

JACC Minutes – February 17, 2011

TRUSTEES/DIRECTORS PRESENT: F. Archambault, F. Borges, P. Drotch, T. Holt, D. Nayden, and W. Shepperd

STAFF PRESENT: N. Adams, P. Allison, P. Austin, J. Biancamano, N. Bull, C. Bianchi, T. Callahan, J. Carroll, C. Chiaputti, C. Eaton, K. Egeberg, K. Fearney, B. Feldman, J. Geoghegan, B. Gore, C. Gray, R. Gray, J. Hathaway, R. Hoagland, W. Kleinman, R. Roy, R. Krinsky-Rudnick, C. Laurencin, R. Lewin, D. Mattessich, I. Mauriello, P. McDowell, M. O'Connor, B. Patel, J. Pufahl, R. Rubin, R. Schurn, J. Small, M. Sullivan, K. M. Summerer, Violette, E. Vitullo, M. Walker, N. Wallach, J. Walter and E. Zincavage

STATE AUDITORS: J. Carroll, J. Geragosian, J. Rasimas and G. Slupecki

KPMG: C. Kavanagh and A. Frank

Seward & Monde: A. Puzzo

The meeting of the Joint Audit and Compliance Committee (JACC) was called to order at 11:00 am by Trustee Nayden.

ON A MOTION made by Trustee Archambault and seconded by Director Drotch, THE JACC VOTED to go into executive session pursuant to Connecticut General Statutes Sections 1-200(6) to discuss [C] Matters concerning standards, processes and codes not available to the public the disclosure of which would compromise the security or integrity of information technology systems and [E] Preliminary drafts or notes that the public agency has determined the public's interest in withholding outweighs the public's interest in disclosure. Executive Session was attended by Joint Audit & Compliance Committee Members – F. Archambault, D. Nayden, F. Borges, P. Drotch, T. Holt and W. Shepperd; OACE Staff members, N. Adams, P. Allison, C. Chiaputti, K. Fearney, C. Gray, I. Mauriello, R. Rubin, K. Violette, E. Vitullo, M. Walker, and E. Zincavage; Senior Management – P. Austin, N. Bull, T. Callahan, B. Feldman, R. Gray, C. Laurencin, R. Schurn and J. Walter as well as Attorney's W. Kleinman and M. Sullivan. The following were in attendance for a portion of the executive session J. Biancamano, C. Bianchi, C. Eaton, J. Geoghegan, J. Pufahl, and J. Small.

The Executive Session ended at 12:00 p.m. and the JACC returned to open session at 12:05 p.m. There were no public comments.

TAB 1 - Minutes

ON A MOTION made by Trustee Archambault and seconded by Trustee Drotch, the minutes of the February 17, 2011 meeting were approved.

TAB 2 – OACE Performance & Activity Metrics – December 2010

M. Walker provided the JACC with OACE Performance and Activity Metrics as of December 2010. C. Chiaputti wanted to speak to what appears to be a lack of audit activity for 2010. The metrics provided is based on final reports issued; OACE changed procedures in FY 10 so that audit reports would not be considered final until they are accepted by the JACC at each quarterly meeting. As such, twelve audits that would have been considered final in June of 2010 (FY 10) were not issued until July 2010 (FY 11) which would have bumped the audits to 37. The ten audits presented at this meeting are not reflected on the metrics because as of December of 2010 they had not been accepted by the JACC.

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M. Walker informed the JACC that the Office of Audit, Compliance & Ethics averages approximately 40+/- audits per fiscal year. C. Chiaputti indicated that many of our audits are now covering both the Storrs and UCHC locations. These should be counted as two separate audits, as shown in the audit plan. Because OACE issued one report covering both locations these audit were counted as one audit instead of two, as show in the metrics.

Trustee Drotch noted that the number of Freedom of Information requests have gone up substantially. R. Rubin informed the committee that the number of requests continue to increase but OACE Compliance Staff does not; this increase has become problematic.

TAB 3: Executive Compliance Committee Charter

OACE requested that the JACC approve the revisions to the Storrs Executive Compliance Committee Charter.

ON A MOTION made by Trustee Archambault and seconded by Trustee Drotch changes to the University of Connecticut Executive Compliance Committee Charter were approved.

TAB 4: Significant Compliance Activities

R. Rubin informed the JACC that the University-wide Code of Conduct policy, adopted five years ago by the Board of Trustees, is the basis for both the Storrs and UCHC compliance programs. OACE provided the JACC with a revised Code of Conduct for approval.

ON A MOTION made by Trustee Archambault and seconded by Trustee Drotch the JACC approved a change to the meeting agenda to include the approval of the revised Code of Conduct.

ON A MOTION made by Trustee Archambault and seconded by Trustee Drotch changes to the University of Connecticut Code of Conduct were approved.

At the request of P. Austin, OACE will be conducting exit interviews to determine if employees leaving University employment have issues that they may not have brought to managements' attention while employed. R. Rubin will keep the JACC updated on this program.

TAB 5: Significant Audit Activities

C. Chiaputti provided the JACC with a status update of current audit assignments. OACE completed ten reviews this quarter:

- ARRA Quarterly Validation (3rd Quarter Ending 09/30/10)
- ARRA Quarterly Validation (4th Quarter Ending 12/31/10)
- Payment Card Industry Data Security Standards – UCHC
- UCHC Annual Budget Process
- Study Abroad
- Classroom Buildings – Contract Review
- Storrs and UCHC Stem Cell – FY 10
- Storrs and UCHC Faculty Consulting (07/01/09-12/31/09)
- Accounts Payable / Disbursements (including CO-17's)
- NCAA Division I membership Certification

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In addition to the ten audits, OACE completed several consulting/special projects. There were no questions.

Due to special requests and staffing shortages OACE's aggressive FY 11 audit plans were revised. A number of audits were moved to the FY 12 audit plan. OACE had to determine what audits they would be able to finish between now and June.

UCHC does not currently have a medical auditor and therefore, clinical audits have been put on hold. OACE is not sure when that individual will be starting, but is encouraged by the quality of applicants.

C. Chiaputti informed the JACC that the searches for both the University Auditor (IT) and the University Audit Manager (IT) are complete. C. Gray has returned to OACE as University Audit Manger – IT and P. Allison has joined the audit staff as a University Auditor – IT.

ON A MOTION made by Trustee Archambault and seconded by Trustee Drotch, the JACC approved the revised FY 11 audit plans.

Tab 6 – Auditors of Public Accounts (Storrs and UCHC FY 10- Financial Statements)

The Auditors of Public Accounts provided a presentation on the University of Connecticut and University of Connecticut Health Center Financial Statements as of and for the year ended June 30, 2010.

JACC packets included the audited financial statements for the Storrs Campus, including the Law School and Regional Campuses as well as the unaudited financial statements for the University of Connecticut Health Center. The Auditors of Public Accounts finished auditing the Health Center's financial statements on January 27, 2011 and these financial statements were distributed at the February 17, 2011 JACC meeting.

The Auditors of Public Accounts found the financial statements of the University of Connecticut and University of Connecticut Health Center to be presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States of America.

The Auditors of Public Accounts found no conditions that they believe constitute significant deficiencies.

Discussion ensued concerning the sweeping of the malpractice account by the State, at the rate of \$10M per year for the next two years. In 1987, when the Health Center discontinued commercial malpractice insurance, a self-insurance financing mechanism was established to cover medical malpractice claims brought against the State on UCHC's behalf. UCHC had been escrowing cash towards future liabilities as recommended by annual actuarial analysis of pending claims. In June of 2009 the malpractice fund was about \$25M. UCHC is now expected to proceed on a cash basis (pay as you go). This action left UCHC with an unfunded liability that the John Dempsey Hospital (JDH) and the University Medical Group (UMG) had recorded over the years.

The Auditors of Public Accounts believe that the liability still resides with the Health Center. UCHC management moved the liability and the unfunded amount up to the Health Center rather than JDH or UMG because the funding for that reserve originated from clinical dollars. UCHC management did not want to penalize both JDH and UMG by charging them again to build up that reserve.

In the event of a large claim the potential is that UCHC would seek from the State reimbursement for such a claim.

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The JACC committee members voiced their concern with this practice ; members were outraged at the fact that the legislature would take a reserve that has a specific liability associated with it. Given the business nature of the Health Center they found this practice to be unconscionable.

JACC members wanted to know why they were not informed of this issue prior to this time. J. Biancamano indicated that this issue was discussed extensively at a Board of Directors meeting but was unaware if it had been discussed at the Board of Trustees. K. Violette verified that the Board of Directors were notified of this issue at a Special Board of Directors Meeting on November 2, 2009. This meeting took place prior to the JACC members appointment to the BOD.

J. Biancamano informed the JACC that UCHC management issued a position paper explaining why this fund was needed and what would happen going forward if their were no assets to cover this fund. They could not convince anybody that the fund should remain.

JACC members indicated that we can not allow this to happen and asked M. Walker to follow-up with J. Biancamano, R. Gray, P. Austin and C. Laurencin and ascertain how we should move forward with this issue. UCHC is working on some language now that would shift the liability back to the State to the extent that there is not sufficient funds in the malpractice fund to pay claims. Trustee Nayden indicated that UCHC management should draft Legislation to say wait a minute you guys can't do this anymore.

Trustee Nayden felt that the Board of Trustees needs to be made aware of these types of issues; policies and procedures need to be in place to ensure that issues of this nature just don't happen.

Tab 7 – Auditors of Public Accounts Report on the University of Connecticut Health Center for the Fiscal Years Ended June 30, 2007 and 2008

J. Carroll went over the Auditors Report on the University of Connecticut Health Center for the fiscal years ended June 30, 2007 and 2008. The Auditors presented 14 recommendations in this audit.; 3 recommendations addressed conditions that the Auditors felt were of special concern; 2 of these 3 conditions address conditions that the Auditors felt were a material weakness; both are related to the Procurement Process.

The Auditors reviewed 135 research related and 135 other personal service agreements executed by the Health Center during the period from April 1, 2008 through March 31, 2009. They found that 127 of the research related agreements and 94 of the other agreements were signed after the start date. The average delay was 104 and 94 days respectively. The auditors recommended that UCHC not authorize contractors to begin work prior to the execution of a contract. Formal written agreements establishing rights and responsibilities are a safeguard for all parties involved.

J. Biancamano and J. Small indicated that management continues to put in place additional policies, procedures and resources to address this issue. However, 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 this process and in no case were any payments made to contractors until such time as the agreement was executed.

M. Walker indicated that the Health Center needs to improve in this area. M. Walker and T. Callahan would be conducting some trends analysis to see how we can improve on this process.

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Second, the Auditors recommended that the Health Center submit all contracts for professional services to the Attorney General's office for review. Current policy states that all State contracts for either the expenditure or receipt of funds (\$3,000 and above) be reviewed and approved by the Office of the Attorney General. However, the contracts related to a multimillion dollar consulting engagement were not submitted.

Finally, the auditors recommended that the University prepare, annually, a comprehensive cost/benefit analysis for the Office of Technology Commercialization. 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.

Trustee Drotch felt that this audit, covering fiscal years 2007 and 2008, was not completed in a timely fashion. JACC members asked that the Auditors consider alerting this committee when they anticipate significant delays and the reason for the delays.

TAB 8 – External Engagements

M. Walker informed the JACC that the University of Connecticut management held their kickoff meeting with Marcum LLP on January 28, 2011. Marcum LLP began their fieldwork for UCONN 2000 expenditures for FY 2010.

T. Puzzo from Seward & Monde's presented their Independent Accountants' Report on Applying Agreed-Upon Procedures to the Statements of Revenues and Expenses of Intercollegiate Athletics Program for June 30, 2010 to the Committee.

Seward & Monde performed testing in five main areas being:

- Minimum Compliance Procedures
- Minimum Procedures for Affiliated and Outside Organizations (Not under the University's accounting control)
- Minimum Procedures Applied to Notes, Disclosures and Schedules
- Minimum Procedures for Revenues
- Minimum Procedures for Expenses

They noted three findings in the following areas:

- Athletics Ticket Office Receipts
- Ticket Sales
- Purchasing / Accounts Payable

Seward & Monde did not conduct an audit, the objective of which would be the expression of an opinion, on the accompanying statements of revenues and expenses. Accordingly, they did not express such an opinion.

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It was recommended that the JACC approve the appointment of the accounting firm KPMG as independent auditors for fiscal year 2011 audits of John Dempsey Hospital (JDH) and Dental Clinics (Clinical Programs Fund, 21002), including the OHCA fillings, University Medical Group (UMG) and the University of Connecticut Health Center Finance Corporation. In addition, quarterly certification of accounts receivable will be required for both JDH and UMG for the four quarters ending June 30, 2011 through March 31, 2012.

ON A MOTION made by Trustee Archambault and seconded by Trustee Shepperd, the JACC approved this request.

A. Frank and C. Kavanagh of KPMG provided a presentation on the results of their audit of the financial statements of the University of Connecticut Health Center, John Dempsey Hospital (21002 Fund), UCONN Medical Group (Clinical Operations), and the Finance Corporation as of and for the year ended June 30, 2010.

TAB 9 – Informational/Educational Items

The JACC was provided with copies of the following:

- OACE Storrs & UCHC Quarterly Newsletters (Fall 2010)
- Institute of Internal Auditors – “Tone at the Top”
- KPMG “Ten Principles BNA Insights “Changes to Compliance Plan Guideline Focus on Reporting Relationships”

ON A MOTION made by Trustee Archambault and seconded by Director Holt, the meeting was adjourned at 1:10 p.m.

Respectfully submitted,

Karen Violette

Karen Violette
Secretary to the Joint Audit & Compliance Committee

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