

STATE OF CONNECTICUT



*AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT HEALTH CENTER
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008*

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

Table of Contents

INTRODUCTION	1
COMMENTS	1
FOREWORD:.....	1
Recent Legislation:	5
RÉSUMÉ OF OPERATIONS:	5
CONDITION OF RECORDS.....	14
STIF Investments:.....	14
Office of Technology Commercialization:	15
Review and Approval of Contracts by the Attorney General:.....	17
Execution of Contracts:	18
Health Center REPORTLINE:.....	20
Promotional Processes Tailored to Benefit Specific Individuals:	22
Conflict with Laws, By-Laws and Rules:	24
Compensatory Time:.....	26
Ethics Violation:	27
Various Procurements:.....	29
Finance Corporation Non-Competitive Procurements:	30
Convenience Contracts:	31
Emergency Purchase:.....	32
Other Audits:.....	33
RECOMMENDATIONS	35
INDEPENDENT AUDITORS' CERTIFICATION.....	41
CONCLUSION.....	44

December 13, 2010

**AUDITORS' REPORT
UNIVERSITY OF CONNECTICUT HEALTH CENTER
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2008**

We examined the financial records of the University of Connecticut Health Center (Health Center) for the fiscal years ended June 30, 2007 and 2008. The Health Center is a component unit of the University of Connecticut system, which includes the University of Connecticut (University), the Health Center, the University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. This report on that examination consists of the Comments, Recommendations and Certification that follow.

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

COMMENTS

FOREWORD:

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

This Board, subject to Statewide policy and guidelines established by the Board of Governors of Higher Education, makes rules for the government of the University and the Health Center and sets policies for administration of the University and the Health Center pursuant to duties set forth in Section 10a-104 of the General Statutes. The members of the Board of Trustees as of June 30, 2008, were:

Ex officio members:

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

Appointed by the Governor:

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

Elected by alumni:

Philip P. Barry, Storrs
Andrea Dennis-LaVigne, Simsbury

Elected by students:

Ross Gionfriddo, West Hartford
Michael J. Nichols, Hartford

June 30, 2006, marked the completion of the term of Stephen A. Kuchta of Storrs. Michael J. Nichols of Hartford succeeded him, effective July 1, 2006. Salmun Kazerounian of Storrs served until June 30, 2007; he was succeeded by Ross Gionfriddo of West Hartford, effective July 1, 2007. Michael J. Nichols' term ended June 30, 2008; Richard Colon, Jr. of Vernon succeeded him, effective July 1, 2008.

Betty J. Sternberg, Commissioner of Education, left the State Department of Education to assume another position in August 2006. George Coleman served as Interim Commissioner until Mark K. McQuillan was appointed to the position in April 2007.

James F. Abromaitis served as Commissioner of Economic and Community Development until he left to assume another position in March 2007. Ronald F. Angelo, Jr. served as acting Commissioner until Joan McDonald was appointed to the position effective May 9, 2007.

Section 10a-104, subsection (c), of the General Statutes authorizes the Board of Trustees of the University of Connecticut to create a Board of Directors for the governance of the Health Center and delegate such duties and authority as it deems necessary and appropriate to said board of directors. The members of the Board of Directors as of June 30, 2008, were:

Ex officio members:

Michael J. Cicchetti, Deputy Secretary, Office of Policy and Management
J. Robert Galvin, Commissioner, Department of Public Health
Michael J. Hogan, President, University of Connecticut

Appointed by the Chair of the Board of Trustees:

Gerard N. Burrow, Chair, Hamden
Lenworth M. Jacobs, M.D., West Hartford
Wayne J. Shepperd, Danbury

Appointed by the Governor:

David B. Friend, M.D., Lincoln, Massachusetts
Jay L. Haberland, Simsbury

Members at Large:

Mark Bertolini, Avon
Cheryl Chase, Hartford
Sanford Cloud Jr., Farmington
John Droney, Farmington
A. Jon Goldberg, Farmington
Brian Hehir, Port Washington, New York
Robert T. Samuels, West Hartford
Ann Slaughter, Philadelphia, Pennsylvania

Deputy Secretary Anne Gnazzo served as the designee of Robert L. Genuario, Secretary of the Office of Policy and Management, until she was appointed to another position in January 2007. Deputy Secretary Michael J. Cicchetti was designated to serve in her place.

James F. Abromaitis of Unionville served on the Board until March 2007. Wayne J. Shepperd of Danbury was appointed to his position during the fiscal year ended June 30, 2008.

During the fiscal year ended June 30, 2007, John Bigos of Hartford and Nancy J. Hutson of Stonington left the Board and Cheryl Chase of Hartford joined the Board. During the fiscal year ended June 30, 2008, Robert Hennessey of Cheshire, Claire Leonardi of Long Lake, New York, David P. Marks of West Hartford left the Board and Mark Berolini of Port Washington, New York and John F. Droney of Farmington joined the Board.

Pursuant to Section 10a-108 of the General Statutes, the Board of Trustees of the University of Connecticut are to appoint a president of the University and the Health Center to be the chief executive and administrative officer of the University and the Health Center and of the Board of Trustees. Philip E. Austin served as President until he left office on September 14, 2007, and assumed the title of President Emeritus and University Professor. Michael J. Hogan became the

14th president of the University on that date.

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

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

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

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

The Finance Corporation is administered by a Board of Directors, consisting of five members appointed under the provisions of Section 10a-253 of the General Statutes. The members of the Board of Directors as of June 30, 2008, were:

Ex officio members:

Michael J. Hogan, President
Peter J. Deckers, M.D., Executive Vice President for Health Affairs
Gale Mattison, designee of the Secretary of the Office of Policy and Management

Appointed by the Governor:

John W. Rowe, M.D., of New York, New York, Chair

As President of the University, Philip E. Austin served on the Board until Michael J. Hogan assumed the office on September 14, 2007. James F. Abromaitis of Unionville served on the Board until March 2007.

Recent Legislation:

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

- Public Act 05-149, effective June 15, 2005, appropriated funds for the purpose of grants-in-aid for conducting embryonic or human adult stem cell research. Funds were first awarded under the program during the fiscal year ended June 30, 2007. The Health Center was named as a recipient or co-recipient of awards totaling \$9,260,000, \$2,949,813 and \$4,700,000 made during the fiscal years ended June 30, 2007, 2008 and 2009, respectively.
- Public Act 06-186, Section 46, effective July 1, 2006, authorized the transfer of up to \$3,800,000 of the Health Center's fiscal 2007 appropriation to the Disproportionate Share – Medical Emergency Assistance account in the Department of Social Services for the purposes of maximizing Federal reimbursement.
- Public Act 07-1, June Special Session, Section 123, effective June 26, 2007, authorized a deficiency appropriation for the Health Center of \$22,100,000. Effective July 1, 2007, Section 68 of the Act authorized the transfer of up to \$5,000,000 of the Health Center's fiscal 2008 appropriation to the Disproportionate Share – Medical Emergency Assistance account in the Department of Social Services for the purposes of maximizing Federal reimbursement.
- Special Act 07-10, June Special Session, effective July 10, 2007, as amended by Public Act 07-1, June Special Session, effective July 1, 2007, and Public Act 07-05, June Special Session, effective October 6, 2007, called for the Connecticut Academy of Science and Engineering to conduct a needs-based analysis of the Health Center facilities plan and issue a final report by June 30, 2008.
- Special Act 08-4, effective May 27, 2008, called for the Connecticut Academy of Science and Engineering to act as an independent monitor regarding the implementation of recommendations set forth in the needs-based analysis of the Health Center facilities plan.
- Special Act No. 08-1, June 11 Special Session, Section 2, effective June 16, 2008, authorized a deficiency appropriation for the Health Center of \$21,900,000.
- Public Act 09-2, June 19, 2009 Special Session, effective June 26, 2009, authorized a deficiency appropriation for the Health Center of \$22,200,000.
- Public Act 10-104, effective June 3, 2010, authorized a \$362,000,000 plan to renovate the John Dempsey Hospital, construct a new patient tower and provide various benefits for other area hospitals. The initiative is contingent on the award of a \$100,000,000 Federal grant, which other states could compete for. The remaining \$262,000,000 will be funded from general State tax revenues. Per the enabling legislation, the initiative will terminate if the \$100,000,000 is not obtained through the grant, or from other sources, by June 30, 2015.

RÉSUMÉ OF OPERATIONS:

Over the last decade and more, changes in the statutes governing the State's constituent institutions of higher education provided the Health Center greater autonomy and flexibility. The most significant changes were effectuated by Public Act 91-256, effective July 1, 1991, which

greatly expanded certain limited authorities granted by Public Act 90-201, effective July 1, 1990. Subsequent legislation increased the degree of independence granted the institutions.

This independence is most notable with respect to procurement actions. Institutions of higher education may, under Section 10a-151b of the General Statutes, purchase equipment, supplies and services, and lease personal property without review and approval by the State Comptroller, the Department of Administrative Services or the Department of Information Technology. Further, they are not subject to the restrictions concerning personal service agreements codified under Sections 4-212 through 4-219, although, as a compensating measure, personal service agreements executed by the 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. The Health Center began issuing checks directly to vendors in August 1993. The checks are drawn on a “zero balance” checking account controlled by the State Treasurer. Under the approved procedures, funds are advanced from the Health Center’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.

The Health Center 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 all position vacancies within the limits of available funds.

Public Act 95-230, known as “The University of Connecticut 2000 Act,” authorized a massive infrastructure improvement program to be managed by the University, effective June 7, 1995. Although subsection (c) of Section 7 of Public Act 95-230 provides that the securities issued to fund this program are to be issued as general obligations of the University, it also provides that the debt service on these securities is to be financed, for the most part, from the resources of the General Fund. However, as they are not considered to be a “state bond issue” as referred to in Section 3-25 of the General Statutes, the University is able to make payments related to the program directly, rather than process them through the State Comptroller.

The Health Center did not participate in this program when it was first established. However, when Public Act 02-3 of the May 9 Special Session authorized 1.3 billion dollars in new bond funds for the University, over \$300 million was earmarked for infrastructure improvements at the UConn Health Center.

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 (see Section 10a-109c of the General Statutes). Further, 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 gifts 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, 2007; 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.

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

Student Status	Fall 2006	Spring 2007	Fall 2007	Spring 2008
Medicine - Students	328	328	323	323
Medicine – Residents	586	586	585	585
Dental – Students	159	159	164	164
Dental - Residents	107	107	109	109
Totals	1,180	1,180	1,181	1,181

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

Student Status	2006-2007			2007-2008		
	In-State	Out-of-State	Regional	In-State	Out-of-State	Regional
School of Medicine	\$13,800	\$31,400	\$20,700	\$15,870	\$36,110	\$23,805
School of Dental Medicine	11,089	28,421	16,639	12,752	32,684	19,128

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

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

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

A small activity fund, the Health Center Student Activity Fund, was associated with the Health Center during the audited period. The financial effect of this activity fund was negligible.

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

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, states that proprietary activities may elect to apply the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. The Health Center has not elected this option.

GASB Statement No. 47, *Accounting for Termination Benefits*, was effective for periods beginning after June 15, 2005. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State's responsibility and therefore the Health Center did not record any liability except for an accrual for compensated absences related to an early retirement plan in the fiscal year ended June 30, 2003. The final payment on this liability was made during the fiscal year ended June 30, 2008.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Property and equipment acquisitions are recorded at cost. Betterments and major renewals are capitalized, and maintenance and repairs are expensed as incurred. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Health care providers and support staff of the Health Center are fully protected by State statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment ("statutory immunity"). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against the Health Center's malpractice self-insurance fund. Effective July 1, 1999, the Health Center developed a methodology by which it could allocate malpractice costs between the Hospital, the UConn Medical Group and University Dentists. For the years ended June 30, 2007 and 2008, these costs are included in the statement of revenues, expenses and changes in net assets.

The Health Center's financial statements are presented using a single column format. However, consolidating statements of net assets and of revenues, expenses and changes in net assets are presented as supplementary information.

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

The Health Center's net assets balance increased by \$17,885,755 from \$254,628,598 as of June 30, 2006, to \$272,514,353 as of June 30, 2007. It then decreased by \$1,482,917 to \$271,031,436 as of June 30, 2008. The increase for the fiscal year ended June 30, 2007, was

attributable to net capital appropriations of \$22,961,941 (no new capital appropriations were made during the fiscal year ended June 30, 2008; \$165,790 in existing capital appropriations were rescinded).

Health Center employment grew slightly during the audited period. The Health Center's human resources system presented 4,638, 4,620 and 4,725 full-time equivalent filled positions as of June 30, 2006, 2007 and 2008, respectively.

During the audited period, patient revenues were the Health Center's largest source of revenue. Patient revenues, as reflected in the Health Center's financial statements, aggregated \$375,948,065 and \$ 399,252,009 for the fiscal years ended June 30, 2007 and 2008, respectively. These amounts are net of eliminations of internal transactions between the primary institution and the John Dempsey Hospital. Such internal revenues aggregated \$13,233,204 and \$14,446,240 for the fiscal years ended June 30, 2007 and 2008, respectively.

John Dempsey Hospital patient revenues were the largest single component of Patient revenues. Such revenues totaled \$ 221,238,114 and \$ 230,514,612 (prior to the elimination of transactions between the primary institution and the John Dempsey Hospital) for the fiscal years ended June 30, 2007 and 2008, respectively. Other operations that generated significant patient revenues were the Correctional Managed Healthcare Program and the UConn Medical Group.

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

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

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

Patient revenues generated by the program, as reflected in the Health Center's financial statements, were \$94,881,163 and \$ 101,660,324 for the fiscal years ended June 30, 2007 and 2008, respectively. These amounts did not include in-kind fringe benefit support, which was classified as General Fund operating support.

The Health Center recorded a receivable from the General Fund of \$15,412,738 as of June 30, 2007. This amount reflected the excess, of cumulative program expenditures, recorded on the

accrual basis, over funding transfers from the Department of Correction since the inception of the program. A receivable of \$9,423,851 was recorded as of June 30, 2008.

The UConn Medical Group functions similarly to a private group practice for faculty clinicians providing patient services. UConn Medical Group Patient service revenues (prior to the elimination of transactions between the primary institution and the John Dempsey Hospital) totaled \$ 69,932,478 and \$78,403,757, for the fiscal years ended June 30, 2007 and 2008, respectively.

Other significant sources of revenue included State General Fund operating support, restricted grants and payments for the services of interns and residents. State General Fund operating support, as reflected in the Health Center's financial statements, totaled \$157,279,599 and \$190,742,826, for the fiscal years ended June 30, 2007 and 2008, respectively. These amounts included budgeted appropriations, in-kind fringe benefit support associated with those budgeted appropriations and in-kind fringe benefit support associated with the Correctional Managed Healthcare Program.

Restricted grant revenues, as reflected in the Health Center's financial statements, totaled \$90,933,125 and \$87,001,639, for the fiscal years ended June 30, 2007 and 2008, respectively. Federal grants comprised the largest part of these revenues.

Under the Residency Training Program, interns and residents appointed to local health care organizations are paid through the Capital Area Health Consortium. The Health Center reimburses the Capital Area Health Consortium for the personnel service costs incurred and is, in turn, reimbursed by the participating organizations. Program revenues (prior to the elimination of transactions between the primary institution and the John Dempsey Hospital) aggregated \$37,573,473 and \$37,486,043, for the fiscal years ended June 30, 2007 and 2008, respectively.

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

	Foundation	
	Fiscal Year Ended	
	<u>June 30, 2007</u>	<u>June 30, 2008</u>
Assets	\$407,900,000	\$396,802,000
Liabilities	14,961,000	16,801,000
Net Assets	392,939,000	380,001,000
Revenues, Gains and Other Support	86,845,000	32,758,000
Expenses	46,987,000	45,696,000

During the previous audited period, the Health Center entered into a public-private partnership with Health Resources International to operate an outpatient surgical facility on the

Health Center's Farmington campus. The Farmington Surgery Center (FSC) began operations during the fiscal year ended June 30, 2005. Net profits and losses were to be allocated 76 percent to the Health Center and 24 percent to Health Resources International.

Anticipated revenues were not realized, and the FSC suffered significant losses. The Health Center purchased all minority interests in the company at the start of the fiscal year ended June 30, 2007, effectively dissolving the partnership. Though the FSC still exists as a legal entity, it ceased operations. The outpatient surgical facility continues to operate as part of the John Dempsey Hospital.

Initial funding for the FSC was provided by a \$1,200,000 cash contribution from Health Resources International. Subsequently, Health Resources International made additional cash contributions aggregating \$625,390, the Health Center contributed cash of \$2,780,744 and other investors contributed \$240,000. When the Health Center purchased all minority interests in the operation, \$1,652,500 of the \$1,825,390 contributed by Health Resources International was returned to the firm; the other minority investors received full refunds of the cash they contributed.

Basically, the Health Center and Health Resources International invested (net) cash in the amounts of \$4,673,244 and \$172,890, respectively, in the FSC. The partnership's net assets balance at termination was negligible.

The Health Center's financial condition deteriorated significantly during the audited period. As of June 30, 2006, the Health Center had an unrestricted cash balance (cash not externally restricted or reserved for estimated malpractice liabilities) of over thirty million dollars. However, this balance fell into a deficit condition before the end of the succeeding fiscal year.

After the infusion of support from three deficit appropriations of approximately twenty-two million dollars each made at the close of the fiscal years ended June 30, 2007, 2008 and 2009, it had recovered from the significant decrease experienced during the fiscal year ended June 30, 2007. The Health Center's unrestricted cash balance was approximately \$40,000,000 as of June 30, 2008 and 2009.

The Health Center's management group stated that the Health Center's financial difficulties were due, in part, to the size and age of John Dempsey Hospital and proposed replacing it with a new, larger facility. The legislature directed the Office of Legislative Management to contract with the Connecticut Academy of Science and Engineering (Academy) to conduct a needs-based analysis of the Health Center facilities plan.

The Academy recommended that the Health Center select a regional hospital to, acting as a clinical partner, construct, own and operate new clinical facilities on the Health Center campus. However, the Academy also recommended that the size of the new facilities be limited so that the total number of licensed beds would not exceed the existing licensed beds currently allocated to John Dempsey Hospital and those beds that the selected clinical care hospital partner could reallocate to a new hospital under its existing license.

Acting on this recommendation, the Health Center's management group proposed to enter into a partnership with Hartford Healthcare Corporation (the parent company of Hartford

Hospital) and developed a conceptual framework for the partnership. Under this conceptual framework, existing Hartford Hospital clinical facilities and clinical facilities to be constructed on the Health Center's Farmington Campus would, in combination, comprise a University Hospital. The Farmington facility would be owned by the University and operated by Hartford Healthcare; the Hartford facility would continue to be owned and operated by Hartford Healthcare. The University Hospital would maintain and operate its existing licensed beds.

It should be noted that the Health Center's original proposal called for the construction of a larger facility on its Farmington campus to be financed largely from the proceeds of revenue bonds. In contrast, the conceptual framework stated that the support of the State would be essential to the success of the endeavor and will include investment, potentially in the form of capital financing for the replacement of John Dempsey Hospital and operating support for the academic and research enterprise, as well as certain State-related expenses of John Dempsey Hospital.

In May 2010, the legislature approved (Public Act 10-104) a \$362,000,000 plan to renovate the facility, construct a new patient tower and provide various benefits for other area hospitals. The initiative is contingent on the award of a \$100,000,000 Federal grant, which other states could compete for. The remaining \$262,000,000 will be funded from general State tax revenues. Per the enabling legislation, the initiative will terminate if the \$100,000,000 is not obtained through the grant, or from other sources, by June 30, 2015.

CONDITION OF RECORDS

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

STIF Investments:

Criteria: When personal service costs are a critical factor, automation, i.e., reducing the need for manual intervention in a process, can be an effective cost saving measure.

Condition: The Health Center maintains two State Short Term Investment Fund (STIF) accounts for its Research Fund and two for its Operating Fund. Additionally, the Operating Fund participates in the interest credit program authorized under Section 3-27a of the General Statutes. Under the interest credit program, the Treasury pays the Health Center STIF equivalent interest on the average daily cash balance held in the Operating Fund.

In the Health Center's accounting system, investment balances are maintained separately in numerous individual accounts. Health Center accountants monitor those accounts and invest funds held in excess of anticipated cash needs. Separate worksheets are maintained to keep the investment balances recorded in the accounting system in sync with the balances held in the various STIF accounts.

It would be more effective to leave all of the Operating Fund balances as cash, thus automatically investing them through the interest credit program, and invest Research Fund cash in STIF based on the anticipated cash needs of the fund as a whole. Investment earnings could then be easily distributed at the account level based on average daily cash balances as reflected in the accounting system.

Effect: The current process requires an unnecessary and inefficient degree of manual intervention.

Cause: This process has evolved over time without being subjected to critical analysis and planning.

Recommendation: The Health Center should invest funds held in excess of anticipated cash needs at the fund level and distribute earnings to individual accounts based on average daily cash balances as reflected in the accounting system. (See Recommendation 1.)

Agency Response: "Management agrees with this recommendation and will assess the costs and benefits of a more streamlined, automated process for

handling STIF investments and implement the solution if it is determined to be cost justified as of January 1, 2011.”

Office of Technology Commercialization:

Criteria: Management and others responsible for governance need access to timely, reliable and pertinent financial information that provides a comprehensive informational base for decision-making. The ability to make sound decisions regarding programs and activities is dependent on reliable measurements of their full cost and financial performance.

Condition: The Office of Technology Commercialization, established several years ago, groups various revenue sources, programs and activities primarily related to efforts at the University and Health Center to market commercially viable products and develop and/or assist technology related companies. At the time of our review, the Office of Technology Commercialization was receiving an operating subsidy of approximately two million dollars per year, split evenly between the University’s Storrs campus and the Health Center. It is unclear whether the significant ongoing operating subsidy is justified by the programmatic benefits provided, as the reports currently produced for the function do not provide the data needed to make such a determination.

Effect: The information necessary for an informed decision regarding the viability of the Office of Technology Commercialization is not readily available.

Cause: The need for a comprehensive fiscal analysis does not appear to have been anticipated when current accounting and reporting practices were developed.

Recommendation: The University should prepare, annually, a comprehensive cost/benefit analysis for the Office of Technology Commercialization. (See Recommendation 2.)

Agency Response: “The Office of Technology Commercialization is a University-wide function servicing both the Health Center and all Storrs based programs including regional campuses. The University would benefit from an all inclusive, regularly occurring cost benefit analysis of the Office of Technology Commercialization (OTC) and a more comprehensive fiscal reporting process. It is our expectation that this can be achieved in the next fiscal year. However, we suggest that this analysis should measure benefits in terms of revenue and the variety of other metrics that address the purposes and services for which the OTC was formed.

A primary role of the OTC is to service faculty researchers and the University by identifying new technologies, protecting technologies through patents and copyrights, forming commercialization strategies and new start-up companies based on the technology.

The largest component of OTC services are those directly relating to Technology Transfer, the process of transferring scientific findings from one organization to another for the purpose of further development and commercialization. Universities engage in technology transfer to:

- Assure recognition for their discoveries
- Comply with federal regulations relating to research grants
- Attract and retain talented faculty
- Support local economic development
- Attract corporate research support
- Attract funding and generate licensing revenue to further research and education

The Bayh-Dole Act of 1980 led to the growth of university based tech transfer nationally and was aimed at assuring that discoveries made with federal funding were protected so that billions of dollars in federal research funding is effectively utilized. The Bayh-Dole Act requires research institutions to engage in technology transfer activity. Leading institutions recognize the value of tech transfer as critical to a productive research environment. As a public land grant institution UConn also recognizes economic development is a key long-term goal for tech transfer.

The Association of University Technology Managers (AUTM) has studied the difficulties associated with generating revenue through “winning” technologies. AUTM data (from peer institutions) suggests that over time, research institutions can expect to achieve a few very high value licenses that cover the costs associated with pursuing a full patent portfolio. These issues have shaped our strategy and the support programs we have in place to promote commercialization.

While OTC does not generate enough revenue to cover its expenses, as part of the University research enterprise, it has in recent years annually reported valuable contributions such as licensing revenues totaling \$1,173,886 in FY09, more than \$13.5 million in capital raised to further develop technology in UConn startups and at least 110 employees involved with recent UConn startup company operations. Additionally, it is important to note that there were 28 startups created with UConn technology over

the last 12 years, 93 active licenses are in place for use of UConn technology, and UConn inventions have won global recognition by multiple organizations.

OTC also acts as a central point for economic development at the University providing access for industry and entrepreneurs seeking assistance, and policy and program development guidance to increase the University's contribution to economic development.

While it is highly desirable to analyze OTC expenses and operations each year, revenue is not the only measure of its viability as it is critical that certain services be offered for UConn to remain compliant with Bayh-Dole and to support state economic development. It will be prudent as part of this review, to look at other models and consider cost saving options such as outsourcing, state agency partnerships or use of a nonprofit research foundation as have other universities."

*Auditors' Concluding
Comments:*

We agree that the recommended cost/benefit analysis should consider the operating subsidy required in relation to the programmatic benefits provided.

Review and Approval of Contracts by the Attorney General:

Criteria:

Review of the terms of contracts for professional services by the Attorney General's Office is a longstanding State internal control required to be conducted by the Attorney General under the authority of Section 3-125 of the General Statutes. This requirement was communicated in Memorandum 84-35, dated October 9, 1984, which stated that the Attorney General's signature is required for agreements whose total cost within a twelve-month period exceeds \$3,000. It is incorporated in guidance provided by the Office of the Attorney General located at the University of Connecticut, which includes the statement that "all State contracts for either the expenditure or receipt of funds (\$3,000 and above) must be reviewed and approved by the Office of the Attorney General."

Condition:

We noted that the Health Center contracted with a consulting firm with the stated aim of "designing, leading and implementing an institution-wide strategic business redesign and transformation initiative." The scale of the project was revised several times; as of June 30, 2008, the project total was \$4,361,500. However, the Health Center did not submit the related contracts to the Attorney General for review.

The only documentary evidence of Attorney General involvement in the process was an e-mail from an Assistant Attorney General assigned to the Health Center stating that the provisions of a purchase order issued in the amount of \$50,000 in connection with a Board Retreat related to the project “looked good.” Subsequently, the Health Center’s management informed us that they had routinely contracted for professional services without obtaining the required Attorney General’s approval of the related contracts and provided examples.

Effect: Overriding internal controls subjects the State to increased risk. This was especially notable with respect to the consulting engagement described above, as the contract language setting the fee for the engagement was vague. It called for a portion of the engagement fee to be based on resultant revenue enhancements without clearly specifying how this contingent fee would be calculated.

Cause: The cause could not be readily determined.

Recommendation: The Health Center should submit all contracts for professional services to the Attorney General for review. (See Recommendation 3.)

Agency Response: “Management has worked with the Attorney General’s Office to create new procurement procedures to ensure that they comply with State statutes and has updated the review process from the AG’s office to include a signature as documentation of AG review on all professional service contracts. Both have been done during FY 2009 and major changes to the procedures have been documented and put in place. We consider this issue closed.”

Execution of Contracts:

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

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

Per our analysis of the Health Center’s contract management database, 292 personal service agreements were executed by the Health Center during the period from April 1, 2008 through March 31, 2009. Twenty-two of the 292 were amendments of existing

contracts. The remaining 270 agreements included 135 research related agreements and 135 other agreements.

One hundred and twenty-seven of the 135 research related agreements were signed after the start date. Delays ranged from five to 443 days; the average lag time was 104 days. Ninety-four of the other 135 agreements were signed after the start date. Delays ranged from one to 358 days; the average lag time was 122 days. The delays were calculated by comparing the contract start date to the date the contracts were signed by a representative of the Health Center.

We also reviewed 25 contracts executed through the Finance Corporation. Six of the 25 were signed after the start date. Delays ranged from one to 49 days; the average lag time was 11 days. This was a noticeable improvement over the results of our prior review, where we found that nine of 25 were signed after the start date with an average lag time of 48 days.

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

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

It is noteworthy that letters mailed to prospective contractors include a warning that the Health Center is not liable for payment until contracts are executed and go on to emphasize that contracts must be executed “prior to the expiration date of the agreement.” These letters should state that contracts must be executed before the contractors can commence working.

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

Agency Response: “Management agrees and continues to put in place additional policies, procedures and resources to address this issue. In addition, we are developing educational/training sessions with the initiating department administrators to review proper procedures. At the same time, due to restrictions imposed on the Health Center by terms and conditions of research awards, it would be impossible to fully eliminate this issue. Management is committed to

improving the process and in no case were any payments made to contractors until such time as the agreement was executed.”

Health Center REPORTLINE:

Background: A whistle blower program can protect an organization by both providing an early-warning system and, by demonstrating a commitment to compliance, mitigating liability under Federal Sentencing Guidelines for Organizations. Most important, it can serve the public interest by providing transparency and disclosure, i.e., bringing matters of public concern to public knowledge and attention.

Though not formally titled as such, the Health Center currently maintains a whistle blower program. A key component of this program is the institution’s REPORTLINE, a confidential telephone reporting system, established in 1997, operated by a private firm under contract with the Health Center. The private firm forwards the reports to the Health Center's Corporate Compliance Office. Complainants can submit complaints through the REPORTLINE or directly to the Compliance Office.

Criteria: In order for a whistle blower program to function effectively, potential complainants must both feel confident that they will not be retaliated against for raising concerns, and believe that their concerns will be properly addressed.

Additionally, proper documentation is critical to the process. It provides a safeguard for all parties involved - the complainant, the subject of the complaint, and those charged with reviewing the complaint.

Condition: We reviewed 16 cases chosen from a log maintained by the Compliance Office. Our review was hampered by inadequate documentation. In ten of the 16 cases selected, there was either no documentation available or the documentation provided was poor. Pertinent e-mails were routinely deleted; they are required to be treated as permanent records under directives promulgated by the Office of the Public Records Administrator.

In addition to the lack of documentation, we noted the following:

- In one case the complainant was asked to take the lead in pursuing the matter. This was not an isolated occurrence. We conducted this review because another instance (not included in the 16 sampled) where the complainant was asked to “take point” came to our attention. This practice exposes complainants to potential retaliatory action.

- It appeared that three of the cases reviewed were not adequately investigated.
- Two cases reflect misinterpretations of HIPAA requirements. In one, an employee copied patient charts and gave them to their union representative without the knowledge of anyone in authority. The Compliance Office erroneously concluded that this was permissible as HIPAA allows the use of medical information for the "resolution of internal grievances."
- Though there was evidence that HIPAA breaches occurred in four cases, there was no indication that these breaches were documented as required by HIPAA.
- Two cases clearly involved matters reportable under Section 4-33a of the General Statutes. They were not reported as required.
- Concerns brought to management's attention by the Compliance Unit were not properly addressed and/or resolved in six cases. At the time of our review one case had been outstanding for over two years and another, which involved a potentially serious matter that should have been brought to the attention of the governing body, for almost a year.

Effect: The problems described above are serious impediments to the effective operation of the Health Center's whistle blower program.

Cause: In order for the Health Center's whistle blower program to function effectively, it must follow rigorous documentary and operational standards. It was clear from our review that the Compliance Unit had not developed and implemented such standards. Additionally, unit staff did not appear to have developed adequate familiarity with regulatory standards, such as HIPAA requirements and the provisions of Section 4-33a of the General Statutes.

We were told that the current focus of the Compliance Office is on assisting staff and working cooperatively with individuals with compliance concerns, rather than looking for things that are wrong. While this approach is compatible with the Compliance Office's support function, it is not a good approach to investigatory work.

Recommendation: The Health Center should develop detailed written standards for performing and documenting whistle blower reviews to help ensure that the agency's whistle blower program operates effectively. (See Recommendation 5.)

Agency Response:

“The Compliance Office agrees with the recommendation that when handling whistle blower complaints rigorous written standards for performing and documenting these reviews should be adopted. The Office currently functions under two written protocols addressing investigations. Whistle blower complaints are classified as investigations under the protocol adopted originally in 2006 and procedures adopted in 2009.

Compliance Programs routinely also manage many communications that we do not consider complaints. For this reason the Office maintains a log of all communications that was the subject of your review. Contacts to the Office vary from simple questions, to requests for advice to a concern, or a request for guidance or education. Some contacts are clearly complaints and are treated as such, requiring rigorous investigation. Most contacts however are determined to be concerns requiring varied responses from the Office.

In accordance with Federal Sentencing Guidelines, one goal of an effective Compliance Program is to work with contacts to the Office in order to resolve issues internally before they become whistle blower complaints that require investigation. This routinely involves responding to contacts in an educational or otherwise assistive approach. To manage an effective program, the Office must use judgment regarding investigative need vs. education, assistance, guidance or facilitation.

The log submitted to you spanned the time frame of years 2005 through approximately February 2009 and included over 780 entries. From these entries, 12 cases were reviewed and noted in the report, representing 1.5% of the total log entries provided. Half of cases with findings were managed by the office prior to the adoption of any protocol on investigations/inquiry (Occurring in 2005 and 2006.) All of the cases reviewed occurred prior to the adoption of the UCHC Internal Investigation/Inquiry Guidelines policy. (Occurring prior to April 2009).”

Promotional Processes Tailored to Benefit Specific Individuals:

Criteria:

Published guidelines outlining hiring manager responsibilities instruct those involved in the process to “not tailor job description, qualifications or requirements for a specific individual” and to “choose the best qualified candidate” based on an “objective and consistent evaluation process.” Naturally, a good faith effort by management and others involved is a critical part of this process.

Condition:

In the course of performing an unrelated audit procedure, we noted two instances where an open and competitive promotional process

was not followed. Communications between management and Human Resources regarding one of the promotions indicate that the process was initiated with the objective of promoting the employee in question.

In both instances, it appeared that position descriptions were tailored to match specific employee's work histories:

- A "preferred experience" requirement for two years experience in a large CPA firm was added to the standard description for one position. The employee in question had two years, four months of experience in a large CPA firm.
- A new position description was established for the other position; the employee in question did not meet the requirements of the description previously used for the position. The new description included a requirement for nine years in an administrative position involving the performance of certain duties in the mistaken belief that the employee in question met this criterion.

A key work experience requirement, supervisory experience, for one of the positions was interpreted differently for the employee in question and another prospective candidate for the position:

- With respect to the employee in question, Human Resources "assumed that they were involved in hiring, evaluation, scheduling and disciplining" based on the employee's unsupported statement that "they supervised other employees."
- When another prospective candidate attempted to demonstrate that they had met this requirement, their claim was summarily dismissed.

Further, it appears that neither of the two employees actually met all of the stated requirements for the positions. As discussed above, one employee's claim to have supervised employees at a previous job was accepted without question, even though the employee had also claimed (erroneously) to have supervised two employees while serving in non-supervisory position at the Health Center – demonstrating an inadequate understanding of what constituted supervision. The previous job was an entry-level job that would not have involved supervision as defined by the Human Resources department. We noted that management signed off on the employee's representations, even though the representations were not accurate.

When we began our review, Human Resources maintained that the other employee had served in an administrative position that included certain responsibilities for nine years – a clearly stated

requirement for the new position. Subsequently, we established that the employee had not done so. Human Resources then offered an alternative interpretation of the requirement, maintaining that the employee need only to have had an administrative position (of any level) for the specified period and also performed the functions for an indefinite length of time at some point during the period. This unusual interpretation is clearly incompatible with accepted practice.

Effect: An open and competitive process was not followed.

Cause: The cause could not be readily determined.

Recommendation: The Health Center should conduct all employment processes in an open and competitive manner as specified in its published guidelines. (See Recommendation 6.)

Agency Response: “The University continues to disagree with the characterizations and opinions made within this finding, and will certainly continue to follow our policies and procedures pertaining to open and fair hiring practices.”

Conflict with Laws, By-Laws and Rules:

Criteria: Per the Laws, By-Laws and Rules of the University of Connecticut, sabbatical leave may be for a period of up to six months with full pay, or for a period up to twelve months with half pay. Further, following such leave, employees are obligated to return to active service at the University for a minimum of one year.

Standard State practice is to reimburse employees for business related travel expenses. However, such reimbursement is contingent upon the submission of supporting documentation.

Condition: A high-level member of the Health Center’s faculty was, at the faculty member’s request, granted a one-year sabbatical at full salary plus an additional \$45,000 to cover undocumented travel expenses. This was later reclassified as a six-month sabbatical at full salary and six months of special leave at full pay, plus the additional \$45,000. This technical change was not substantive, as the parties involved had already declared their intention of awarding the faculty member a one-year sabbatical at full salary.

Immediately following the one year sabbatical, the faculty member retired. Subsequently the faculty member was reemployed on a part-time basis (as reemployed retiree; the faculty member did not return to active service) at a pay rate equivalent to the rate paid

while on sabbatical, i.e., the last regular salary level of \$275,000 plus the additional \$45,000 (annual pay rate of \$320,000).

Effect:

In addition to being unusually generous during a period where the Health Center was suffering financial difficulties, these payments may not have been legally authorized. They conflict with provisions of the Laws, By-Laws and Rules of the University of Connecticut which: specify that one-year sabbaticals are to be at half pay, specify that employees must return to active service at the conclusion of their sabbaticals, and do not address travel allowances in connection with sabbaticals.

Cause:

The cause could not be readily determined.

Recommendation:

The Health Center should make sure that all compensation paid is in compliance with the provisions of the Laws, By-Laws and Rules of the University of Connecticut. Supporting documentation should be required for all reimbursements of business expenses incurred. (See Recommendation 7.)

Agency Response:

“Management agrees that the Board of Trustee’s compensation decisions relative to this faculty member/administrator were tailored to his specific situation but disagree that the Board lacked legal authority to structure a compensation package in the way that it did, i.e. restructuring a one year sabbatical at full pay into a six month sabbatical at full pay coupled with a six month paid leave, and including defined compensation to cover all travel expenses. The University by-laws also permit some discretion regarding the requirement to return to active service. This faculty/administrator was involved in a unique, defined and important project related to alternative business models for the operation of the School of Dental Medicine which warranted specialized treatment. In addition, the Board had an understandable reason for fashioning this arrangement as it did, since in return therefore, the faculty member resigned from a tenured position, thereby relieving the University from an indefinite and significant ongoing financial obligation. Nevertheless, management will refer this matter to the University’s Office of Audit and Compliance for an independent review. The outcome of that review will then be reported to, reviewed by and acted on, as necessary, by the University’s Joint Audit and Compliance Committee.”

*Auditors’ Concluding
Comments:*

The Health Center’s response indicates that these payments were made, at least in part, as a form of retirement incentive. We agree that the Board has broad authority under Section 10a-108 of the General Statutes to set the terms and conditions of employment for professional employees. However, if this was the Board’s intent,

the payments should have been clearly described as such and not characterized as sabbatical compensation or an allowance for business expenses.

Compensatory Time:

Criteria: The University Health Professionals collective bargaining agreement specifies that compensatory time be awarded to salaried professional employees not subject to the Fair Labor Standards Act on a one-to-one basis with hours actually worked.

Condition: During a review of compensatory time we noted that one employee had accrued 91 days during a nine-month period, with five earned by working on holidays and 86 attributed to overtime. Amounts claimed increased from two and three hours per day at the beginning of the period to four and five hours per day at the end. No records were available to substantiate this overtime.

The employee claimed that the time had been earned by coming in early, working through lunch, staying late and working at home. We attempted to verify the employee's claims regarding on-site overtime by checking various electronic logs. Though it is certainly possible that these records could fail to provide an accurate record for isolated workdays, the pattern noted over a significant period of time established that, generally, the employee would have had to work through the largest part of the lunch hour just to put in the required eight hours.

Though Human Resources subsequently advised departments to adopt procedures to corroborate additional hours worked, at the time of our review there were no controls over compensatory time earned except for supervisory signoff on timecards. In this instance, the supervisory signoff on timecards was ineffective as a control, as the individual that signed off on the employee's timecard did not actually supervise the employee.

Effect: When we reported this matter to Human Resources, the department conducted a review of this matter and concluded, "While the exact number of compensatory hours put in is impossible to specifically validate at this time, there is nothing to prove that [the employee]...did not put in the time." As the compensatory time balance was subsequently liquidated, this position left the employee with a significant (approximately \$25,000) financial benefit in spite of the fact that there is no documentation evidencing that the compensatory time was actually earned.

Cause: The cause could not be readily determined.

Recommendation: The Health Center should establish rigorous pre-approval, supervision and documentation standards for compensatory time. The Health Center should consult with the Attorney General to determine if efforts should be made to recover payments made in connection with unsupported compensatory time accruals. (See Recommendation 8.)

Agency Response: “Management disagrees. The matter was investigated by the Director of Labor Relations and Employment Services in 2008. The investigation concluded that the employee was authorized to accrue compensatory time as a result of the employee assuming new and significant additional responsibilities critical to the Health Center (in addition to continuing to perform her existing job responsibilities) until a replacement could be found due to an employee resignation. The report determined that the employee did, in fact, work extra hours as contemplated, that compensatory time requests were submitted contemporaneous with the work being performed and that the employee’s time sheets were approved by duly authorized supervisors. The report acknowledged that better management controls could have been in place and management has acted to address the report’s recommendations.

The report concluded that there is inadequate basis to support a finding that the employee acted either inappropriately or illegally. Nevertheless, management will refer this matter to the University’s Office of Audit and Compliance for an independent review and follow up as appropriate.”

Auditors’ Concluding Comments:

The employee claimed a large amount of compensatory time and there is no documentation supporting the contention that it was earned (supervisory signoff on the employee’s timecard cannot be considered supporting documentation as the signatory did not actually supervise the employee). In addition to improving controls to prevent further instances of this nature, the Health Center should consult with the Attorney General regarding the legal status of these unsupported payments.

Ethics Violation:

Criteria: Section 1-85 of the General Statutes states that "A...state employee has an interest which is in substantial conflict with the proper discharge of his duties or employment in the public interest and of his responsibilities as prescribed in the laws of this state, if he has reason to believe or expect that he, his spouse, a dependent child, or a business with which he is associated will derive a direct monetary gain or suffer a direct monetary loss, as the case may be, by reason of his official activity."

Office of State Ethics Advisory Opinion No. 1994-13 states that “...if a spouse of a state employee or public official wishes to be hired on a special payroll or under a personal services agreement, in the amount of \$100.00 or more, the hiring must comply with the open and public process requirements of Conn. Gen. Stat. §1-84(i). These requirements include prior public offer and subsequent public disclosure of all proposals considered and the contract awarded. Prior public offer may be satisfied by posting an advertisement in an appropriate location or by placing such an advertisement in a newspaper or relevant trade publication, for example. Of course, the spouse/state employee must refrain from any involvement in the hiring process.”

Condition:

During a routine test of payroll transactions, we noted that the spouse of a member of the Health Center’s faculty was charged to one of the faculty member’s grant awards during the summer of 2006. The faculty member’s spouse was a State employee; a nine-month employee of the University. Health Center records indicate that this has been a regular practice for several years – the individual in question was paid on the Health Center’s special payroll during the summers of 2005, 2006 and 2007.

We were informed that the individual began working on the grant approximately seven years ago and that, prior to 2005, the Health Center reimbursed the University for services provided rather than paying the individual directly. As such, this practice differed only in that the salary payments would have been processed through the University’s special payroll instead of the Health Center’s special payroll; a difference in form, but not in substance.

Effect:

This arrangement appears to have violated State ethics provisions as interpreted by the Office of State Ethics, raising questions as to whether the payments made were legally authorized.

Cause:

Management did not exercise sufficient oversight over this arrangement.

Recommendation:

The Health Center should insure that this instance of apparent non-compliance with State ethics requirements is reported to the Office of State Ethics. (See Recommendation 9.)

Agency Response:

“Once the University became aware of this arrangement we took steps to end it. Understanding that the individual is responsible for compliance with ethics statutes, the University advised the employee to contact the Ethics Commission for guidance. The University will advise the employee to do so again.”

*Auditors' Concluding
Comments:*

As these transactions were reviewed and approved by responsible Health Center administrators and processed through the Health Center's financial systems, we believe that the Health Center bears a significant degree of responsibility in this matter. Accordingly, though it may not be specifically required to do so by statute, we believe that the Health Center should ensure that it is reported to the Office of State Ethics.

Various Procurements:

Criteria:

Segregation of duties is a critical aspect of the internal control structure. It reduces the risk that one employee may be able to both create and conceal errors in the normal course of business. Another key element of internal control is written policies and procedures that clearly communicate the control activities implemented to manage risk.

Condition:

An Accounting Office staff member enters purchase orders for the Finance Corporation and lease agreements. These purchase orders should be entered by the Purchasing Department.

The vendor master file list was not being utilized to its fullest extent as an element of internal control. It appeared that further restricting access to this file and establishing a review/approval process for adding new vendors would improve control. Further, we noted that employees of the Research Finance department that were responsible for coordinating the processing of certain types professional services contracts had been given write access to the master vendor file. These employees perform too many facets of the process, which results in an inadequate segregation of duties..

Health Center policy calls for Board of Directors approval of major contracts. However, we noted instances where the Board approved the expenditure of funds for a specific purpose, rather than the actual contract. This policy should be clarified.

The Health Center did not have a clearly articulated policy/procedure regarding individuals authorized to approve vendor invoices for payment. Though a listing of authorized signatories was maintained for each account, a number of invoices were approved by individuals not authorized, per the listing, to do so. (Those responsible for processing the invoices did not use the listing to validate signatories). Though we do not believe that it was unreasonable for those individuals to approve the invoices in question, we believe that control would be improved if the listing of authorized signatories was properly updated and utilized.

Effect: These conditions increase the risk that inappropriate procurements may be made, and not detected by management in a timely manner.

Cause: The cause could not be readily determined.

Recommendation: The Health Center should enhance control of the procurement process by increasing segregation of duties and clarifying policies/procedures addressing Board of Directors approval of major contracts and staff approval of vendor invoices. (See Recommendation 10.)

Agency Response: “Management agrees with the comments above. Like most State agencies the finance and procurement departments have been reduced over the years and have been asked to do more with less staff. This has lead to some employees multitasking and crossing over functions in order to perform a variety of duties. The following lists a response to each issue noted above:

- This was the first year of Finance Corporation purchase orders being entered in the general ledger of the Health Center. We will transition this duty to the Purchasing department by June 30, 2010.
- During fiscal year 2009 UCHC reassigned the employees noted above in the Research Finance area to the Purchasing department. In addition the duties creating the comment have been split out between the two departments. UCHC will further review the procedures and access to the vendor master file, and make procedure changes to further restrict write access by June 30 2010.
- UCHC agrees and will clarify.
- UCHC agrees and will review the current signature authorization system and signing procedures for vendor invoices making the necessary changes to accurately capture the approval process by June 30, 2010.”

Finance Corporation Non-Competitive Procurements:

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

Condition: Though Finance Corporation policies and procedures for purchasing and contracting were significantly revised to enhance competition and accountability in December 2005, the procedures

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

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

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

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

Recommendation: The Health Center should revise Finance Corporation policies and procedures for purchasing and contracting to mandate that all non-competitive procurement actions be reported to the Boards of the Finance Corporation and the Health Center, regardless of amount. Further, all competitive procurement actions that do not include the open and public solicitation and consideration of bids or proposals should be defined as non-competitive. (See Recommendation 11.)

Agency Response: "Management agrees. Although we do not believe it is necessary to change the Board policy, the Finance Corporation already reports all Purchases over \$1,000 to the Finance Corporation Board. We will add a column to note competitive versus non-competitive."

Convenience Contracts:

Criteria: Section 10a-151b of the General Statutes requires all non-emergency purchases over \$10,000 in amount to be based on competitive quotations and subjects those over \$50,000 in amount to a formal procurement process that requires public notice and the public opening of sealed bids. While the statute provides some flexibility by allowing for competitive negotiation, it implies a process that will result in an award to the vendor that provides the best proposal.

Condition: In some circumstances, the Health Center goes through a contracting process that results in contract awards to all qualified vendors that submit proposals, basically establishing a list of prequalified vendors. Such contracts are often referred to as convenience contracts.

This process may be a reasonable approach for certain types of procurement actions and may provide pro forma compliance with some of the provisions of Section 10a-151b, such as the requirement for public solicitation. However, when contract awards are issued to all qualified vendors, the requisite element of competition is absent.

Effect: It is unclear whether or not existing statutory provisions authorize this practice.

Cause: Issuance of these types of convenience contracts has been a longstanding practice at the central State level.

Recommendation: The Health Center should seek the opinion of the Attorney General regarding whether or not the existing practice of issuing convenience contracts is in accordance with existing statutory provisions. (See Recommendation 12.)

Agency Response: “Management believes since it is unclear whether or not existing statutory provisions authorize the practice of issuing convenience contracts, the Health Center will continue to follow the same practice of other State agencies. When a clarification is determined by the Auditors of Public Accounts we will follow any proposed changes.”

Auditors’ Concluding Comments: The Auditors of Public Accounts do not issue interpretations of statutory provisions; that is the responsibility of the Attorney General. The Health Center should request that the Attorney General clarify statutory provisions relevant to this matter.

Emergency Purchase:

Criteria: Section 10a-151b of the General Statutes establishes procurement standards for the State’s constituent units of higher education. Though Section 10a-151b prescribes a competitive procurement process, it also provides that, “Whenever an emergency exists by reason of extraordinary conditions or contingencies that could not reasonably be foreseen and guarded against...the chief executive officer may, if it is for the best interest of the state, make purchases without competitive bidding.”

<i>Condition:</i>	The Health Center purchased a new fire engine in February 2008 on an emergency basis. However, we found no persuasive evidence that an emergency existed. First, local municipalities had the equipment needed to provide the Health Center with fire protection. Second, the old fire engine that supposedly needed to be replaced on an emergency basis was still in service (requiring relatively minor expenditures for repairs/maintenance).
<i>Effect:</i>	Bypassing the competitive procurement processes set forth in Section 10a-151b of the General Statutes may have resulted in a less cost effective procurement process.
<i>Cause:</i>	The cause could not be readily determined.
<i>Recommendation:</i>	The Health Center should not make noncompetitive purchases on an emergency basis unless a practical alternative is not available. (See Recommendation 13.)
<i>Agency Response:</i>	“Management agrees and will continue to thoroughly review all emergency requests for appropriate documentation to ensure there is no practical alternative available.”

Other Audits:

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

Fiscal year ended June 30, 2007:

- Strengthen procedures for accruing accounts payable liabilities.
- Implement a more formal review of revenue cut-off.
- Perform quarterly reconciliations between the general ledger and fixed assets sub-ledger.
- Adhere to established standards for password complexity and improve controls over system access rights granted new employees and employees transferring between departments.
- Ensure that individuals that promote changes into the information technology production environment do not have developer access or capabilities and continue to strengthen and adhere to documentation and maintenance standards over change management procedures.
- Perform cash reconciliations on a manual basis.

Fiscal year ended June 30, 2008:

- Perform quarterly reconciliations between the general ledger and fixed assets sub-ledger and perform a quarterly review of open capital projects.

- Review late charge reports subsequent to the period end and adjust the estimate made prior to closing the books as necessary and review policies and procedures for determining contractual allowance percentages.
- Ensure that individuals that promote changes into the information technology production environment do not have developer access or capabilities and continue to strengthen and adhere to documentation and maintenance standards over change management procedures.
- Adhere to established standards for password complexity and improve controls over system access rights granted new employees and employees transferring between departments.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

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

- Develop quantified faculty workload standards – the Health Center is in the process of implementing a new approach to monitoring faculty accountability that compares performance to standard metrics adjusted for workload distribution.
- Make sure requests for proposals clearly describe the actual business need and do not include irrelevant criteria – we did not note a reoccurrence of this problem during our current review.
- Don't authorize contractors to begin work prior to the execution of a contract – we continued to find significant delays in the execution of certain contracts. (See Recommendation 4.)
- Set reemployed retirees' salaries based on the work they are engaged to perform – effective April 9, 2009, the Board of Trustees approved a policy calling for market rate salaries for re-employed retirees.
- Incorporate Finance Corporation procurement actions into revised procurement policies/procedures – the Health Center established a new Director of Contracts position to help determine the proper venue for procurement actions.
- Revise Finance Corporation policies and procedures to mandate public solicitation for competitive purchases and require that all non-competitive purchases be reported to the Boards of the Finance Corporation and the Health Center – this recommendation is repeated. (See Recommendation 11.)
- Improve monitoring of system access rights – the Health Center has taken steps to improve control in this area.
- Maintain a file documenting the existence of capitalized items for which physical verification isn't practical – the Health Center implemented this recommendation.
- Make the award of student labor positions a more open and equitable process – the Health Center has taken steps to improve procedures in this area.
- Streamline the Center of Laboratory Animal Care billing process – the Health Center implemented this recommendation.

- Include clinical incentive payments in institution base salary – this recommendation is no longer applicable as the Health Center’s practices with respect to clinical incentives have changed.
- Address the accumulation of large compensatory time balances – the Health Center has taken steps to address this problem.
- Require all employees that accumulate compensated absences to submit biweekly attendance reports – the Health Center is in the process of implementing a new system for faculty reporting.

Current Audit Recommendations:

- 1. The Health Center should invest funds held in excess of anticipated cash needs at the fund level and distribute earnings to individual accounts based on average daily cash balances as reflected in the accounting system.**

Comment:

The Health Center maintains separate investment balances in numerous individual accounts, investing funds held in excess of anticipated cash needs on an account-by-account basis. It would be more effective to leave all of the Operating Fund balances as cash, thus automatically investing them through the interest credit program, and invest Research Fund cash in the State’s Short Term Investment Fund based on the anticipated cash needs of the fund as a whole. Investment earnings could then be easily distributed at the account level based on average daily cash balances as reflected in the accounting system.

- 2. The University should prepare, annually, a comprehensive cost/benefit analysis for the Office of Technology Commercialization.**

Comment:

At the time of our review, the Office of Technology Commercialization required an operating subsidy of approximately two million dollars per year to cover expenses. It is unclear whether the significant ongoing operating subsidy is justified by the programmatic benefits provided, as the reports currently produced for the function do not provide the data needed to make such a determination.

- 3. The Health Center should submit all contracts for professional services to the Attorney General for review.**

Comment:

We noted that the Health Center contracted with a consulting firm with the stated aim of “designing, leading and implementing an institution-wide strategic business redesign and transformation initiative.” The scale of the project was revised several times; as of June

30, 2008, the project total was \$4,361,500. However, the Health Center did not submit the related contracts to the Attorney General for review. Subsequently, the Health Center's management informed us that they had routinely contracted for professional services without obtaining the required Attorney General's approval of the related contracts and provided examples.

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

Comment:

We reviewed personal service agreements executed by the Health Center during the period from April 1, 2008 through March 31, 2009. Our review disclosed that 127 of 135 research related agreements were signed after the start date. Delays ranged from five to 443 days; the average delay was 104 days. Further, 94 of 135 non research related agreements were signed after the start date. Delays ranged from one to 358 days; the average delay was 122 days. The delays were calculated by comparing the contract start date to the date the contracts were signed by a representative of the Health Center.

5. The Health Center should develop detailed written standards for performing and documenting whistle blower reviews to help ensure that the agency's whistle blower program operates effectively.

Comment:

We reviewed 16 cases chosen from a log maintained by the Compliance Office. Our review disclosed inconsistencies with respect to documentation and compliance with regulatory requirements. Additionally, it appeared that three of the cases were not adequately investigated and that, in five of the cases, concerns brought to management's attention by the Compliance Unit were not properly addressed and/or resolved.

6. The Health Center should conduct all employment processes in an open and competitive manner as specified in its published guidelines.

Comment:

We noted two instances where the records on file did not support management's assertion that an open and competitive promotional process was followed.

- 7. The Health Center should make sure that all compensation paid is in compliance with the provisions of the Laws, By-Laws and Rules of the University of Connecticut. Supporting documentation should be required for all reimbursements of business expenses incurred.**

Comment:

A high-level member of the Health Center's faculty was, at the faculty member's request, granted a one-year sabbatical at full salary plus an additional \$45,000 to cover undocumented travel expenses. Immediately following the one year sabbatical, the faculty member retired. Per the Laws, By-Laws and Rules of the University of Connecticut, sabbatical leave may be for a period of up to six months with full pay, or for a period up to twelve months with half pay. Further, following such leave, employees are obligated to return to active service at the University for a minimum of one year.

- 8. The Health Center should establish rigorous pre-approval, supervision and documentation standards for compensatory time. The Health Center should consult with the Attorney General to determine if efforts should be made to recover payments made in connection with unsupported compensatory time accruals.**

Comment:

During a review of compensatory time we noted that one employee had accrued 91 days during a nine-month period, with five earned by working on holidays and 86 attributed to overtime. Amounts accrued increased from two and three hours per day at the beginning of the period to four and five hours per day at the end. Our review indicated that the employee's claim to have worked this amount of compensatory time was not supported.

- 9. The Health Center should insure that an instance of apparent non-compliance with State ethics requirements is reported to the Office of State Ethics.**

Comment:

During a routine test of payroll transactions, we noted that the spouse of a member of the Health Center's faculty was charged to one of the faculty member's grant awards during the summer of 2006. The faculty member's spouse was a State employee; a nine-month employee of the University. We were informed that this has been a regular practice since the individual began working on the grant approximately seven years ago. This arrangement appears to have violated State ethics provisions as interpreted by the Office of State Ethics, raising questions as to whether the payments made were legally authorized.

10. The Health Center should enhance control of the procurement process by increasing segregation of duties and clarifying policies/procedures addressing Board of Directors approval of major contracts and staff approval of vendor invoices.

Comment:

Several policies/procedures should be changed to enhance control:

- Lease agreements and Finance Corporation purchase orders should be entered by the Purchasing Department instead of an Accounting Office staff member.
- Access to the vendor master file list should be further restricted, a review/approval process for entering new vendors should be instituted and write access to the file granted to employees of the Research Finance department responsible for coordinating the process of professional services agreements should be revoked.
- The Health Center policy calling for Board of Directors approval of major contracts should be clarified. We noted instances where the Board approved the expenditure of funds for a specific purpose, rather than the actual contract.
- A policy/procedure that clearly articulates which individuals are authorized to approve vendor invoices for payment should be developed. Though a listing of authorized signatories was maintained, we noted a number of invoices that were approved by individuals not authorized per the listing.

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

Comment:

Though Finance Corporation policies and procedures for purchasing and contracting were significantly revised to enhance competition and accountability in December 2005, the procedures continue to provide for non-competitive procurement actions on the approval of the chief financial officer. Further, the policies and procedures adopted by the Finance Corporation's Board of Directors, in accordance with Section 10a-255 of the General Statutes, allow a procurement action to be defined as competitive even when it does not involve competitive bidding.

12. The Health Center should seek the opinion of the Attorney General regarding whether or not the existing practice of issuing convenience contracts is in accordance with existing statutory provisions.

Comment:

In some circumstances, the Health Center follows a contracting process that results in contract awards to all qualified vendors that submit proposals, basically establishing a list of prequalified vendors. Such contracts are often referred to as convenience contracts.

This process may be a reasonable approach for certain types of procurement actions and may provide pro forma compliance with some of the provisions of Section 10a-151b of the General Statutes, such as the requirement for public solicitation. However, when contract awards are issued to all qualified vendors, the requisite element of competition is absent.

13. The Health Center should not make noncompetitive purchases on an emergency basis unless a practical alternative is not available.

Comment:

The Health Center purchased a new fire engine in February 2008 on an emergency basis. However, we found no persuasive evidence that an emergency existed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the University of Connecticut Health Center (Health Center) for the fiscal years ended June 30, 2007 and 2008. This audit was primarily limited to performing tests of the Health Center's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Health Center's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Health Center are complied with, (2) the financial transactions of the Health Center are properly initiated, authorized, recorded, processed and reported on consistent with management's directions, and (3) the assets of the Health Center are safeguarded against loss or unauthorized use. The financial statement audits of the Health Center for the fiscal years ended June 30, 2007 and 2008, are reported upon separately and are included as a part of our Statewide Single Audit of the State of Connecticut for those fiscal years.

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

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

In planning and performing our audit, we considered the Health Center's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws,

regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 3 – Review and Approval of Contracts by the Attorney General, Recommendation 4 – Execution of Contracts, and Recommendation 5 – Promotional Processes Tailored to Benefit Specific Individuals.

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

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following items to be material weaknesses: Recommendation 3 – Review and Approval of Contracts by the Attorney General, and Recommendation 4 – Execution of Contracts.

Compliance and Other Matters:

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

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

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

This report is intended for the information and use of Agency management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative

Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

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



James K. Carroll
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts