

MEETING OF THE JOINT AUDIT AND COMPLIANCE COMMITTEE

June 7, 2007

10:00am

via Storrs Conference Room and Teleconference

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

STAFF PRESENT: Messrs. Anderson, Austin, Bradley, Brohinsky, Callahan, Crall, Deckers, DeTora, Eaton, Feldman, Geoghegan, Gillon, Green, Kleinman, Main, McDowell, O’Keefe, Patel, Romano, Schurin, Small, Sullivan, Thornton, Upton, Urban, Walker, and Wetstone; Mesdames Adams, Alexander, Aronson, Blanchette, Brady, Chiaputti, Comerford, Duffy-Wallace, Goss, Grava, Hickey, Krinsky-Rudnick, Krisst, Liskom, Mauriello, Nichols, Rubin, Schwager, Violette, and Welt

STATE AUDITORS: Messrs. Carroll, Slupecki, and Rasimas

UHY, LLP: Messrs. Brooder and Scillia

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

Trustee Nayden recognized Director Leonardi and thanked her for her dedicated service because this would be her last meeting.

TAB 1: Minutes

ON A MOTION by Trustee Nayden, and seconded by Director Haberland, the minutes of the March 1, 2007 meeting were approved.

Public Comment

P. Austin asked B. Feldman to address issues related to UConn 2000 Building and Project Inspection Plans. B. Feldman informed the JACC of the University’s plans to inspect buildings and projects required by the UCONN legislation. The goal of the inspection program is to assure

those student residential facilities (dormitories and apartments), classroom buildings, and other buildings in which students congregate are safe.

Forty-eight (48) recently constructed buildings have been inspected for fire and building safety. Those buildings either had corrective work completed or underway and have been determined to be safe. Eighteen (18) additional facilities are either newly constructed or have undergone building additions or major renovations. Eight (8) have been inspected for fire and building safety, have necessary corrective work completed or underway, and are determined to be safe. The remaining ten (10) buildings will be field inspected by September 1, 2007; final inspection reports will be completed by the end of the calendar year.

Nine (9) dormitory complexes have also received alterations, including sprinkler systems and other fire safety improvements. One (1) additional dormitory complex received alterations with non-UCONN 2000 funds. These facilities contained seventy-seven (77) buildings which were inspected by the Office of the State Fire Marshall between 2001 and 2004. All nine complexes were determined to be in compliance with the 1999 Connecticut Fire Safety Code; the tenth was in compliance with the exception of a handrail violation. This group will be further inspected by September 1, 2007 to confirm that the safety requirements have been satisfied.

The final group of buildings was subject to alterations or repairs funded through the UConn 2000 program. These alterations/repairs were not major and occurred in seventy nine (79) buildings, of which forty seven (47) are classroom buildings. The 47 classroom buildings and the buildings in which students congregate will be inspected by September 1st.

TAB 2: Follow-up on March 1, 2007 JACC Meeting

Statement on Accounting Standards (SAS) No. 112 – Communicating Internal Control Related Matters Identified in an Audit

M. Walker informed the JACC that OACE worked with the Auditors of Public Accounts and University management and has addressed this issue under Tab 10.

KPMG Cash Reconciliations

At the March 1, 2007 JACC meeting KPMG made recommendations concerning cash reconciliation. Trustee Nayden asked that J. Geoghegan present a brief action plan to the JACC at the June 7, 2007 meeting. J. Geoghegan provided information to OACE that the UCHC Finance Department has designated a team and begun the process of simplifying, codifying, and standardizing the financial records system (FRS) to the State of Connecticut General Ledger (GL) cash reconciliations. The team, which began its bi-monthly meetings at the end of January, has mapped 11 integral steps for the reconciliation's completion. The team has identified major processes, inputs, and outputs and standardized them in a cohesive set of procedures which will allow for more timely reconciliations to occur. Although UCHC is making progress, efforts have been hampered by the continued lack of access to the State GL System. UCHC's current goal is quarterly rather than monthly reconciliations.

Tracking time concerning on-line training

At the March 1, 2007 JACC meeting G. Anderson asked M. Walker if the on-line Code of Conduct training module could track the time it took for each employee to view the on-line training and take the test. M. Walker informed the JACC that employees could, in fact, go online to the training module, skip the training, and just take the test. The on-line training module does not have the capabilities of tracking time. OACE is currently working with UITS on options.

UCHC Disparate Systems

At the March 1, 2007 meeting, J. Nichols informed the JACC that the UCHC Psychiatry Department purchased and maintains its own information technology (IT) systems. This system is one of several systems at UCHC that are disparate to the UCHC IT network. D. Upton informed the JACC that he would ask S. Armstrong, UCHC Chief Information Officer for her recommendations on this issue and Director Leonardi requested that these recommendations be presented to the Board of Directors (BOD) Finance Subcommittee at its next meeting. S. Armstrong informed OACE that this will be presented to the BOD Finance Committee at their first regular meeting of the FY 08 academic year (September).

UCHC Gifts to the State

At the March 1, 2007 meeting, T. Callahan informed the JACC that a policy and/or procedure would be developed to address the immediate disclosure of any overt act by someone using a gift or donation to influence a procurement decision. M. Walker informed the JACC that The University of Connecticut Procurement Gift Policy was established on June 1, 2007.

TAB 3: Items for Board Approval

Trustee Nayden directed the committee to the 2008 JACC meeting schedule and requested that everyone mark their calendars.

M. Walker informed the JACC that there were two modest changes to the University of Connecticut Executive Compliance Committee (ECC) Charter. Although this was not reflected in the packet, R. Rubin's position of Director of Compliance has been moved from an ex officio member to a permanent voting member of the Committee. In addition, the Associate Vice President for Administration and Operations Services position was added as an ex officio member.

ON A MOTION made by Trustee Nayden and seconded by Director Haberland, the revisions to the ECC Charter were approved.

TAB 4: Significant Activities - Compliance

Storrs

R. Rubin informed the JACC of activities that occurred in Storrs in celebration of National Corporate Compliance & Ethics Week. Samples of hand outs were distributed to those who personally attended the meeting.

R. Rubin reported that the University of Connecticut implemented a new E-Policy system that will go live in June. E-Policy is the University's central database where all departments can submit their policies through the web.

R. Rubin worked with Government Relations to seek a legislative change this session to allow faculty to engage in consulting and research activities without violating the State Code of Ethics. The legislation passed and the Governor is expected to sign the bill in June.

R. Rubin informed the committee that OACE has been working with the Financial Aid Office in response to The Attorney General's Office inquiry concerning student loans. A draft code of conduct for the Financial Aid Office is in the process of adoption.

UCHC

I. Mauriello informed the JACC how the UCHC Compliance Office celebrated Corporate Compliance and Ethics Week from May 21st through May 25. She also updated the committee on the status code of conduct training which is currently at 75% and the roll-out of computer-based training modules for Professional Compliance, Corporate Compliance and Research Compliance. Minor technical problems have affected rollout; however I. Mauriello believes that these issues should be fixed within the week.

I. Mauriello reported on the Compliance Office survey designed to evaluate the effectiveness of the Compliance Program noting that 57% of those who responded said that they would be comfortable coming to the compliance office staff directly with concerns that they may have and 83% thought that the program is supported by management and leadership of UCHC.

I. Mauriello informed JACC that the packets that were mailed out indicated that the Research Domain compliance staff initiated post approval monitoring programs for animal care research during May of 2007. This is not underway as indicated; however she anticipates a June roll-out.

TAB 5: Compliance Agreement

R. Krinsky Rudnick provided the JACC with an update on the Compliance Agreement between the University of Connecticut and the United States Environmental Protection Agency, Suspension and Debarment Division ("EPA SDD"). R. Krinsky Rudnick discussed the two key highlights, training and the internal audit requirement that would be reported to the EPA SDD in the July 1 report.

Training

R. Krinsky Rudnick directed the JACC to items #21, 22, 23, and 24 of the handout which address the training requirements of the Compliance Agreement. This training is required as a component of actions taken by the University to meet federal requirements and to ensure that all personnel are well-informed on policies related to the State Code of Ethics, the new University Code of Conduct, and the principles of fiscal management of Federal grants and contracts. R. Krinsky Rudnick and R. Rubin updated the JACC on the status of these training sessions.

Code of Conduct and University Guide to the State Code of Ethics Training

R. Rubin reported on the status of Code of Conduct and University Guide to the State Code of Ethics training. She informed the committees to date 88% of all employees have received the training. OACE is currently seeking the assistance of Deans, Directors and Department Heads as well as Senior Administration to help obtain participation by the remaining 500 employees out of 4000+ who are required to take this training.

Fundamentals of Sponsored Project Administrative Training

The University hosts 90 minute sessions on training which requires participation by those who have fiscal grant management responsibilities, including Principal Investigators (PI), Co-PI's, department Grant Managers, Graduate Assistants, and Special Payroll personnel. The training sessions began in the winter of 2006. To date, 82% of those required have completed the training. One additional training session will be held in the early Fall for those employees who may have been on sabbatical or were otherwise unable to attend the training. The PI's are required to take this training in order to continue to receive Federal funding for research.

Internal Audit Requirements

R. Krinsky Rudnick directed the JACC to items # 12, 13, 14 and 16 of the handout. Item #16 requires that the University retain an independent accounting firm to (a) perform a comprehensive audit of UCONN's internal controls to ensure compliance with Federal requirements applicable to grants and contracts, and (b) evaluate the adequacy of the annual Internal Audit required by this Agreement. In December 2006, the University received permission from the Federal Government to use a 2005 PWC Assessment of Research Administration Controls Audit to meet the requirement of item #16(a). The Auditors of Public Accounts have agreed to evaluate the adequacy of the Internal Audit in order to meet the requirements of item #16(b). The Internal Audit is currently in draft form and is expected to be issued prior to issuance of the annual report to the EPA SSD.

TAB 6: 2008 Risk Assessment Methodology/Audit Plan

M. Walker directed the JACC to the Risk Assessment Methodology used to develop the audit plan for Storrs, UCHC and IT that umbrellas both campuses for FY 08. One year a heavy/comprehensive risk assessment is conducted and in the next year a light/abbreviated risk assessment is used. OACE used the light/abbreviated risk assessment for FY 08. Since the

aggressive FY 07 audit plan was not able to be completed due to a number of special requests, OACE presented a revised plan to the JACC at the March 1, 2007 meeting. OACE plans on completing the remaining FY 07 audits by July (13 months), and then will begin work on the FY 08 audit plan. M. Walker informed the JACC that this process is typical; the committee should expect OACE to have a robust audit plan, accommodate special requests, manage consulting engagements for specific issues, and modify the audit plan as needed. The FY 08 audit plan will be done the same way and a revised audit plan will be presented to the JACC mid-year, if necessary. Trustee Nayden affirmed this process.

Initiated by Trustee Drotch, discussion ensued concerning recommendations made by the State Auditors and KPMG. M. Walker informed the JACC that recommendations are taken into consideration. Trustee Drotch voiced concern that internal audit should be more aggressive in their follow-up. He also asked what the intent was to address issues that the State Auditors found relating to journal entries and other reportable conditions. C. Chiaputti informed the committee that OACE will look at those issues and find a place for them on the audit plan.

M. Walker informed the JACC that OACE will reevaluate the FY 08 audit plan looking for opportunities to address issues in the State Auditors or KPMG reports. Any significant modification will be brought back to the JACC. C. Chiaputti mentioned that OACE met with the State Auditors, Storrs Chief Financial Officer, B. Detora, and the UCHC finance area regarding SAS 112 as it relates to reportable conditions. UConn is working on implementing additional controls that will address sign off as well as separation of duties in order to meet the SAS 112 requirements which will result in an overall improvement of the financial statements.

Director Leonardi voiced concern on deferring audits and that these same audits could get deferred again. M. Walker indicated that OACE tries to ensure that all audits that have been dropped are carried forwarded to the next year's audit plan. M. Walker believes that there have not been two years in succession that a particular audit has been dropped.

Trustee Nayden instructed M. Walker that, going forward, he should inform the JACC of any a change to the audit plan and the reasons for the change. M. Walker agreed to do so.

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

Trustee Nayden asked M. Walker and his team to work with the UConn management team to engage in a dialog on the risk management processes and asked that they report back at the next meeting.

TAB 7: Status of Audits

M. Walker directed the Board to Tab 7 for updates on the status of all audits. A summary of audits with significant observations were provided by appropriate Assistant Audit Directors.

Storrs Audit

C. Chiaputti informed the JACC that two audits were completed during this reporting period and there were no significant observations to report.

- UConn Foundation - 2006
- Special Project – Windham Extension Council

UCHC Audit

S. Blanchette summarized four audits with significant observations.

Radiology Department

An issue regarding inaccurate billing came to the attention of the UCHC auditors during an audit of the Radiology Department. The area in which the inaccuracies were found was not tested during the audit but was related to an area that was tested. S. Blanchette indicated that the customer identified all of the inaccurate charges and is actively doing refunds. D. Romano from the Radiology Department informed the JACC that charges have been corrected at this time.

Trustee Nayden asked what was currently being done to make sure that this does not happen again. D. Romano indicated that this function is no longer being performed.

Director Leonardi inquired as to the dollar amount of the billings involved. D. Romano responded approximately \$1,800.

GME Billing Process

Internal Audit reviewed the Graduate Medical Education (GME) billing process and found that UCHC has carried a GME accounts receivable balance from participating facilities that ranges from \$10 million to \$16 million, depending on the month tested, and that prior to the audit there had been little collection activity to decrease that receivable. The current receivable balance is \$14 million of which \$7 million is from one facility.

Associate Dean D. Gillon indicated that billings are generally about \$3.2 million per month and that without the \$7 million for the one institution, receivables are only about two months in arrears. Discussion ensued addressing the problem at this one institution. Executive Vice President, P. Deckers, informed the JACC that the institution is under new management, is anticipating legislative relief, and is attempting to free endowment funds in order to become current. It was confirmed that UCHC is still providing residency at this institution and the only recourse would be to pull the residency program. However, the institution is a specialty hospital and pulling the residency program would affect UCHC's education mission. P. Deckers indicated pulling the residency program would not be an option. Concerns were brought forth regarding how this receivable was affecting the UCHC academic budget and interest payment on negative cash balance, noting that it has an implication greater than just holding a receivable and aging it. D. Upton and Peter Decker voiced the importance of having the parties sit down and develop a process to deal with this type of problem.

Mileage Reimbursement

Two audits of mileage reimbursement found weaknesses in internal controls which allowed mileage to be submitted for days when staff was out sick or on vacation. These weaknesses have been addressed by Fiscal Services and the Psychiatry Department management. All federal grants that were improperly charged have been adjusted.

IT Audit – UCHC & Storrs

There were no audits completed in this area.

TAB 8: State of Connecticut Auditors of Public Accounts

The Auditors of Public Accounts directed the JACC to their reports on the University of Connecticut for Fiscal Years Ended June 30, 2004 and 2005 and the University of Connecticut UCHC & Storrs, Statewide Single Audit for Fiscal Year Ended June 30, 2006.

State Auditor Rasimas addressed two items of concern, construction management and time and effort (T&E) reporting. State Auditor Rasimas indicated that further discussion of construction management was not necessary and that the University had turned the corner in that area based on everything that he heard and seen. He indicated, however, that the time and effort reporting issues discussed on pages 4 and 5 of the Single Audit may be a larger issue than the magnitude of the finding makes it seem and that it could lead to problems with the Federal Government.

Director Goldberg asked State Auditor Rasimas if he was stating that the University has less than adequate T&E reporting system. State Auditor Rasimas indicated that argument could be made. Director Goldberg asked if that was true for both the Storrs and UCHC campuses. State Auditor Rasimas indicated that this was a long standing issue that has not been addressed satisfactorily. Trustee Nayden requested that T&E issues be included in future risk assessment. M. Walker indicated that his comments were well taken and that T&E has been an issue nationally with significant findings at other Universities and Medical Centers. D. Upton, speaking for UCHC, noted that time and effort are a high priority in research and that there have been performance and process improvements over the last six years.

Director Haberland asked the State Auditors if they were satisfied that UConn was making appropriate progress or were there specific items that should be dealt with immediately. State Auditor Slupecki indicated that he was fairly comfortable that the steps taken by Storrs will alleviate the problem in the upcoming Federal Audit.

J. Schwager from UCHC indicated that she would welcome the auditors looking at the overall T&E process. But she noted that UCHC disagreed with the State Auditor's findings on this issue and felt that UCHC was meeting Federal Guidelines.

S. Blanchette commented that her audit of T&E reporting last year had no significant observations, and that time and effort reporting is on the audit plan for 2009, but could be moved up in light of the State Auditors' concerns.

C. Chiaputti reported that Storrs has been looking at T&E this year and will continue to look at it for the next five years as part of the Compliance Agreement requirement.

I. Mauriello observed that UCHC Compliance has a monitoring plan in place that provides quarterly reports of compliance with the T&E system. Follow-up is done with researchers who are not timely in their filings and certifications.

M. Walker then recommended that OACE continue to look at T&E reporting and report back to the JACC as appropriate.

TAB 9: External Engagements

UHY, LLP reported on the status of the UConn 2000 audit. UHY had anticipated completing the work by June 30, 2007. However, work may go into July due to changes in the scope. M. Brooder from UHY indicated that UHY has substantially completed the testing for the audits of projects from 2003 through 2006 and is in the process of finalizing their reports. The agreed upon procedures to be performed on Deferred Maintenance (DM) and untested expenditures is approximately 50% complete. The potential scope restriction regarding access to records at contaminated facilities is one of the reasons for the extension request. The process for obtaining and reviewing these records is still being investigated.

M. Brooder explained the two change orders submitted, one of which is an increase relating to the interpretation of DM testing. UHY interpreted DM in the RFP to mean testing of approximately \$13 million, only to discover that the number to be tested was actually \$165 million. The difference of approximately \$150 million was not included in the proposal. The second piece of the RFP spoke about testing 2006 expenditures within the data available at that time, which was through March 2006. The final RFP requested testing through June of 2006, a lapse of three months. M. Brooder noted that if the 98-99 records did not become available, a change order reducing the price would be appropriate. M. Walker asked M. Brooder to speak to the materiality of not being able to examine those particular records because of the mold issue. M. Brooder, indicated his best recollections was that of the total \$165 million, less than 10% or about \$10 million were included in the 1998- 99 years.

M. Walker asked the committee to allow him the flexibility to modify the scope depending on the access to those records and based on what he believed was OACE's responsibility to UHY to amend the scope by adding the DM and equipment that was not previously clarified in the RFP and that the committee grant a one month extension, reporting not later than the September JACC meeting. M. Walker asked the committee to vote on a scope change which would adjust the amount of money up or down depending on the availability of the 1998-99 records, the change of scope from March to June and the extension of time needed from June to July if the 1998-99 records are available.

C. Chiaputti indicated that the higher education bill recently passed revised the statute regarding this audit and the term “all” was removed. As a result the statistical sampling will stand.

ON A MOTION by Trustee Nayden, and seconded by Director Haberland, the scope and extension for UHY was approved.

TAB 10: Statement on Accounting Standards (SAS) No. 112

In a presentation made to the JACC committee on March 1, 2007, the Auditors of Public Accounts stated that SAS 112 – not in force until next year – requires that auditors report to management and governing boards significant control deficiencies and material weakness relevant to the financial statements. State Auditor J. Carroll had informed the JACC that the accounting systems in place at the University and Health Center require a complex financial statement adjustment in the compilation process which, by its very nature, creates more than a remote likelihood of material misstatement. The JACC asked that M. Walker meet with the Auditors of Public Accounts, L. Aronson, Chief Financial Officer for the University, and appropriate staff to discuss this topic and report back at the next JACC meeting.

Therefore, representatives of the University, the Health Center and the Auditors of Public Accounts met on May 22, 2007 to discuss these issues. A general agreement was reached that the University and the Health Center would develop formal procedures (currently being worked on) that will incorporate a formal review and signoff on the financials at various levels and include the two compensating controls discussed. It was noted that existing financial statement compilation procedures incorporated, in practice, significant analytical comparisons. These comparisons will be enhanced as necessary and the procedures under development will provide for formal documentation and signoff on the analyses performed. It is planned that the Finance Department staff at the University and the Health Center will perform these analyses.

State Auditor Carroll indicated that he believes these procedures should be sufficient to offset the risk inherent in the financial statement adjustments and compilation process and if these compensating controls are implemented, a material weakness will no longer exist.

B. Detora discussed the procedures the University is going to put into place. He noted that the recommendations made by the State Auditors are good business practice and should be made regardless of SAS 112. B. Detora noted that he was not sure of the implementation time frame.

D. Upton stated he was in complete agreement with B. Detora. J. Geoghegan indicated that going forward these would provide compensating controls that would address the concern over the material weakness.

M. Walker asked Director Haberland if this covered his concerns of the March meeting. Director Haberland indicated that he disputed the fact that just because something is complicated or complex it is necessarily a material weakness. He indicated that if M. Walker felt comfortable with what the University was doing and the agreement reached with the State Auditors is beneficial, then he is fine with that. M. Walker indicated that he believed the University has a satisfactory condition going forward.

Director Leonardi voiced her initial concern that the proposal seemed to be a lot of duplicate activity, which did not add a lot of value, but added cost. But, she continued by saying that she thought that she was hearing that this was not the case. Director Leonardi asked for confirmation that the team at both Storrs and UCHC think that what the money that will be spent will be useful. M. Walker confirmed and State Auditor Carroll added that there will be some duplication of effort because of the reviews the auditors are required to carry out State Auditor Carroll indicated that this is what must be done to meet the criteria implied by SAS 112.

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 11:35.

Immediately following executive session senior management was dismissed and the Auditors of Public Accounts, 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 12:15 p.m.

Respectfully submitted,



Karen Violette
Secretary to the JACC