MEETING OF THE JOINT AUDIT AND COMPLIANCE COMMITTEE

March 1, 2007
10:00am

via Storrs Conference Room and Teleconference

TRUSTEES/DIRECTORS PRESENT: Messrs. Barry, Drotch, Goldberg, Haberland, Leonardi, and Nayden


STATE AUDITORS: Messrs. Carroll, Slupecki, and Rasimas

KPMG: Messrs. Frank and Jurczyk

SEWARD & MONDE: Messrs Puzzo and Madam Fusarelli

UHY, LLP: Messrs. Bohn, Brooder and Scillia

The teleconference of the Joint Audit & Compliance Committee (JACC) was called to order at 10:03 a.m. by Trustee Nayden.

TAB 1: Minutes

ON A MOTION by Trustee Nayden, and seconded by Director Haberland, the minutes of the special meeting held on October 26, 2006 were approved.

Ms. Mauriello informed the committee that the minutes of the meeting of December 7, 2006 contained one error regarding compliance monitoring. Statement in Tab 3 should read “they continue to refine their compliance monitoring plans”. With that noted, ON A MOTION, by Trustee Nayden, and seconded by Director Haberland, the minutes of the December 7, 2006 meeting were approved.

TAB 2: Follow-up on December 7, 2006 JACC Meeting

Director of Construction Assurance
Mr. Walker, introduced Bhupen Patel who was hired as the new Director of Construction Assurance.

**Training – Certification of Attendance for Code of Conduct**

Mr. Walker informed the JACC that OACE will ensure that all employees will sign attestation forms annually for all training sessions.

**Audit Follow-up**

Mr. Walker informed the JACC that follow-up procedures are in place to ensure that all current audit recommendations are implemented. Ms. Blanchette went over OACE follow-up procedures with the JACC. In addition, OACE is in the process of reviewing the status of follow-up items on audits done prior to the implementation of this procedure.

**TAB 3: Significant Activities**

**Storrs & UCHC Compliance**

**“Gifts to the State”**

Ms. Rubin informed the JACC that the General Assembly recently enacted legislation, signed into law by the Governor, that reverses an April 2006 State Ethics Citizen's Advisory Board Advisory Opinion which prohibited all "gifts to the state" from regulated donors. This opinion has negatively impacted UConn's and the other public colleges' and universities' fundraising efforts.

Regulated donors included all entities registered as a lobbyist, and all entities doing business with or seeking to do business with the University. Furthermore, the UConn Foundation was deemed to be an entity doing business with the University. The practical result was that virtually every major corporation was prevented from donating goods and services to the University. Examples of prior gifts from these entities which became impermissible were: scholarships to students; equipment and instrumentation, including microscopes, computer software, computers, and lasers used for teaching and research across various academic departments; support for lecture series, conferences, symposia or other faculty and student programming; and academic chairs and professorships in a variety of academic departments.

After being informed about the impact of this ruling on the State's public colleges and universities, the State's vocational-tech schools and all State agencies, the General Assembly passed a bill that essentially overturned the Board's ruling. As a result, virtually all gifts of goods and services provided to the University in furtherance of the University's mission are allowed. However, gifts directly and personally provided to a state employee from regulated donors including attendance to at a conference, symposium, or other event, are still prohibited. Other provisions of the bill include a new exemption to the definition of a "gift" that does allow a state employee to receive product training from a vendor if the training is offered to all its customers. The bill also makes clear that for purposes of the State Code of Ethics, the UConn Foundation
and the Alumni Association are not to be considered entities doing business with the University and therefore are not regulated donors. Finally, in recognition of the original intent of the ethics legislation, which attempted to curtail the abuses which may occur with contractors providing gifts to state agencies, a new contractor prohibition was added to the State Code of Ethics. This provision prohibits contractors from providing information about the contractor's donations to staff in the procurement area or members of a bid selection committee in order to unduly influence the award of a state contract. After a lengthy discussion, Mr. Callahan informed the JACC that a policy and/or procedure will be developed to address the immediate disclosure of any overt act by someone using a gift or donation to influence a procurement decision.

**Code of Conduct**

Ms. Mauriello informed the JACC that live training is underway on the Code of Conduct, the University Guide to the State Code of Ethics, and the Federal False Claims Act. In addition, computer based “on-line” training is now available.

Ms. Mauriello provided the JACC with an overview of all training sessions currently being conducted at UCHC including the development of a stem cell tutorial with training for both UCHC and Storrs. Dr. Caron had a key part in this, working with the ESCRO committee and Dr. Hiskes. That training has been rolled out and is going very well and is now close to 100% complete.

Ms. Mauriello indicated that they have completed a restructuring of the Research Compliance Office at UCHC. All communications related to Research Compliance at UCHC as well as the various reports on monitoring plans will now be funneled through Dr. Caron, Director of Research Compliance.

Director Goldberg informed Ms. Mauriello that as a faculty member he gets multiple notices about the multiple training programs offered at the UCHC. He encouraged Ms. Mauriello to be gentle in reminding faculty which programs they have done and which they haven’t. Although, the word is getting out he believes that it is difficult to track. Dr. Anderson indicated that this is the same on the Storrs Campus. Faculty members are confused and can not be told enough what training they need to take. In addition to the Code of Conduct and University Guide to the State Code of Ethics Training, some employees are required to attend the recently finalized Fundamentals of Sponsored Project Administration Training. Ms. Rubin indicated that this may have caused some confusion. This training is required of faculty and staff at the University of Connecticut as a component of actions taken by the University to meet federal requirements. Ms. Krisst informed the committee that a one-page document was distributed to the University Community announcing all the training programs that are required to be completed by faculty and staff at the University. Ms. Krisst will continue to distribute this information and answer questions as they arise.

Ms. Mauriello informed Director Goldberg that she believes the Health Stream System can track training and will be able to provide reports. OACE will be gentle with their reminders based on those reports.
Mr. Anderson cited the case of an Illinois professor who skipped over the training portion of an on-line course and proceeded to the testing portion. This professor ended up in some kind of trouble. Mr. Anderson wanted to know how we addressed this issue. He asked if our training was set up so that employees can skip the actual training and just take the test, and if so, does our system track the time it takes for each employee to do this on-line training and test. OACE will follow-up on this issue.

**TAB 4: Status of Audits**

Mr. Walker directed the Board to Tab 4 for updates on the status of all audits. A summary of audits with significant observations were provided by appropriate Assistant Audit Directors.

**Storrs Audit**

Ms. Chiaputti summarized three special projects related to contracts with significant observations.

- Capitol Cleaners Standard Wage Review
- Bechtel/Fusco Agreement – Base Contracts plus Amendments 1-11 and Proposed Amendment 12
- Dahlen Berg Contract

In addition, Ms. Chiaputti informed the JACC that OACE is required to do a comprehensive audit of Federal Research expenditures as a result of the Compliance Agreement. The audit fieldwork is complete and OACE is in the process of evaluating the results. OACE plans to have a draft of that report by mid March.

**UCHC Audit**

Ms. Blanchette summarized 2 audits with significant observations

- University Dentists Financial/Revenue Cycle
- Reports: Operative Notes, Histories & Physicals, and Discharge Summaries

**IT Audit – UCHC & Storrs**

Ms. Nichols summarized 3 IT audits with significant observations.

- UITS Wireless LAN Audit
- UCHC Psychiatry Department IT System Audit
- UCHC Pharmacy Application Audit

Ms. Nichols informed the JACC that UCHC Psychiatry Department purchased and maintains its own information technology (IT) system. This system is one of several systems at UCHC that are disparate to the UCHC IT network (UCHC Network). Director Leonardi questioned why the Psychiatry Department operated their own system. Ms. Nichols informed Director Leonardi that
there are a number of reasons why the Psychiatry Department maintains their own system but believes that it is mostly a financial issue. Mr. Wetstone indicated that this system creates problems for UCHC as he is unsure if the Psychiatry Department sees everything they need to see such as emails, broadcast emails, and so forth and does not know if they are following the same policies for securing data from systems and passwords. Mr. Wetstone is unaware of the costs associated with changing this system but believes it is a monetary issue. Director Leonardi voiced her concern that UHC may be creating a much greater degree of risk by operating several separate systems and asked Mr. Upton to look into this issue, from an operational perspective, to see if this still makes sense. Director Haberland questioned whether we looked at these various systems and understood the risk profile and the differences between them. Director Haberland wanted to know if we had anything like that documented. Mr. Upton did not think so and agreed to ask Sandra Armstrong, UCHC Chief Information Officer for her recommendations on this issue. Ms. Leonardi asked that these recommendations be presented to the Finance Committee at its next meeting. Ms. Nichols informed the JACC that OACE plans on auditing disparate systems, as noted on the audit plan.

Consent Agreement – John Dempsey Hospital

Mr. Thornton, Director of John Dempsey Hospital, provided the JACC with an overview of the Consent Agreement between the University of Connecticut Health Center John Dempsey Hospital and the Department of Public Health.

TAB 5: Revised Audit Plans

Mr. Nayden asked Mr. Walker to run through the headline modifications made to OACE audit plans. Mr. Walker informed the committee that changes were made to the audit plan due to the number of special requests made and the reduction in auditing staff. Trustee Drotch asked if any of the audits moved to FY 08 been previously moved in early years (double moves). Ms. Chiaputti informed the JACC that there have been audits moved more than once, however they were assessed at medium risks and will become high priority in FY 08. Ms. Blanchette indicated that there were no double moves on the UCHC side.

ON A MOTION made by Trustee Nayden and seconded by Director Haberland the modifications to the audit plans were approved.

TAB 6: Auditors of Public Accounts

The Auditors of Public Accounts presented the University of Connecticut and University of Connecticut Health Center’s financial statements as of and for the year ended June 30, 2006.

Mr. Carroll indicated that SAS 112 – not in force until next year – requires that auditors report to management and governing boards significant control deficiencies and material weaknesses relevant to the financials. The difference between significant deficiencies and material weaknesses is the magnitude of the errors that could occur. Mr. Carroll informed the JACC that the accounting systems in place at the University and Health Center requires a complex financial statement adjustment in the compilation process which, by its very nature, creates more than a
remote likelihood of material misstatement. This weakness is not indicative of deficiencies in the accounting software used and, therefore, cannot be addressed by acquiring new software. This may be a condition that UConn will not want to change, but should be aware of.

Director Haberland asked if he understood Mr. Carroll to say that the inherent complexity in our system for putting together financials is a material weakness. Mr. Carroll indicated this is a weakness, but not a weakness that you would do anything about. Director Haberland indicated that he felt very uncomfortable with Mr. Carroll saying we had a material weakness but then not recommending that we do anything to correct it. This discussion went on at length. The JACC asked Mr. Walker to set up a meeting with the Auditors of Public Accounts, Ms. Aronson and appropriate staff to discuss this topic and report back at the next JACC meeting.

**TAB 7: External Engagements – Independent Auditors**

Mr. Frank of KPMG presented the UCHC 2006 Financial Statements for the John Dempsey Hospital, UCONN Medical Group and The Finance Corporation.

KPMG informed the JACC that they noted certain matters involving internal controls and other operational matters regarding, cash reconciliations, dual signatures, dental accounts receivable aging reports, dental records and information technology.

Ms. Leonardi asked Mr. Upton about the UCHC’s cash reconciliation process. Mr. Upton referred this question to Mr. Geoghegan. Mr. Geoghegan explained to the JACC that despite difficulties with obtaining accurate information from the State, UCHC is working to standardize cash reconciliations. UCHC intends to begin laying the groundwork for a comprehensive reconciliation process during the current fiscal year and the goal of these efforts will be to create processes and procedures to bring this to completion. Mr. Nayden asked for a brief action plan to be presented at the next JACC meeting.

Mr. Puzzo of Seward & Monde presented their report on Intercollegiate Athletic Program, June 30, 2006 – Applying Agreed-Upon Procedures to the Statements of Revenues and Expenses. Mr. Puzzo informed the JACC that they had performed their agreed-upon procedures in the following five areas, minimum internal control procedures of the Athletics Department, procedures for affiliates and outside organizations, procedures applied to notes and disclosures, and procedures for both revenue and expenses.

Seward & Monde informed the JACC of their findings pertaining to internal control procedures and accounting systems for the Division of Athletics. Overall the findings were immaterial to the operations of the Division of Athletics as a whole.

There being no questions, Mr. Walker introduced Mr. Brooder, Mr. Scilli, and Mr. Bohn of UHY, LLP.

Mr. Brooder and Mr. Scilia of UHY, the independent auditors hired for UConn 2000, provided the JACC with their audit status. Mr. Brooder informed the JACC that they should have a draft
In addition, Mr. Bohn provided an overview of their statistical sampling techniques. Mr. Nayden informed UHY to proceed under this methodology.

OACE informed the JACC that Accume Partners continue to work with Ms. Nichols, IT Assistant Director of the OACE, at both the Storrs and UCHC Campus.

**TAB 8: UCHC & Storrs Program Update – Pastin Report**

Mr. Walker referred the JACC to Tab 8. In 2004 and 2005 Mark Pastin from Compliance Resource Group completed an assessment of the Compliance Program at UCHC and a BEST practices methodology assessment of the Compliance Program at Storrs. Tab 8 reflects the work that the two Compliance Officers have done. Mr. Walker noted that they are well on their way in completing all the elements that Mr. Pastin recommended.

**TAB 9: UCONN 2000 – Follow-up and Action Plans**

Mr. Walker informed the JACC that we have been tracking all previous audits that are related to UConn 2000 including the PriceWaterhouseCoopers, PinnacleOne, and Blum Shapiro reports. Tab 9 reflects those items that remained open at the last meeting. All items reported closed to the JACC during this JACC meeting will be removed from the list prior to the next meeting.

**TAB 10: Committee Education – Deficit Reduction Act**

Ms. Pack from the UCHC Compliance Office provided the JACC committee with an overview of the Deficit Reduction Act – Employee Education Requirements.

There being no further questions or issues, ON A MOTION made by Trustee Nayden and seconded by Director Haberland, the meeting was convened to Executive Session at 12:10.

Immediately following executive session senior management was dismissed and the Auditors of Public Accounts, KPMG, Seward & Monde, and UHY met with the JACC and members of the Office of Audit, Compliance & Ethics in a private forum.

There being no further business, ON A MOTION made by Trustee Nayden and seconded by Director Haberland, the meeting was adjourned at 12:25 p.m.

Respectfully submitted,

Karen Violette
Secretary to the JACC