectural & Engineering should ensure that daily field reports always identify who conducted the review and prepared the report. Project coordination meeting minutes should be formally approved. (See Recommendation 11.)

Agency Response: "The Project Manual outlines the Contractor as responsible for organizing, chairing, recording and administering the Project Meetings. Planning Architectural and Engineering Services acknowledges there are slight variations to how minutes are structured and administered from Contractor to Contractor based on the project management software being utilized. Recognizing there may be variations, we will clarify within the Project Manual key elements that must be represented including the review of the minutes for consistency.

The Policies and Procedures outline the requirement for Daily Field reports and who the University Representative is for observing and reporting. Planning Architectural and Engineering Services acknowledge there may be slight variations to how the reports are structured. Recognizing these variations, we will clarify within our management documents the format required for these reports to clearly identify who the author is of the report."

CASH HANDLING

Criteria: Section 4-32 of the General Statutes provides that each state institution receiving any money or revenue for the state shall deposit within twenty-four hours of its receipt the total of the sums received of five hundred dollars or more.

Condition: The Department of Dining Services Cash Accounting Office receives receipts on a daily basis from over ten retail locations. The Cash Accounting Office is staffed by two employees who are responsible for the change fund, cash counts, cash out reconciliation, recording the daily deposits to Dining Services internal system and posting the cash receipts to the university's accounting system.

Based on our analysis of deposit transactions during the 2013-2014 fiscal year, we noted that, on average, deposits were made around 10 workdays late. The average amount of late deposits was approximately $70,000. A similar situation occurred during the 2012-2013 fiscal year. We noticed a pattern in which during the beginning of the fiscal year, deposits were significantly in arrears; the department then caught up during the summer, but fell behind again during the fall semester, caught up slightly over winter intersession, and then fell behind again during the spring semester. On June 2, 2014, there was approximately $120,000 on hand which was received during the period from April 30, 2014 through May 29, 2014.

Effect: The Department of Dining Services was not in compliance with state requirements for prompt deposit of cash receipts. Holding significant amounts of currency on hand instead of depositing it immediately, increases risk.

Cause: Per the Dining Services fiscal manager, delays occurred due to not having a sufficient number of cash account clerks to handle the large volume of deposits that resulted from the addition of several new retail outlets.

Conclusion: The executive director of Dining Services told us he took immediate corrective action. He informed us that, as of June 20, 2014, the department was up-to-date on deposits.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

In our previous report on our audit examination of the University of Connecticut, we presented 15 recommendations pertaining to university operations. The following is a summary of those recommendations and the actions taken thereon:

- Establish compensation limits. This recommendation is not being repeated. The university is taking steps to address this finding.

- Seek clear statutory authority for the direct payment of wages to university food service operations employees and for their participation in separate retirement plans. This recommendation has been repeated. (See Recommendation 5.)

- Establish procedures for verifying work experience and credentials. This recommendation is not being repeated. It is our understanding that the Human Resources department is taking action to address this issue.

- Review payments for accrued compensated absences. This recommendation is not being repeated. The university has performed the recommended review.

- Hire Act. This recommendation is not being repeated. The university has taken steps to recover the funds.

- Implement a formal process that provides for the review, approval and documentation of all cost sharing – this recommendation has been restated and repeated. (See Recommendation 6.)

- Conduct formal, well documented, selection processes for all major software acquisitions. This recommendation is not being repeated. There were no major software acquisitions during our current audit.

- Develop structured methodology for major software implementation projects. This recommendation is not being repeated. There were no major software implementation projects during our current audit.

- Prepare a detailed plan addressing actions to be taken in the event a disaster interrupts key information technology services. This recommendation has been restated and repeated. (See Recommendation 2.)

- Make improvements to physical and logical information technology systems access controls. We are not repeating this recommendation, as the university taken corrective action.

- Require supervisory approval of purchasing card logs. This recommendation has been repeated. (See Recommendation 7.)

- Do not authorize contractors to begin work before contracts are executed. This recommendation is not being repeated. This issue was not noted during our current audit.

- Prepare receiving reports when advance payment is required. This recommendation has been restated and repeated. (See Recommendation 9.)

- Process all procurement transactions through the purchasing department. This recommendation has been restated and repeated. (See Recommendation 10.)

- Develop a comprehensive, centralized process for identifying affiliated organizations, determining the nature of the university's interaction with the organizations, and verifying that the appropriate written agreements are in place. This recommendation is not being repeated. It is our understanding that the university's general counsel is taking steps to address this finding.

Current Audit Recommendations:

1. **The University of Connecticut should seek legislative authorization for the issuance of state bonds to refinance the TIAA-CREF loan when market conditions are appropriate. The cost savings that can be achieved will vary depending on both the state general obligation bond interest rate and, due to yield maintenance prepayment penalty on the TIAA-CREF loan, current Treasury rates.**

   Comment:

   In December 2012, the university, acting through the University of Connecticut Health Center Finance Corporation, secured a $203,000,000 loan from TIAA-CREF. The TIAA-CREF loan bears interest at a rate of 4.809 percent. Interest payments over the life of the loan will total $158,595,860. In December 2012, the university issued special revenue refunding bonds with a total interest cost of 2.480 percent. If the TIAA-CREF loan bore the same interest rate, interest payments over the life of the loan would total $81,787,842, or $76,808,018 less. The TIAA-CREF loan is a debt instrument that the Attorney General has determined is a general obligation of the state, but bears a far higher interest rate than the state could have obtained through a standard bond issuance.

2. **The University of Connecticut should make business continuity and disaster recovery planning a priority.**

   Comment:

   Many information technology systems provide mission critical support functions. In our previous report, we noted that University Information Technology Services (UITS), which maintains the university's core systems, did not have a disaster recovery plan on file.

   We followed up on this issue on December 2, 2014. The university had not developed a business continuity plan and UITS was still working towards developing a disaster recovery plan.

3. **The University of Connecticut should ensure that computer hard drives are securely erased by experienced personnel after they are transferred to Central Stores.**

   Comment:

   When university departments transfer computers to Central Stores for redistribution, sale or disposal, the departments are required to remove all data from the hard drives prior to transfer. Removing all confidential data before computers leave the user department is a good practice. Securely erasing hard drives is not a regular departmental level procedure and some department personnel may lack sufficient expertise with this aspect of computer maintenance. A supplementary erasure should be performed by Central Stores when computers are received to safeguard confidential information.

4. **The University of Connecticut should not pay performance bonuses without first developing a structured plan with criteria for determining when bonuses should be awarded and the amounts to be paid.**

   Comment:

   We noted performance bonuses in the aggregate amount of $93,268 paid to six Finance and Budget Division employees. We were told that they were one time payments based on the employees' current salaries and their work on the Kuali financial system implementation. The only documentation we were able to obtain supporting these payments consisted of payroll authorizations specifying the amounts to be paid. We were told that no plan existed.

5. **The University of Connecticut should seek clear statutory authority for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans.**

   Comment:

   Section 3-25 of the General Statues authorizes constituent units of the state system of higher education to pay certain claims directly, rather than through the State Comptroller.

However, Section 3-25 specifically excludes payments for payroll. Unlike other UConn employees, food service operations employees are paid directly by the university instead of through the State Comptroller. They also participate in separate retirement plans, although there is no clear statutory authority for this.

6. **The University of Connecticut should track voluntary uncommitted cost sharing in its time and effort reporting system.**

Comment:

UConn's default functional classification on faculty effort is instruction. When voluntary uncommitted cost sharing is not broken out, the amount reported as spent on instruction will be overstated and the amount spent on research understated. University administrators, and others with oversight responsibilities, including the legislature, need accurate functional reporting to evaluate if state funds are being used prudently and as intended.

7. **The University of Connecticut should require that purchasing card logs be approved by a staff member with supervisory authority over the cardholder.**

Comment:

In our previous report, we noted that the record managers signing off on the purchasing logs were co-workers, subordinates, lower level staff, or the cardholders themselves. During our follow-up on November 2014, we noted that the university implemented additional controls. However, the additional controls do not include sign-off by someone with supervisory authority over the cardholder.

8. **The University of Connecticut should comply with the competitive procurement requirements of Section 10a-151b of the General Statutes. Procurement actions should not be characterized as sole source purchases unless no other source exists that is capable of meeting the requirements.**

Comment:

The university contracted with an engineering firm for design services in connection with the Reclaimed Water Facility Project at a proposed cost of $133,400. The university did not solicit competitive bids or proposals as required, characterizing it as a sole source purchase. It appears that there were other firms that could have provided the services. The university's preference for engaging a particular firm does not make it a sole source purchase or justify noncompliance with the statutorily mandated competitive procurement requirements established by Section 10a-151b.

9. **The University of Connecticut should prepare receiving reports when payment is required prior to a performance to document that the vendor has fulfilled its contractual obligations.**

Comment:

The university contracted for a performance to be given on a future date. The university paid for the performance in advance, as is common for this type of transaction. However, staff did not prepare, subsequent to the event, a receiving report to document that the vendor had fulfilled its contractual obligations.

10. **The University of Connecticut should comply with the applicable General Statutes and executive orders of Governor M. Jodi Rell regarding ethics certifications**.

Comment:

In our prior report, we found that the required certifications were not obtained for purchases of library materials. We also found that the required certifications were not obtained for other purchases that were also handled at the department level, rather than processed through the purchasing department. During our current audit, we noted five instances in which certifications were not being obtained as required. Two of the purchases pertained to library materials; however, three were processed through the purchasing department.

11. **The University of Connecticut's Planning Architectural & Engineering Services should ensure that daily field reports always identify who conducted the review and prepared the report. Project coordination meeting minutes should be formally approved.**

Comment:

We noted that project coordination meeting minutes incorporated a statement that failure to object to their content within seven days of receipt would constitute acceptance, but were not formally approved. We also noted that daily field reports did not always identify who conducted the reviews and prepared the report.

CONCLUSION

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

Natercia Freitas
Associate Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts