

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE
CONNECTICUT STATE UNIVERSITY
CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

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

Table of Contents

INTRODUCTION	1
COMMENTS	1
Foreword.....	1
Recent Legislation	2
Enrollment Statistics.....	4
Résumé of Operations.....	4
General Fund.....	5
Dormitory Debt Service Fund.....	5
Operating Fund	5
Grants Fund.....	6
Capital Equipment Purchases Fund	6
Capital Projects Funds	7
Connecticut State University Foundation, Inc.....	7
CONDITION OF RECORDS	8
Payments for Accrued Leave Time Balances	8
Purchasing Compliance and Control Issues.....	8
Equipment Inventory and Reporting.....	9
Reconciliation of Accounting Records to State Comptroller	10
Consolidation of the System’s Purchasing Process	11
Other Audit Examination.....	13
RECOMMENDATIONS	14
CERTIFICATION	16
CONCLUSION	18

December 16, 2004

**AUDITORS' REPORT
BOARD OF TRUSTEES FOR THE CONNECTICUT STATE UNIVERSITY
CONNECTICUT STATE UNIVERSITY SYSTEM OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have examined the financial records of the Connecticut State University System Office (System Office) for the fiscal years ended June 30, 2002 and 2003.

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

This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

The Board of Trustees of the Connecticut State University operates primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes. In accordance with Section 10a-87 of the General Statutes, the Board of Trustees maintains Central Connecticut State University (CSU), Eastern CSU, Southern CSU, and Western CSU. These institutions are located in New Britain, Willimantic, New Haven and Danbury, respectively.

This audit report is intended to cover operations of the Connecticut State University System Office. Separate audit reports will be issued to cover operations of its constituent State Universities. Certain information pertaining to the system as a whole is included in this report for informational purposes.

Auditors of Public Accounts

Section 10a-88 of the General Statutes provides for a Board of Trustees of the Connecticut State University. During the audited period, the Board of Trustees consisted of 18 members, 14 appointed by the Governor and four elected by the students enrolled at the institutions under the Board's jurisdiction. The members of the Board of Trustees of the Connecticut State University as of June 30, 2003, were:

Lawrence D. McHugh, Chairman
Karl J. Krapek, Vice Chairman
Lynn Mc. Hathaway, Secretary
Richard J. Balducci
William Detrick
John A. Doyle
Theresa J. Eberhard
Joseph A. Mengacci
L. David Panciera
Ronald J. Pugliese
John R. Sholtis, Jr.
Father John P. Sullivan
Mertie L. Terry
Gail H. Williams
Ricardo A. Green (elected by students at Central CSU)
Paul J. Laedke (elected by students at Western CSU)
Shawn McQuillan (elected by students at Eastern CSU)
Andres Roman (elected by students at Southern CSU)

Other members who served during the audited period were:

Eddie E. Carte (elected by students at Central CSU)
Christopher Crampton (elected by students at Southern CSU)
Darcey Guy (elected by students at Western CSU)
Diallo Outley (elected by students at Eastern CSU)
Paul Serignese (elected by students at Southern CSU)
Angela R. Zurowski (elected by students at Western CSU)

Dr. William J. Cibes, Jr., served as Chancellor of the Connecticut State University during the audited period.

Recent Legislation:

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

Public Act 01-93, codified as Section 10a-155b of the General Statutes, requires that each student who resides in on-campus housing be vaccinated against meningitis as a condition of such residence beginning with the 2002-2003 school year. This Act also requires the University to provide information about meningitis to all prospective students and develop procedures for

receiving and keeping a record of student vaccination status. This Act was effective from its passage, June 6, 2001.

Public Act 01-141, Section 4, states that upon authorization of the Board of Governors of Higher Education, the Board of Trustees for the Connecticut State University System may establish a five-year program to award education doctoral degrees. This program would be available for students entering from May 1, 2002, until January 30, 2007. Section 5, amends Section 10a-88 of the General Statutes modifying the qualifications for future student members of the Connecticut State University Board of Trustees. The student's term shall terminate if the member ceases to be a matriculating student in good standing, either as a full-time undergraduate student or as a full-time or part-time graduate student, at the State University from which such student member was elected. Section 6 of this Act amends Section 10a-99a, subsection (a), of the General Statutes, revamping the distribution of the State endowment fund matching grants for the Connecticut State University (CSU) System and its individual institutions. These Sections of the Act became effective July 1, 2001.

Section 9 of Public Act 01-141, amended Section 10a-99a of the General Statutes, to allow alumni donations to the foundations of the individual CSU universities, which were made between July 1, 1997 and September 30, 2001, to be retroactively eligible for State matching grants. Section 9 of the Act became effective October 1, 2001.

Public Act 01-165, Section 2, subsection (a), codified as Section 10a-72e of the General Statutes, requires that the constituent units of the State system of higher education, including the Connecticut State University System, develop a plan to ensure that there is unification among their nursing programs to assist nurses in advancing their education and nursing credentials. Subsection (b), requires such boards of trustees to implement the plan not later than July 1, 2004. This Act was effective on July 6, 2001.

Public Act 01-173, Section 31, amended Section 10a-77, subsection (d), of the General Statutes to waive tuition for the dependent children of a volunteer firefighter or supernumerary or auxiliary police officer killed in the line of duty. This Section of the Act is effective from its passage, June 7, 2002.

Public Act 02-107, effective July 1, 2002, amended various sections of the General Statutes to eliminate the terms activity fund and welfare fund and to designate such funds as trustee accounts.

Public Act 02-110, Section 1, codified as Section 19a-342, subsection (b), of the General Statutes, prohibits smoking in public university dormitories. This Act was approved June 6, 2002, with an effective date of July 1, 2003.

Public Act 02-126, Section 5, amended Section 10a-99, subsection (d), of the General Statutes to waive tuition at the Connecticut State University System for resident surviving spouses and dependent children of Connecticut residents killed in the September 11, 2001 terrorist attacks or

Auditors of Public Accounts

anthrax attacks occurring between September 11, 2001 and December 31, 2001. This Section of the Act was effective June 7, 2002.

Public Act 02-140, Section 2, amended Section 10a-151b, subsection (b), of the General Statutes to allow constituent units of public education purchase authority to accept electronic bids, quotations, and proposals. Section 2 further states that if sealed bids or proposals are received electronically, they shall be maintained within a safe and secure electronic environment until such time as they are publicly opened. These Sections of the Act became effective July 1, 2002.

Public Act 03-13, Section 1, amended Section 10a-155, subsection (a), of the General Statutes eliminates the requirement that higher educational institutions obtain proof of adequate measles and rubella immunization from an enrolling student if that student had graduated from a Connecticut public or private high school in 1999 or later and was not previously exempt from this requirement under another statutory provision. This Act became effective July 1, 2003.

Public Act 03-33, Section 2, codified as Section 10a-99, subsection (h), of the General Statutes allows students called to active duty in the armed forces during any semester to reenroll in any course which they paid tuition but did not complete because of their active duty status. Students have four years from the date of release from active duty to reenroll. This Section of the Act is effective from its passage, May 12, 2003.

Enrollment Statistics:

Enrollment statistics of the Connecticut State University compiled by the System Office showed the following enrollments for full-time and part-time students during the audited period:

	<u>2001-2002</u>	<u>2002-2003</u>
Full-time undergraduate	20,088	20,570
Full-time graduate	<u>1,333</u>	<u>1,468</u>
Total Full-time	<u>21,421</u>	<u>22,038</u>
Part-time undergraduate	7,877	7,658
Part-time graduate	<u>6,579</u>	<u>6,430</u>
Total Part-time	<u>14,456</u>	<u>14,088</u>
Total Enrollment	<u>35,877</u>	<u>36,126</u>

RÉSUMÉ OF OPERATIONS:

During the audited period, operations of the System Office were primarily supported by appropriations from the State's General Fund and by telecommunications fees credited to the Operating Fund.

General Fund:

Expenditures totaled \$139,276,095 and \$138,124,723 for the fiscal years ended June 30, 2002 and 2003, respectively. General Fund expenditures consisted entirely of an appropriation transfer to support the operations of the Connecticut State University System.

Dormitory Debt Service Fund:

This fund is used to account for costs associated with Connecticut State University long-term debt. Such long-term debt includes both “self-liquidating” State general obligation bonds issued to fund certain Connecticut State University capital projects and bonds issued by the Connecticut Health and Educational Facilities Authority (CHEFA).

Operating transfers into the fund totaled \$16,901,296 and \$18,887,791 during the fiscal years ended June 30, 2002 and 2003, respectively. Payments for principal retirement and interest charges totaled \$18,202,634 and \$22,654,391 during those respective fiscal years. Resources accumulated in the fund to cover future debt service requirements totaled \$47,600,553 and \$44,587,018 as of June 30, 2002 and 2003, respectively.

Self-liquidating State general obligation bonds are general obligation bonds for which it has been determined that the portion of the costs attributable to certain projects funded by the issuances, such as dormitory renovation, should be covered by associated revenues. Though the bonds are liquidated from the resources of the General Fund, the General Fund is reimbursed for the associated costs. The Connecticut State University’s liability for such issuances was determined to be \$55,686,360 and \$50,309,186 as of June 30, 2002 and 2003, respectively.

CHEFA, which operates primarily under the provisions contained in Chapter 187 of the General Statutes, was created to assist institutions for higher education, health care institutions, nursing homes and qualified nonprofit organizations in the construction, financing and refinancing of projects. Outstanding CHEFA bonds issued on behalf of the Connecticut State University totaled \$158,265,000 and \$295,085,000 as of June 30, 2002 and 2003, respectively.

Operating Fund:

The Operating Fund was established under Section 10a-99 of the Connecticut General Statutes. Receipts of the Operating Fund, as reflected on the records of the State Comptroller, during the audited period and the preceding fiscal year are shown below:

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Educational fees	\$5,240,076	\$5,691,585	\$4,763,153
Miscellaneous private donations	1,046,174	1,620,697	257,751
Refunds of expenditures	267,787	231,394	110,551
Other grants and transfers-restricted	<u>6,887,590</u>	<u>7,074,619</u>	<u>6,041,917</u>
Total Receipts	<u>\$13,441,627</u>	<u>\$14,618,295</u>	<u>\$11,173,372</u>

Auditors of Public Accounts

As shown above, receipts for the Operating Fund totaled \$14,618,295 and \$11,173,372 for the fiscal years ended June 30, 2002 and 2003, respectively, compared with \$13,441,627 for the fiscal year ended June 30, 2001. The decrease of \$3,444,923 in the 2002-2003 fiscal year was due primarily to a decrease in the category of “Miscellaneous private donations” and “Educational fees”.

Expenditures of the Operating Fund, as recorded by the State Comptroller, during the audited period and the preceding fiscal year are shown below:

	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Personal services	\$5,388,941	\$5,716,608	\$5,723,392
Contractual services	8,067,669	8,276,679	6,060,512
Commodities	664,140	791,145	656,809
Sundry charges	(1,000,559)	3,792,020	3,965,989
Equipment	<u>113,107</u>	<u>964,996</u>	<u>320,740</u>
Total Expenditures	<u>\$13,233,298</u>	<u>\$19,541,448</u>	<u>\$16,727,442</u>

Expenditures for the Operating Fund totaled \$19,541,448 and \$16,727,442 for the fiscal years ended June 30, 2002 and 2003, respectively, compared with \$13,233,298 for the fiscal year ended June 30, 2001. When comparing expenditure levels, it should be noted that, as discussed in our previous audit report, expenditures recorded by the Comptroller for the 2000-2001 fiscal year contain an adjustment processed by the System Office intended to reclassify the amount of transfers to the local vendor check system for the purpose of vendor payments recorded in the previous fiscal year. Such an adjustment had the effect of understating expenditures during the 2000-2001 fiscal year in an amount equal to overstated expenditures in the preceding fiscal year(s). The adjustment amount, reflected as negative sundry charges, totaled \$3,876,605. The decrease of \$2,814,006 in the fiscal year ended June 30, 2003, was primarily the result of a reduction in the consulting services associated with the implementation of Banner. Banner is the Connecticut State University’s client-server based administrative software.

Grants Fund:

The System Office accounted for certain non-Federal grants in the Inter-agency/Intra-agency Grants – Tax Exempt Proceeds Fund. This fund was used to record disbursements related to grant transfers financed by State of Connecticut tax-exempt bonds.

Expenditures totaled \$95,555 and \$99,000 during the fiscal years ended June 30, 2002 and 2003, respectively, and consisted primarily of purchases of telecommunications and computer equipment.

Capital Equipment Purchases Fund:

This Fund is used to account for the purchase of equipment financed by bond proceeds. Expenditures totaled \$22,037 and \$10,343 during the fiscal years ended June 30, 2002 and 2003, respectively, and consisted primarily of the purchase of office equipment.

Capital Projects Funds:

Capital project fund expenditures during the fiscal years ended June 30, 2002 and 2003 totaled \$2,812,472 and \$9,837,731, respectively. These expenditures consisted primarily of improvements to buildings at the four State universities.

Connecticut State University Foundation, Inc.:

The Foundation is a private nonstock Connecticut corporation established for the purpose of receiving donations for the Connecticut State University. The Foundation is a legal entity separate and distinct from the Board of Trustees and is governed by a Board of Directors.

Sections 4-37e through 4-37k of the Connecticut General Statutes institute controls over organizations established for the benefit of State agencies and institutions. An audit of the books and accounts of the Foundation was performed by the Auditors of Public Accounts for the fiscal year ended June 30, 2000, in compliance with Section 4-37f, subsection (8), of the General Statutes. This report disclosed no material inadequacies in Foundation records and indicated compliance, in all material respects with Sections 4-37e through 4-37i of the General Statutes.

CONDITION OF RECORDS

Our review of the financial records of the System Office revealed certain areas requiring attention, as discussed in this section of the report.

Payments for Accrued Leave Time Balances:

Criteria: The General Statutes, personnel policies established by the Board of Trustees for the Connecticut State University, and provisions of collective bargaining unit contracts all set requirements for payments to employees for unused vacation and sick leave.

Condition: Our review of payments of accrued leave at termination to five employees revealed that one employee was overpaid in the amount of \$1,178.

Subsequent to our review and notification, the System Office has sent the former employee a letter attempting to seek restitution for the overpayment.

Effect: The System Office has overpaid an employee for accrued leave time.

Cause: The condition was the result of a calculation error. The incorrect hourly rate was used to calculate the payment amount.

Recommendation: The System Office should proceed with collection efforts regarding actions it may take pertaining to the incorrect payment for accrued leave time. (See Recommendation 1.)

Agency Response: “We agree with this recommendation and have subsequently collected all of the funds from this former employee. It should be noted that this overpayment occurred after this CSU employee’s records were changed by Human Resources to reflect her annual increase, which was subsequently rescinded as a State budget concession by CSU. The employee resigned and left before her records could be readjusted.”

Purchasing Compliance and Control Issues:

Criteria: Section 10a-151b of the General Statutes governs the purchase of equipment, supplies, contractual services, and execution of personal service agreements by constituent units of higher education. Section 10a-151b, subsection (b), mandates a formal competitive bidding process whenever the expenditure is estimated to exceed \$50,000. The formal process requires that competitive bids be solicited by public notice inserted, at least once, in two or more publications, at least one of which shall be a major daily newspaper published in the State and shall be posted on the Internet, at least five calendar days before the final date of submitting bids or proposals.

Good business practices and internal control dictate that documentation supporting the approval and payment of expenditures is on file prior to payment.

Conditions: Our sample for procurement testing consisted of 40 expenditures for the audited period. From this sample we noted the following:

We noted one instance where the System Office did not comply with the bidding process set forth in the General Statutes. The competitive bids for this transaction were not solicited by public notice as defined by the aforementioned criteria section of this finding.

We noted four instances where the System Office Accounts Payable Department processed a payment without obtaining the appropriate documentation and/or signature attesting that the goods/services have been received.

Effect: The University is not in compliance with established policies and procedures regarding expenditures.

Cause: With respect to the cases cited, established control procedures in the area of procurement were not adequately carried out.

Recommendation: The System Office should take steps to improve internal controls over the procurement process. (See Recommendation 2.)

Agency Response: “CSU System Office agrees with this recommendation and has proposed the hiring of a student worker to assist the Business Office in implementing the processes to ensure the internal controls in place are complied with and additional controls are established to strengthen areas noted. In purchasing, we have already implemented processes of periodic self-audits to prevent oversights as noted in the APA audit.”

Equipment Inventory and Reporting:

Criteria: Accurate inventory records are an integral part of internal control. The State of Connecticut’s Property Control Manual provides additional guidance in this area.

Conditions: Our current audit examination of the System Office’s property control system revealed the following:

The annual physical inventory for the fiscal year 2001-2002 did not contain all the necessary data elements that would substantiate such a review.

During our review of the supporting documentation for the annual Fixed Assets/Property Inventory Report (CO-59) for fiscal year 2001-2002, we found that the amount reported as deletions included three laptops with a cost of zero. Upon further review, it was revealed that these three laptops, along with an additional two laptops, were acquired as a gift. These assets should have been recorded at their estimated fair market value at the time of acquisition.

From a sample of seven controllable items selected from the property control records, we found one item that was removed from the agency premises without the required paperwork being completed. In addition, we found one instance where an item could not be located. Upon further review, we found paperwork documenting that this item was donated during fiscal year 2001-2002 to a University overseas program. In reviewing that paperwork, we also identified another eight items that were also donated to this organization and still remained on the current property control records. Upon notifying the Agency of this condition, the property control records were corrected.

From a sample of ten equipment items identified by a random inspection of the premises, we found one item without a tag number. We traced this item to the property control records, where it was revealed that the amount of the item was listed as zero. Upon further review, it was revealed that this item was acquired as a gift and the Agency did not record the asset at its estimated fair market value at the time of acquisition.

Effect: The condition described above weakens internal control over equipment.

Cause: Internal control policies were not being followed.

Recommendation: Control over the System Office's equipment inventory should be improved. (See Recommendation 3.)

Agency Response: "We agree with this recommendation and will initiate internal control procedures to ensure that (1) all test equipment is properly accounted for (2) the equipment on loan process is tightly controlled and (3) the CSU guard or front desk person monitors the paperwork of all assets entering and leaving the building."

Reconciliation of Accounting Records to the State Comptroller:

Criteria: State agencies should provide accurate financial data to the State Comptroller to ensure that the Comptroller's records are accurate.

The State of Connecticut's Accounting Manual requires that each agency reconcile its records with those of the State Comptroller.

A component of a good internal control system requires that such reconciliations be performed in a timely manner.

Condition: During our review of the System Office’s reconciliations of available cash to the State Comptroller’s Central Accounting System, we noted instances where the monthly reconciliations were not completed in a timely manner. We found a number of instances where several consecutive months of activity were reconciled at the same time.

Effect: The condition described above weakens internal control over cash.

Cause: Internal control policies were not being followed. During this period of time, the Agency had several staff changes that may have caused the delays in performing the monthly reconciliations.

Recommendation: The monthly reconciliations between the System Office’s accounting records and the State Comptroller’s Central Accounting System should be performed in a timely manner. (See Recommendation 4.)

Agency Response: “Although in principle we agree with this recommendation, in reality due to staffing constraints Finance must by necessity prioritize the numerous tasks required of the unit. Generally the months that are not reconciled in a timely manner are those abutting the year-end financial statement audits and associated year-end closings. In addition, during the period cited, we lost the full time staff member who was assigned reconciliation responsibilities. However, we will make every effort to improve the timeliness of the monthly reconciliations in the future.”

Consolidation of the System’s Purchasing Process:

Background: In our prior audit report for the fiscal years 1999-2000 and 2000-2001, we recommended that the System Office should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the System Office. The Agency’s response at that time was that “the CSU System Office has done as much consolidation of the purchasing process as the CSU Board of Trustees deemed appropriate...”

Criteria: Section 10a-89e of the General Statutes states, “The Board of Trustees for the CSU System shall consolidate the purchasing process for the system at the central office.”

Condition: Some purchasing procedures for the State University System have been centralized at the System Office. These include training in the purchasing

function, implementation of certain uniform purchasing procedures on a system-wide basis, and some procurement of goods or services at each of the State universities through contracts that were affected at the System Office. However, each of the four State universities still maintains significant purchasing resources on campus, and most purchasing-related procedures are still performed locally, rather than at the System Office.

Effect: The System Office is not in compliance with Section 10a-89e of the Connecticut General Statutes.

Cause: It was the opinion of the Board of Trustees that complete consolidation of the purchasing process at the Central Office would decrease efficiency rather than increase it.

Recommendation: The System Office should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the System Office. (See Recommendation 5.)

Agency Response: “It is the opinion of the CSU Board of Trustees that complete consolidation of the purchasing process at the System Office would decrease efficiency rather than increase it. The System Office already administers a number of Systemwide contracts, most notably in IT, Student Insurance, and External Auditing. Furthermore, in July 2003, the CSU Board of Trustees approved the CSU System IT Strategic Plan. One of the Systemwide Strategic Objectives of the plan is to “purchase all IT hardware, software, and consulting services, that are required by statute to be competitively bid (currently in excess of \$10,000), through centralized purchasing at the System Office, unless otherwise authorized by the Chancellor.” To that end, a CSU System IT Purchasing Protocol has been developed and disseminated to the universities. This protocol outlines procedures and protocols for sharing information about desired IT purchases, for reporting all IT purchases, as well as for moving in a deliberate phased manner from university purchasing to centralized purchasing for IT products and services greater than \$10,000. It is intended that this protocol will be implemented in three Phases. Phase 1 became effective September 26, 2003. It requires (1) each Vice President for Finance and Administration, or his/her designee, to send an e-mail to System Office IT, with copies to each university CIO, indicating desired IT purchases (including product name and product category), as soon as an IT purchase is proposed. This distribution will enable System Office IT to determine if identical hardware, software or services have already been purchased (e.g., with a systemwide license, or at another university with possible contract extension to sister universities). (2) Prior to the second Monday of each month, university purchasing departments will report by e-mail to System Office IT and System Office Purchasing with copies to each university CIO, **all** IT purchases (as defined within the Protocol) made at the university during the prior calendar month.

(3) During this phase, the Chancellor will determine on a case-by-case basis whether to authorize the universities to self-administer any IT purchase greater than \$10,000, pursuant to documented processes. The Chancellor may reject, in whole or in part, any proposed purchase greater than \$10,000.

In Phase 2, System Office purchasing will manage all IT purchases greater than \$50,000. In Phase 3, all IT purchases greater than \$10,000 will be managed by System Office purchasing. It was intended that all three phases of this Plan should be completed by FYE 2005. However, due to budget constraints, Finance has been unable to hire the staff to initiate Phases 2 and 3. When that full time staff is hired, we will initiate and implement those Phases. Phase 1 has been very effective in coordinating IT purchases across the System.”

Other Audit Examination:

In recent years the Board of Trustees has entered into agreements with a public accounting firm to conduct certain auditing and consulting services on an annual basis, including an audit of the combined financial statements of the Connecticut State University System. As part of its audit work, the firm has made an annual study and evaluation of the system’s internal controls to the extent deemed necessary to express an audit opinion on the financial statements. Certain matters involving internal controls have been included in an annual *Report to Management* accompanying the audited financial statements.

The areas pertaining to the Connecticut State University System as a whole as set forth in the *Report to Management* relating to the 2002-2003 fiscal year, the most recent report published, are presented below:

- General: There are two Universities that have not fully implemented the Banner Accounts Payable/Purchasing module, which includes the automation of the Non Sufficient Funds (NSF) feature. The CSU System should perform a quarterly or, at minimum, a semi annual financial closing process. The System Office should prepare and formalize guidelines around the accounting for fund balances and the analysis of net asset categories, as defined by GASB 34, and disseminate these to the Universities.
- Information Systems: Management should continue to implement the information technology strategic plan, which incorporates e-business. Management should continue their efforts to finalize a security plan. Management should continue to develop and distribute program change control procedures for CSU System-Wide usage. Management should continue to develop controls to strengthen security over the Banner application. Management should perform a cost/benefit analysis of maintaining groupware technologies across the CSU System. Management should continue their efforts to strengthen Internet security by developing a formal system-wide Internet security plan and policy. Management should continue in their efforts to develop a comprehensive Business Resumption plan.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The System Office should ensure that leave and attendance records are maintained in accordance with established criteria. Improvement was noted in this area; therefore the recommendation is not being repeated.
- The System Office should take the necessary steps to document that compensatory time earned is pre-approved according to its policies and procedures. The recommendation was implemented; therefore the recommendation is not being repeated.
- The System Office should improve internal controls over personal service agreements by taking steps to ensure that documentation is maintained to support that competitive bids were solicited on the Internet. Improvement was noted in this area; therefore the recommendation is not being repeated.
- Control over the System Office's equipment inventory should be improved. The recommendation is being repeated. (See Recommendation 3.)
- The System Office should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the System Office. The recommendation is being repeated. (See Recommendation 5.)
- The Board of Trustees of the Connecticut State University System should develop detailed guidelines addressing the use of reassigned time for administrative or quasi-administrative tasks. We believe this recommendation would improve internal control. However, the System Office continues to disagree with this recommendation and states that the language in the Collective Bargaining Agreement regarding "reassigned time" is sufficient. Accordingly, this recommendation is not being repeated at this time.
- The System Office should improve internal control as necessary to insure compliance with State mandated procurement policies. The recommendation is being repeated with modification. (See Recommendation 2.)
- The System Office should compile comparative data regarding financial arrangements entered into by the Connecticut State University campuses and make the compilation available for use as a negotiating tool. The System Office has informed us that it stands ready to compile comparative data as a negotiating tool if requested by the universities. Accordingly, this recommendation is not being repeated at this time.

Current Audit Recommendations:

- 1. The System Office should proceed with collection efforts regarding actions it may take pertaining to the incorrect payment for accrued leave time.**

Comment:

Our review of payments of accrued leave at termination to five employees revealed that one employee was overpaid in the amount of \$1,178.

- 2. The System Office should take steps to improve internal controls over the procurement process.**

Comment:

A significant number of expenditure transactions were not processed in compliance with its established policies and procedures.

- 3. Control over the System Office's equipment inventory should be improved.**

Comment:

Our examination of the System Office's property control system revealed a significant number of inaccuracies and other control weaknesses.

- 4. The monthly reconciliations between the System Office's accounting records and the State Comptroller's Central Accounting System should be performed in a timely manner.**

Comment:

The monthly reconciliations between the System Office's accounting records and the State Comptroller's Central Accounting System were not performed in a timely manner.

- 5. The System Office should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the System Office.**

Comment:

Each of the four State universities still maintains significant purchasing resources on campus, and most purchasing-related procedures are still performed locally, rather than at the System Office.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Connecticut State University System Office for the fiscal years ended June 30, 2002 and 2003. This audit was primarily limited to performing tests of the System Office's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the System Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the System Office are complied with, (2) the financial transactions of the System Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the System Office are safeguarded against loss or unauthorized use. The financial statement audits of the System Office for the fiscal years ended June 30, 2002 and 2003, 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 System Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

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

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

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the System Office is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the System Office. In planning and performing our audit, we considered the System Office's internal control over its financial

operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the System Office's financial operations in order to determine our auditing procedures for the purpose of evaluating the System Office's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the System Office's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the System Office's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the System Office's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: inadequate controls over the procurement process and inadequate controls over the equipment inventory.

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

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

This report is intended for the information of 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 personnel of the Connecticut State University's System Office for the cooperation and courtesies extended to our representatives during the course of this examination.

Walter J. Felgate
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts