Joint Audit & Compliance Committee
Agenda

10:00 am – 10:45 am – Executive Session
10:45 am – 12:00 pm - Public Meeting

Issue | Proposed Action | Tab
--- | --- | ---
Executive Session to discuss:

- C.G.S. 1-200(6)(E) – A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to preliminary drafts or notes that the public agency has determined the public’s interest in withholding outweighs the public's interest in disclosure. [1-210(b)(1)]

- C.G.S. 1-200(6)(E) - A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to strategy and negotiations with respect to pending claims regarding Recovery Audit Contractor (RAC) Audits. [1-210(b)(4)]

- C.G.S. 1-200(6)(E) - A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to or communications privileged by the attorney-client relationship. [1-210(b)(10)]

- C.G.S. 1-200(6)(c) – Matters concerning standards, processes and codes not available to the public the disclosure of which would compromise the security of integrity of information technology systems.

Opportunity for Public Comment

Minutes of the May 20, 2014 JACC Meeting | Approval | 1
Storrs & UConn Health Significant Compliance Activities | Update Presentation | 2
Athletics
Significant Audit Activities

- Status of Audit Assignments (Storrs & UConn Health)
- Audit Follow-up Activity

FY 15 Audit Plans (Storrs & UCHC) | Approval | 4
FY 15 Compliance Plans (Storrs & UCHC) | Approval | 5

Individual Responsibility, Institutional Success
## Joint Audit & Compliance Committee Agenda

10:00 am – 10:45 am – Executive Session  
10:45 am – 12:00 pm - Public Meeting

<table>
<thead>
<tr>
<th>Issue</th>
<th>Proposed Action</th>
<th>Tab</th>
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</thead>
<tbody>
<tr>
<td>Auditors of Public Accounts – Auditors’ Report University of Connecticut for the Fiscal Years Ended June 30, 2010 and 2011</td>
<td>Presentation</td>
<td>6</td>
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<tr>
<td><strong>External Engagements</strong></td>
<td>Update Approval</td>
<td>7</td>
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<tr>
<td>• Annual Agreed Upon Procedures – Statement of Revenues and Expenses of the University of Connecticut’s Athletic Program – Request to Hire BKD</td>
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<tr>
<td>• Annual Audit and Agreed Upon Procedures – UConn 2000 Construction Projects and Expenditures – Request to Hire McGladrey</td>
<td>Approval</td>
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<tr>
<td><strong>Informational/Educational Items</strong></td>
<td>Information Only</td>
<td>8</td>
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<td>• Article – “Internal Control – Integrated Framework” published by the Committee of Sponsoring Organizations of the Treadway Commission, May 2013</td>
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<td>• Compliance Newsletter – UConn Health and Storrs</td>
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<td>• JACC Agenda Forecast</td>
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<td><strong>Conclusion of Full Meeting</strong></td>
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<tr>
<td><strong>Information Session with OACE’s Interim Chief Audit &amp; Compliance Officer and Direct Reports</strong></td>
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The next meeting of the JACC will be held on Tuesday, December 2, 2014 at 10:00 am  
Rome Commons Ballroom, Storrs

*Individual Responsibility, Institutional Success*
TAB 1
The meeting of the Joint Audit and Compliance Committee (JACC) was called to order at 10:02 a.m. by Trustee Nayden.

ON A MOTION made by Trustee Nayden and seconded by Director Holt, THE JACC VOTED to go into executive session to discuss:

- C.G.S. 1-200(6)(E) – A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to preliminary drafts or notes that the public agency has determined the public’s interest in withholding outweighs the public’s interest in disclosure. [1-210(b)(1)]
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- C.G.S. 1-200(6)(c) – Matters concerning standards, processes and codes not available to the public the disclosure of which would compromise the security of integrity of information technology systems.


The Executive Session ended at 11:25 a.m. and the JACC returned to open session at 11:28 a.m.

There were no public comments.
TAB 1 - Minutes of Prior JACC Meeting

ON A MOTION made by Trustee Nayden and seconded by Director Archambault, the minutes of the February 11, 2014 meeting were approved.

TAB 2 - Storrs & UConn Health Significant Compliance Activities

K. Fearney and I. Mauriello updated the committee on significant compliance activities. A. Cretors and P. McCarthy presented the committee with an update on NCAA Compliance activities as well as various topics impacting the NCAA. A. Cretors also shared with the committee the recently published NCAA Division I 2012-2013 Academic Progress Rate Institutional Report.

TAB 3 - ICD-10 Transition

J. Geoghegan provided the committee with an ICD-10 Transition update.

TAB 4 - Significant Audit Activities

C. Chiaputti provided the JACC with an update on the status of audit assignments (Storrs and UConn Health). OACE completed nine audits and had eleven audits ongoing during this reporting period. The JACC accepted eight audits this period as follows:

- NCAA Division I-A Membership Requirements (For information only)
- Center for Comparative Medicine (CCM) Core Facilities (Update 7)
- Bioscience CT Initiative – Phase I Site Work / Parking Garage (Update 5)
- International Faculty / Students
- User Authentication and Administration
- Asset Management (including Controllable Property)
- Student Administration Systems (Jenzabar IT)
- Diagnostic Imaging
Tab 5 - Auditors of Public Accounts

Auditors of Public Accounts, J. Carroll, J. Rasimas, G. Slupecki, and W. Felgate presented the Statewide Single Audit for the Fiscal Year Ended June 30, 2013 relative to:

- University of Connecticut Federal Financial Aid Assistance Programs
- University of Connecticut Federal Research and Development Programs
- University of Connecticut Health Center Federal Research and Development Programs


TAB 6 - External Engagements

C. Chiaputti provided the JACC with a brief update on the status of external audit projects.

M. Bloom from McGladrey presented the committee with the Audit and Agreed Upon Procedures of UConn 2000 project expenditures for Fiscal Year 2013. **ON A MOTION** made by Trustee Nayden and seconded by Director Archambault this audit was approved, pending changes.

- University of Connecticut – Report to the Board of Trustees and Joint Audit and Compliance Committee
- University of Connecticut – Audit of Construction Expenditures of UConn 2000, Projects Substantially Completed
- University of Connecticut – Agreed Upon Procedures on UConn 2000 Construction Expenditures

TAB 7 – Informational / Educational Items

The committee was provided with:

- Compliance Newsletters – UConn Health & Storrs
- JACC Agenda Forecast

There was no further business.

**ON A MOTION** made by Trustee Nayden and seconded by Trustee Cantor, the meeting was adjourned at 12:08 p.m.

Respectfully submitted,

Angela Marsh

Angela Marsh
TAB 2
Joint Audit & Compliance Committee
Significant Compliance Activities

Storrs

• **FOI Informational Pamphlet** – A quick reference guide was developed to educate faculty and staff on the FOI process and frequently asked questions. The pamphlet is currently being provided to participants of the Management Support & Development Program and at New Employee Orientation.

• **Compliance Training** – 2014 Compliance Training program concluded with 99.99% completion rate by Faculty and Staff. 2015 Training program content is currently being developed.

• **BOT Approved Policy Initiative** – Continued work with the President’s Office on a comprehensive review of historical BOT approved policies to ensure consistency across campuses as well as decommissioning where appropriate. Several out-of-date policies have been formally decommissioned.

• **Records Management** – Continued work with Regional Campuses on records security, inventories and proper destruction. Continue to assist departments with records cleanup that results in increased usable space.

• **Policy of the Week** – Recent policies include: Workplace Violence Prevention Policy, Non-Retaliation Policy and Policy Statement: People with Disabilities.
UConn Health

- **Office for Civil Rights (OCR) Closure of Privacy Breach Investigation from 2013** – On July 23, 2014 the Privacy Officer received a letter closing OCR’s investigation of the privacy breach of 1,382 patient records due to inappropriate electronic access that was reported to them on March 8, 2013.

- **Electronic Monitoring of Access to Patient Medical Records** – Negotiations on the contract to implement an electronic monitoring technology have been unsuccessful, requiring UConn Health to rebid this project. Monitoring of electronic access to patient records continues to be done manually by the Privacy Office with some assistance of clinical managers during this time.

- **Research Conflict of Interest Disclosure system** – Institutional CoI disclosures were collected for the first time in August using the on-line electronic system. Disclosures are being evaluated by the Institutional CoI in Research Committee for necessary management plans.

- **Open Payments** – Registration for the Open Payments System began on 7/14/14; Physicians, Dentists and Teaching Hospitals that have registered can now review and dispute the information provided by industry. The review/dispute process will be open until 8/27/14. In preparation for the review and dispute process UConn Health faculty have been sent informative messages with links to the CMS website. UConn Health is also working on talking points for external audiences so we are prepared to answer questions when industry payments information is publically posted 9/30/14.
  
  - On August 4th CMS took its online system offline after at least one doctor had payments attributed to him that actually went to someone else. CMS has also indicated that for each day the Open Payments system is offline for this incident, they plan to adjust the review and dispute deadline and the following 15-day corrections period deadline accordingly.

- **Overpayment refunds** –
  
  - Unlicensed RNs
  - Errors in billing split/shared visits
  - Fine Needle Aspiration billing – error in modifier use
  - Specialty Pharmacy Drug billing error
TAB 3
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<thead>
<tr>
<th>Audit Project</th>
<th>Storrs or UConn Health</th>
<th>Planning</th>
<th>Fieldwork</th>
<th>Pre-Draft/Draft Report</th>
<th>Final Draft Report Issued</th>
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<td>Storrs &amp; UConn Health</td>
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<td>Federal Grants – Cost Sharing</td>
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<td>Overtime Payments – Public Safety</td>
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<td>Krono’s System</td>
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<td>Clery Act Compliance</td>
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<td>Emergency Preparedness</td>
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<td>UConn Foundation – FY 14</td>
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<td>Pharmacy Charge Capture</td>
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<td>Center for Laboratory Animal Care (CLAC) Renovations</td>
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<td>Server Implementation and Security</td>
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<td>Cash Handling</td>
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<td>Facilities Business Operations Review</td>
<td>Storrs</td>
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<td>Innovation Partnership Building (IPB)</td>
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<td>HIM – Patient Record Management</td>
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<th>Special Projects/Consulting/Follow-up</th>
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<th>Planning</th>
<th>Fieldwork</th>
<th>Review Pre-draft</th>
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High Risk Overdue by Functional Area

0
5
10
15
20
25
30
35
40
45
50
55
60

# of Open Overdue High Risk Observations

Information Technology Services
Clinical Informatics
Human Resources
Information Technology Services
OACE

Storrs and Regional Campuses
UConn Health

Campus and Functional Area
Implemented

- Medium: 23
- Low: 11
- High: 3

Open OverDue Items by Risk Level

- Medium: 78
- Low: 47
- High: 14
Low

Meaningful reportable issue for client consideration that in the Auditor’s judgment should be communicated in writing. The finding results in minimal exposure to the University or UConn Health and has little or no impact on the University’s or UConn Health’s compliance with laws and regulations. The issues related to this control weakness will typically not lead to a material error.

Medium

Significant exposure to the area under review within the scope of the audit. The finding results in the potential violation of laws and regulations and should be addressed as a priority to ensure compliance with University’s or UConn Health’s policies and procedures. The significance of the potential errors related to this control weakness makes it important to correct.

High

Significant exposure to the University or UConn Health that could include systemic University or UConn Health wide exposure. The finding could result in a significant violation of laws and regulations and should be viewed as a highest priority which the University or UConn Health must address immediately.
TAB 4
<table>
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<th>AUDIT</th>
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<tbody>
<tr>
<td><strong>RESEARCH / GENERAL COMPLIANCE</strong></td>
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<td>Federal Grants – Cost Sharing</td>
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<tr>
<td>Faculty Consulting (07/01/12-06/30/13) - FY 13*</td>
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<td>American Disabilities Act (ACT) Program Review</td>
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<td>CI Stem Cell Research Grants – FY 14 Expenditures *</td>
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<td>McMahon Dining Hall Renovations</td>
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<td>Construction Life Cycle Review – Innovation Partnership Building (IPB)</td>
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<td>Project Commissioning / Closeout Process</td>
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<td><strong>INFORMATION TECHNOLOGY (IT)</strong></td>
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## Audit Plan – FY15

**Status Codes:** I = FY14 Audits In Process, * = Required

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<td>Overtime Payments Public Safety</td>
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<td>Selected Center/Institute/Department</td>
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<td>Foundation Receipts and Disbursements – FY 14*</td>
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<td>Law School Foundation</td>
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<td>Facilities Business Operations Review</td>
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<td>Husky One Card</td>
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<td>Space Management System</td>
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<td>Purchasing</td>
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<td>Asset Management (Including Controllable Property)</td>
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<td>Auxiliary Services – Parking and Transportation</td>
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<td>Selected Center/Institute/Department</td>
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<td>Cash Receipts/Cash Handling</td>
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<td>Foundation Receipts and Disbursements* FY 15</td>
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<td>Student Payroll</td>
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<td>Student Health Services</td>
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<td>Compensatory Time, Vacation and other Leave Accruals</td>
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<td>Events and Conference Services</td>
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<td>Non-Tuition Revenue and Accounts Receivable</td>
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<td>Audit</td>
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<td><strong>ATHLETICS</strong></td>
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<td>Selected NCAA Compliance Areas</td>
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<td>• Academic Performance Program</td>
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<td>• Extra Benefits</td>
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<td>• Camps and Clinics</td>
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<td>NCAA Division 1-A Membership Requirements*</td>
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<td><strong>OTHER</strong></td>
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<td>Risk Assessment</td>
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<td>Follow-up Audit Activities</td>
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<td><strong>CLINICAL: FINANCIAL / OPERATIONAL / COMPLIANCE</strong></td>
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<tr>
<td>Pharmacy Charge Capture</td>
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<tr>
<td>Meaningful Use – Eligible Professionals</td>
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<td>Meaningful Use – Hospital</td>
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<td>Medicare Enrollment – Provider Data</td>
<td>I</td>
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<td>Advanced Beneficiary Notice (ABN’s)</td>
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<td>Inpatient Outlier Payments</td>
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<td>Inpatient Stays – Two Midnight Rule</td>
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<td>CMHC Pharmacy</td>
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<td>Observation Services</td>
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<td>Pharmacy Controlled Substance</td>
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<tr>
<td>Dental Clinic - Documentation, Charge Capture and Billing</td>
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<tr>
<td>HIM – Patient Record Management</td>
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<td>Billing Modifier 25</td>
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<tr>
<td><strong>RESEARCH / GENERAL COMPLIANCE</strong></td>
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<tr>
<td>Clery Act Compliance</td>
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<tr>
<td>Federal Grants – Cost sharing</td>
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<tr>
<td>Faculty Consulting (07/01/12-06/30/13) – FY13*</td>
<td>I</td>
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<tr>
<td>CI Stem Cell Research Grants – FY 14 Expenditures*</td>
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<td>Grants - Cash Management</td>
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<td>Conflicts of Interest in Research</td>
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<td>Family Medical Leave Act (FMLA)</td>
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<td>Faculty Consulting (07/01/13-06/30/14) – FY14*</td>
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<td>Lab Safety</td>
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<td>Audit</td>
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<td><strong>FINANCIAL / OPERATIONAL</strong></td>
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<td>Overtime Payments Public Safety</td>
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<td>Cash Handling</td>
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<td>Clinical Contracts</td>
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<td>UCHC Gift Accounts</td>
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<td>Emergency Preparedness</td>
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<td>CMHC Payroll</td>
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<td>Compensatory Time, Vacation and other Leave Accruals</td>
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<td><strong>CONSTRUCTION / UCONN 2000</strong></td>
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<tr>
<td>Construction Life Cycle Reviews of Selected Projects (includes change order monitoring):</td>
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<tr>
<td>• Bioscience</td>
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<td>• Outpatient Pavilion</td>
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<td>• Center for Laboratory Animal Care (CLAC) Renovations</td>
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<tr>
<td><strong>INFORMATION TECHNOLOGY (IT)</strong></td>
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<tr>
<td>Kronos</td>
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<td>Firewall</td>
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<td>eHIMS</td>
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<td>Medical Devices – Network Attached</td>
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<td>Public Safety Systems</td>
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<td>Dental Systems</td>
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<td>Software Licensing</td>
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<td><strong>OTHER</strong></td>
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<td>Risk Assessment</td>
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<tr>
<td>Follow-up Audit Activities</td>
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<tr>
<td>Contingencies/Special Requests/Investigations/Consulting</td>
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</tbody>
</table>
## Collaborative Relationships

- Active committee membership across campus. Includes Title IX Committee, ADA Access and Accommodation Committee, Environment Compliance Team (ECT), and other rules based committees.

- Active membership with professional organizations such as NACUA, SCCE, IAPP, ARMA, ECOA and ACUPA to increase collaborations with peer and aspirant institutions.

- Chair various compliance based committees as appropriate. Committees include Managing Youth Activities Task Force, Faculty Consulting Oversight Committee and Consulting Conflict of Interest Committee.

- Participate on other University-wide committees in order to enhance awareness of business operations of units and to maintain collegial relationships across campus. Committees include various search committees, President’s Committee on Corporate Social Responsibility, Joint Classification Committee, Something is Happening Committee, etc.

## Education/Awareness and Specialized Training

- Continued educational efforts to ensure proper compliance education of new faculty and staff. Efforts include: video message in New Employee Orientation, attendance at Deans Council, Department Head Meetings and Academic Administrative Assistants Forums, “Policy of the Week” in the Daily Digest and quarterly newsletter, the Compliance Courier. Participate in orientation for new adjunct faculty.

- Annual Compliance Training includes message from President on importance of compliance with rules, regulations and policies, assisting with proper “Tone at the Top”. 2015 Annual Compliance Training to include topics related to Conflicts of Interest, Civility in the Workplace and the State Code of Ethics.

- Co-creator and presenter of the Management Support & Development Program. Program highlights key compliance requirements and elevated responsibility of supervisors to emulate the University’s Core Values as articulated in the Code of Conduct.

- Facilitate proper Privacy/HIPAA training for impacted entities.
<table>
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<tr>
<th>PROGRAM ELEMENT</th>
<th>ACTIVITIES</th>
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</table>
| CONT'D Education/Awareness and Specialized Training | • Records and Information Management efforts expanded University-wide.  
• Increase use of online resources including website, social media and other tools.                                                                 |
| Investigations                        | • Continued collaboration with ODE, OFSLR, Provost’s Office and Public Safety on investigations to ensure thorough review of allegations of policy violations.  
• Increased collaboration with the University Ombudsman on matters that do not present as policy violations but may benefit from the services of the Ombuds Office.  
• Membership on Employees of Concern Team to ensure proper monitoring and intervention where appropriate.  
• Review Investigation Protocol.                                                                 |
| Monitoring                            | • Review formats at peer institutions for consideration. Review monitoring activities including update existing matrices.  
• Review Higher Education Compliance Alliance Compliance Matrix for assistance with current monitoring activities.                                                                 |
| Policy                                | • Increase effectiveness of policy website, including listing of University procedures. Review University Policy Protocol.  
• Review BOT approved policies for relevance to current operations, recommend decommissioning as appropriate. Review will include application to Storrs and UConn Health.  
• Continued policy development and revisions in collaboration with the University administration. Policies targeted for completion are Endorsement Policy, Use of Foundation Funds and Delegation of Signature Authority. Compliance will continue to work with management to assist with any policy development or revisions recommended by Audit Services. |
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<tr>
<th>PROGRAM ELEMENT</th>
<th>ACTIVITIES</th>
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</table>
| Regulatory Compliance | • Continued coordination of major regulatory compliance initiatives, as well as membership on key implementation committees.  
• Due to significant overlap of compliance responsibilities, serve as institutional monitor of compliance with HEOA and Program Integrity Rules. Review each semester. Maintain heoa.uconn.edu website.  
• Continued focus on proactive privacy and information management. Collaborative efforts with IT Security Office, Records Management Liaison Officer and others re: best practices. |
<p>| Reporting | • Reporting to the Executive Compliance Committee (ECC) and Joint Audit and Compliance Committee (JACC) on significant compliance initiatives and developments. |</p>
<table>
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<tr>
<th>PROGRAM ELEMENT</th>
<th>ACTIVITIES</th>
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<tbody>
<tr>
<td>Collaborative Relationships</td>
<td>● Committee representation addressing various ongoing initiatives to maintain or assure compliance with regulatory requirements:</td>
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<tr>
<td></td>
<td>o JDH/UMG regulatory committees, including but not limited to: Meaningful Use, Electronic Health Records, ICD-10, Recovery Audit Contractors (RAC); Health Information Management Committee &amp; Informatics subcommittee, JDH Ethics Committee, and Workplace Violence Prevention Committee.</td>
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<tr>
<td></td>
<td>o Outpatient Pavilion Finance Team</td>
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<td>o Stem Cell Oversight Committee</td>
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<td>o Construction/BioScience; Operations Transition Committee</td>
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<td>o University-wide CoI/CoC Committee</td>
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<tr>
<td></td>
<td>o Research CoI Management Committees – Individual and Institutional</td>
</tr>
<tr>
<td></td>
<td>o Background and Sanctions Checking Task Force</td>
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<td></td>
<td>o Employee Health Records &amp; Privacy Initiative</td>
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<tr>
<td></td>
<td>o Open Payments Advisory Committee</td>
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<td>● Work collaboratively with departments to assure resident supervision consistent with hospital by-laws, policy and CMS Conditions of Participation.</td>
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<td>● Provide coding/billing/payment reviews for new services and as requested</td>
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<td></td>
<td>● Manage new Coding Help Line email</td>
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<td></td>
<td>● Active membership with professional organizations including: AAMC Forums and Workgroups - Compliance Officers, Privacy, Documentation and Coding, and Chairperson of Peer Evaluation Workgroup; Health Care Compliance Association; Society for Corporate Compliance &amp; Ethics; CT Hospital Association Compliance Forum; Healthcare Financial Management Association; American Health Information Management Association; Health Ethics Trust.</td>
</tr>
<tr>
<td>Education/Awareness and Specialized Training</td>
<td>● Annual Training:</td>
</tr>
<tr>
<td></td>
<td>o Compliance, including Code of Conduct, State Code of Ethics and current regulatory topics</td>
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<tr>
<td></td>
<td>o State Code of Ethics for employees involved in negotiating, managing and/or overseeing contracts</td>
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<td></td>
<td>o HIPAA Privacy and Security including HITECH updates</td>
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<td></td>
<td>o Financial Aid Code of Conduct for student financial aid employees</td>
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<tr>
<td></td>
<td>o Semi-annual Management Development Education - Understanding UConn Health Compliance</td>
</tr>
<tr>
<td></td>
<td>● Orientations and Initial Trainings:</td>
</tr>
<tr>
<td></td>
<td>o Bi-weekly Compliance overview for new employees</td>
</tr>
<tr>
<td></td>
<td>o Annual resident and student orientations</td>
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<tr>
<td></td>
<td>o Online initial Compliance training</td>
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<td></td>
<td>● Focused, topic-specific individual or departmental education as needed/requested, including follow-up to address internal or external audit findings.</td>
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*Individual Responsibility, Institutional Success*
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<thead>
<tr>
<th>PROGRAM ELEMENT</th>
<th>ACTIVITIES</th>
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</table>
| Education/ Awareness and Specialized Training (Continued) | ● Periodic awareness updates through Broadcast Messages or other media noting importance of “tone-at-the-top”  
● Patient rights & medical ethics  
● Quarterly Compliance Courier Newsletter  
● Monthly Compliance Quandary Q & A on website  
● National Compliance and Ethics Week activities |
| Monitoring                               | ● Top UConn Health Risks from Spring 2014 Risk Assessment review for monitors  
● Develop monitors with stakeholders for FY 15  
● OIG Workplan review fall-winter 2014  
● HIPAA/HITECH Privacy monitoring – evaluate on continuous basis the resources needed to conduct effective Privacy monitoring – lead effort for RFP for technical solution to monitoring of ePHI access  
● Documentation and Coding Program practitioner reviews  
● Local and National Coverage Determinations monitors (LCDs/NCDs)  
● Identity Theft Prevention and Identification  
● Overpayment Corrective Action Monitoring |
| Policy                                   | ● Assist with policy development/revision as requested by any UConn Health department and/or to comply with any regulatory changes  
● HIPAA/HITECH policy updates  
● Finance Policies Review Project  
● CoI and Consulting policy reviews in preparation for compliance with Open Payments/FCoI disclosures under NIH Rule  
● Institutional CoI Policy revisions  
● Establish policy on Stark and Anti-kickback compliance  
● Manage the UConn Health Executive Policy Committee |
## UConn Health
### Draft Compliance Plan – FY 15

<table>
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<tr>
<th>PROGRAM ELEMENT</th>
<th>ACTIVITIES</th>
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</table>
| Policy (Continued) | ● Participate in Health Information Management Policy subcommittee  
|                   | ● Continue to refine policy and practice regarding University-wide Conflict of Interest and Commitment  
|                   | ● Work with HR to implement UConn Health Mandatory Training policy                                                                                         |
| Regulatory Compliance | ● Support compliance with regulatory requirements FY15 (including but not limited to):  
|                   | o HITECH Rule expected changes 2014-15  
|                   | o Meaningful Use  
|                   | o CMS/DPH mandates (with emphasis on 2014 and 2015 IPPS and OPPS Rules impact to operations)  
|                   | o Changing Federal and CT legislation  
|                   | o Research CoIs  
|                   | o Consulting activity and Open Payments Rule  
|                   | o Various accreditation initiatives                                                                                                                        |
| Investigations    | ● Track and trend all compliance investigations  
|                   | ● Collaborate with Labor Relations, Office of Diversity and Equity, Medical Staff Office, Public Safety, Quality Departments of JDH and UMG, and Patient Relations when necessary to address allegations  
|                   | ● Directly responsible for all allegations requiring investigations in the following areas:  
|                   | o Privacy – evaluate on a continuous basis the resources needed to conduct Privacy investigations specifically  
|                   | o Ethics  
|                   | o Overpayment Evaluations and Management  
|                   | o Collaborate with IT Security when HIPAA security breaches are reported                                                                                   |
| Conflict of Interest | ● Address the necessary expansion of and consistency in recognition, disclosure and management of CoI across all domains of UConn Health e.g. clinical, academic, operations and research.  
|                   | ● Work with key stakeholders and EVP to plan to address broad CoI issues                                                                                   |
| Research Compliance | ● Fill AVP research compliance position vacancy  
<p>|                   | ● Establish Memorandum of Understanding with OACE and AVP for Research Compliance                                                                       |</p>
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<thead>
<tr>
<th>PROGRAM ELEMENT</th>
<th>ACTIVITIES</th>
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<tbody>
<tr>
<td><strong>Reporting</strong></td>
<td>(Not all items listed below are reported at each of the meetings noted to the left)</td>
</tr>
<tr>
<td>1. Executive Compliance Committee (ECC) held Quarterly</td>
<td>● Training reports for % completion of all mandatory compliance training both annual and special topics</td>
</tr>
<tr>
<td>a. Subcommittee HIPAA/HITECH held biweekly</td>
<td>● Documentation and Coding Program Annual Plan and provider specific coding reports contemporaneous with each review completed</td>
</tr>
<tr>
<td>2. Joint Audit &amp; Compliance Committee (JACC) held Quarterly</td>
<td>● Privacy Breach reports to affected patients and Department of Health and Human Services Office for Civil Rights when patient PHI is compromised</td>
</tr>
<tr>
<td>3. Board of Directors (BoD) held Quarterly</td>
<td>● Track and trend Compliance Office contacts / investigations and key activities</td>
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<td></td>
<td>● Compliance risk area presentations on a rotating and/or hot topic basis</td>
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<tr>
<td><strong>HIPAA Privacy</strong></td>
<td>● Privacy and Security Breach Team Process Revisions</td>
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<td>● Office of Civil Rights Audit Readiness Preparation</td>
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<td>● Assistance with Patient Portals Development across clinical areas</td>
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<td>● Collaboration with LCR system owner to assure users have proper access</td>
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<td></td>
<td>● Development of Remote Access Agreements with UConn Health Business Affiliates</td>
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STATE OF CONNECTICUT

AUDITORS’ REPORT
UNIVERSITY OF CONNECTICUT
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN  ROBERT M. WARD
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AUDITORS’ REPORT
UNIVERSITY OF CONNECTICUT
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have audited certain operations of the University of Connecticut (UConn) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The University of Connecticut is a component unit of the University of Connecticut system, which includes UConn, the University of Connecticut Health Center (UConn Health Center) and the University of Connecticut Foundation, Inc. We also audit the financial statements of UConn and the UConn Health Center and report on those audits separately. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2010 and 2011. The objectives of our audit were to:

1. Evaluate UConn’s internal controls over significant management and financial functions.

2. Evaluate UConn’s compliance with policies and procedures internal to the university or promulgated by other state agencies, as well as certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the university, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to financial audits or performance audits, as applicable, contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our
Auditors of Public Accounts

audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the university's management and was not subjected to the procedures applied in our audit of the university.

For the areas audited, we identified (1) deficiencies in internal controls and (2) apparent noncompliance with legal provisions. The State Auditors’ Findings and Recommendations in the accompanying report presents any findings arising from our audit of UConn.

COMMENTS

FOREWORD

The University of Connecticut, a constituent unit of the state system of higher education, operates generally under the provisions of Title 10a, Chapter 185b, Part III, of the General Statutes. During the first year of the audited period, UConn was subject to statewide policies and guidelines established by the Board of Governors of Higher Education, through which it submitted its budget.

The Board of Governors of Higher Education was eliminated effective July 1, 2011, when the state system of higher education was reorganized under Public Act 11-48. Effective July 1, 2011, UConn was no longer subject to statewide policies and guidelines for constituent units of the state system of higher education and submitted its budget directly to the Office of Policy and Management.

However, certain responsibilities of the Board of Governors of Higher Education regarding UConn were transferred to the newly established Board of Regents for Higher Education. Most notably, the university was required to submit recommendations for the establishment of new academic programs to the Board of Regents for Higher Education for approval.

Subsequently, these responsibilities were removed by Public Act 12-129 and Public Act 13-118. The authority to approve new academic programs now rests solely with the Board of Trustees of the University of Connecticut.

UConn is 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. The board makes rules for the governance of the university and sets policies for administration of the university pursuant to duties set forth in Section 10a-104 of the General Statutes. The members of the board as of June 30, 2011 (one position was vacant), were:
Ex officio members:
Dannel P. Malloy, Governor
Gerard N. Burrow, M.D., Chairperson of the UConn Health Center Board of Directors
George A. Coleman, Acting Commissioner of Education
Steven K. Reviczky, Commissioner of Agriculture
Catherine Smith, Commissioner of Economic and Community Development

Appointed by the Governor:
Lawrence D. McHugh, Middletown, Chair
Louise M. Bailey, West Hartford, Secretary
Michael A Bozzuto, Avon
Peter S. Drotch, Framingham, Massachusetts
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:
Francis X. Archambault, Jr., Storrs
Andrea Dennis-LaVigne, Simsbury

Elected by students:
Corey Schmitt, Storrs
Adam Scianna, Newtown

M. Jodi Rell served as Governor during the first part of the audited period; she was succeeded by Dannel P. Malloy, who assumed the office on January 5, 2011. Additionally, during the first part of the audited period, Joan McDonald served as commissioner of Economic and Community Development, Mark K. McQuillan as commissioner of Education, and F. Philip Prelli as commissioner of Agriculture. They were succeeded by Catherine H. Smith in April 2011, George A. Coleman in January 2011 and Steven K. Reviczky in December 2010.

Linda P. Gatling of Southington and Ross Gionfriddo of West Hartford completed their terms June 30, 2009. Effective July 1, 2009, they were succeeded by Corey Schmitt of Storrs and Robert M. Ward of Northford, who served until he was appointed to the position of Auditor of Public Accounts in January 2011.

John W. Rowe of New York resigned at the end of the 2008-2009 fiscal year; he was succeeded by Lawrence D. McHugh of Middletown, effective July 16, 2009. Philip P. Barry of Storrs completed his term August 31, 2009; he was succeeded by Francis X. Archambault, Jr., of Storrs, effective September 1, 2009. Richard Colon, Jr. of Vernon completed his term June 30, 2010; he was succeeded by Adam Scianna of Newtown, effective July 1, 2010.
Cory Schmitt of Storrs, Michael A. Bozzuto of Avon and Michael J. Martinez of East Lyme completed their terms June 30, 2011; they were succeeded by Brien T. Buckman of Stamford, Marilda L. Gandara of Hartford and Thomas E. Kruger, Stamford, effective July 1, 2011.

Pursuant to Section 10a-108 of the General Statutes, the board of trustees is to appoint a president of UConn to be the chief executive and administrative officer of the university and the board. Michael J. Hogan served as the 14th president of the university until he resigned effective June 30, 2010. Philip E. Austin, who served as president until he stepped down on September 14, 2007 and assumed the title of President Emeritus and University Professor, served as interim president until Susan Herbst was appointed as president on December 20, 2010.

UConn main campus is located at Storrs, Connecticut. The university maintains additional facilities and carries out programs at locations across the state. These facilities and programs include:

**Avery Point:**
- University of Connecticut at Avery Point
- Connecticut Sea Grant College Program
- National Undersea Research Center

**Farmington:**
- University of Connecticut Health Center

**Greater Hartford:**
- University of Connecticut at Hartford
- Graduate Programs at Hartford
- University of Connecticut School of Law
- School of Social Work
- Graduate Business Learning Center

**Stamford:**
- University of Connecticut at Stamford
- Graduate Programs at Stamford

**Torrington:**
- University of Connecticut at Torrington

**Waterbury:**
- University of Connecticut at Waterbury
- Graduate Programs at Waterbury

Operations of the UConn Health Center are examined and reported upon separately by the Auditors of Public Accounts.
Auditors of Public Accounts

Autonomy

Statutes governing the state’s constituent institutions of higher education provide the University of Connecticut notable autonomy and flexibility. The most significant changes were effectuated by Public Act 91-256, which greatly expanded certain limited authorities granted by Public Act 90-201. 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 contractual services, execute personal service agreements or lease personal property without the approval of the Comptroller, the Secretary of the Office of Policy and Management or the Commissioner of Administrative Services. Personal service agreements are not subject to the restrictions concerning personal service agreements codified under Sections 4-212 through 4-219. As a compensating measure, personal service agreements executed by 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. UConn issues checks that are drawn on a zero balance checking account controlled by the State Treasurer. Under the approved procedures, funds are advanced from the university’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.

Though Section 3-25 clearly states that “payments for payroll…shall be made solely by the Treasurer…,” UConn does pay the majority of its food service employees directly. This arrangement is discussed in more detail in the Condition of Records section of this report.

UConn 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.

UConn 2000

Public Act 95-230, known as The University of Connecticut 2000 Act, authorized a massive infrastructure improvement program to be managed by UConn. Although subsection (c) of Section 7 of Public Act 95-230 provided that the securities issued to fund this program are to be issued as general obligations of UConn (see Section 10a-109g, subsection (c), of the General Statutes), it also committed the state to fund the debt service, both principle and interest, on these securities, for the most part, from the resources of the General Fund. Per subsection (c) of Section 5 of Public Act 95-230, codified as Section 10a-109e, subsection (c) of the General
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Statutes, “As part of the contract of the state with the holders of the securities secured by the state debt service commitment and pursuant to section 21 of this act, appropriation of all amounts of the state debt service commitment is hereby made out of the resources of the general fund and the treasurer shall pay such amount in each fiscal year, to the paying agent on the securities secured by the state debt service commitment or otherwise as the treasurer shall provide.”

These securities are not considered to be a state bond issue as referred to in Section 3-25 of the General Statutes. Therefore, UConn is able to make payments related to the program directly, rather than process them through the State Comptroller.

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, per Section 10a-109c of the General Statutes.

Furthermore, 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 gift 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, 2008; 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.

However, in accordance with the provisions of Section 10a-8c of the General Statutes, the timing of the payment of the state match is affected by the state’s financial condition. Funds are
not to be disbursed unless the state’s budget reserve (rainy day fund) exceeds ten percent of the net general fund appropriation for the fiscal year in progress. That requirement has not been met since it was established by Public Act 05-3, June Special Session. As a result, approximately $20,100,000 in state match had been earned by UConn and the UConn Health Center, but not yet disbursed, as of June 30, 2012.

In the past, the state match has been deposited in the University of Connecticut Foundation, Inc. when received, as permitted by subsection (b) of Section 19a-109I of the General Statutes. The University of Connecticut Foundation, Inc. has not recognized the outstanding amount as revenue or as an asset, as it does not meet the standards established for recognition under generally accepted accounting principles.

Recent Legislation

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

- Public Act 09-2, June 19 Special Session, Section 2, authorized a deficiency appropriation for the UConn Health Center of $22,200,000.
- Public Act 09-3, September Special Session, Section 60, removed the requirement to maintain the UConn Health Center Medical Malpractice Trust Fund on a sound actuarial basis.
- Public Act 09-7, September Special Session, Section 103, transferred $10,000,000 from the UConn Health Center Medical Malpractice Trust Fund to the General Fund for fiscal years 2009-2010 and 2010-2011.
- Public Act 10-3, Section 16, transferred $8,000,000 and $15,000,000 from the University of Connecticut operating reserve account to the General Fund for fiscal years 2009-2010 and 2010-2011, respectively.
- Public Act 10-104 authorized new bond funding of $207,000,000 for UConn Health Center renovations, including the construction of a new patient tower. The initiative was contingent on the award of a $100,000,000 federal grant, which other states could compete for. Per Section 5 of the enabling legislation, the initiative was to terminate if the $100,000,000 was not obtained through the grant, or from other sources, by June 30, 2015.
- Public Act 11-6, Section 42, provided for the funding of the UConn Health Center hospital fringe rate differential from the resources appropriated to the State Comptroller in an amount not to exceed $13,500,000 per year for fiscal years 2011-2012 and 2012-2013. Section 44 capped expenditures for institutional administration at 3.13 percent and 3.1 percent of the annual General Fund appropriation plus operating fund expenditures, for fiscal years 2011-2012 and 2012-2013, respectively. Section 56 required the president of UConn to submit recommendations for cost savings to the General Assembly by January 1, 2012.
- Public Act 11-48 eliminated the Board of Governors of Higher Education, removing the requirement for UConn to comply with statewide policy and guidelines of
constituent units of the state system of higher education and providing for the university to submit its budget directly to the Office of Policy and Management. Certain responsibilities of the Board of Governors of Higher Education regarding the university, most notably the responsibility for approving new academic programs, were transferred to the newly established Board of Regents for Higher Education. The act also requires the constituent units of the state system of higher education to use their best efforts to fully utilize Core-CT and to initiate the process of determining consistent classification and compensation for employees not represented by an employee organization, as defined in Section 5-270 of the General Statutes.

- **Public Act 11-57, Section 92**, gave the State Bond Commission the authority to authorize up to $172,500,000 for the development of a technology park at UConn.
- **Public Act 11-75**, modified the UConn Health Center initiative established by Public Act 10-104, increasing the authorized amount of bond funding for UConn Health Center renovations by $262,900,000. It removed the requirement to obtain $100,000,000 in grant or other funding before expending state bond funds for the project, replacing it with the requirement that the UConn Health Center contribute not less than $69,000,000 from operations, special eligible gifts or other sources and provide for construction of a new ambulatory care center through debt or equity financing obtained from one or more private developers.
- **Public Act 11-2**, of the October Special Session, established the Connecticut Bioscience Collaboration program within Connecticut Innovations, Incorporated, to support the establishment of a bioscience cluster anchored by a research laboratory housed at the UConn Health Center. It directed the State Bond Commission to authorize up to $290,685,000 for the program.
- **Public Act 12-97** amended Section 10a-151b of the General Statutes to allow for non-competitive purchases for the purpose of testing any technology, product or process.
- **Public Act 12-129** removed certain responsibilities of the Board of Regents for Higher Education regarding UConn, but left intact the responsibility for approving new academic programs.
- **Public Act 13-118** removed the responsibility of the Board of Regents for Higher Education to approve new academic programs at UConn, leaving the authority to approve new academic programs in the hands of the Board of Trustees of the University of Connecticut.
- **Public Act 13-177** established a process for the awarding of design-build contracts by UConn and amended Section 10a-151b of the General Statutes to allow for noncompetitive purchases of agricultural products in an amount of $50,000 or less.
- **Public Act 13-233** established the Next Generation Connecticut initiative as part of the UConn 2000 program, increasing the authorized amount of state bond funding by $1,551,000,000.
**UConn 2000 Authorizations**

As of June 30, 2013, projects totaling $4,619,300,000 were authorized by the legislature under the enabling legislation for the UConn 2000 program.

<table>
<thead>
<tr>
<th>Authorizing Legislation</th>
<th>Cumulative Project Authorizations</th>
<th>Cumulative Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,250,000,000</td>
<td>$962,000,000</td>
</tr>
<tr>
<td>PA 95-230</td>
<td>$2,598,400,000</td>
<td>$2,262,000,000</td>
</tr>
<tr>
<td>PA 02-3</td>
<td>$2,805,400,000</td>
<td>$2,469,000,000</td>
</tr>
<tr>
<td>PA 11-75</td>
<td>$3,068,300,000</td>
<td>$2,731,900,000</td>
</tr>
<tr>
<td>PA 13-233</td>
<td>$4,619,300,000</td>
<td>$4,282,900,000</td>
</tr>
</tbody>
</table>

[a] Under Section 5 subsection (b) of Public Act 95-230, the funding for UConn 2000 included $18,000,000 in state general obligation bonds authorized under Section 1 of Public Act 95-270 and $962,000,000 in UConn bonds authorized under Section 4 subsection (a) of Public Act 95-230.

The legislature authorized additional funding through the issuance of state general obligation bonds. These bonds are obligations of the state and are not included as debt in the UConn financial statements. Several projects were funded in this manner, the most significant was the provision, under Public Act 11-57, of up to $172,500,000 for the development of a technology park at the university.

**Enrollment Statistics**

Statistics compiled by the UConn registrar present the following enrollments in the university’s credit programs during the audited period.

<table>
<thead>
<tr>
<th>Student Status</th>
<th>2009-2010</th>
<th>2010-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fall</td>
<td>Spring</td>
</tr>
<tr>
<td>Undergraduates</td>
<td>21,496</td>
<td>20,584</td>
</tr>
<tr>
<td>Graduates</td>
<td>6,608</td>
<td>6,403</td>
</tr>
<tr>
<td>Professional (School of Law and Doctor of Pharmacy)</td>
<td>897</td>
<td>869</td>
</tr>
<tr>
<td>Medicine – Students</td>
<td>346</td>
<td>346</td>
</tr>
<tr>
<td>Medicine – Other (1)</td>
<td>585</td>
<td>585</td>
</tr>
<tr>
<td>Dental – Students</td>
<td>170</td>
<td>170</td>
</tr>
<tr>
<td>Dental – Other (1)</td>
<td>111</td>
<td>111</td>
</tr>
<tr>
<td>Totals</td>
<td>30,213</td>
<td>29,068</td>
</tr>
</tbody>
</table>

(1) Other includes residents, interns and post-graduate clinical enrollment.
RÉSUMÉ OF OPERATIONS

Under the provisions of Section 10a-105 subsection (a) of the General Statutes, fees for tuition are fixed by the board of trustees. The following summary presents annual tuition charges during the audited period.

<table>
<thead>
<tr>
<th>Student Status</th>
<th>2009-2010</th>
<th>2010-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In-State</td>
<td>Out-of-State</td>
</tr>
<tr>
<td>Undergraduates</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$7,632</td>
<td>$23,232</td>
</tr>
<tr>
<td>Graduates</td>
<td>9,450</td>
<td>24,534</td>
</tr>
<tr>
<td>School of Law</td>
<td>19,608</td>
<td>41,328</td>
</tr>
</tbody>
</table>

Generally, the State Comptroller accounts for UConn operations in:

- General Fund appropriation accounts.
- The University of Connecticut Operating Fund.
- The University of Connecticut Research Foundation Fund.
- The University Bond Liquidation Fund.
- Accounts established in capital project and special revenue funds for appropriations financed primarily with bond proceeds.

UConn maintains additional accounts that are not reflected in the state’s civil list financial system. The most significant relate to the UConn 2000 infrastructure improvement program. They are used to account for the revenue from the issuance of UConn 2000 bonds and related expenditures.

UConn also maintains a special local fund that is used to account for endowments, scholarships and designated funds, loans, agency funds and miscellaneous unrestricted balances. The special local fund was authorized by Governor William A. O’Neill under Section 4-31a subsection (b) of the General Statutes in 1987 to encompass existing local funds which had traditionally been under university control.

Additionally, there are certain trust accounts associated with UConn which, while legally controlled by the university, are not considered part of the University of Connecticut system reporting entity. These include the following university trust accounts:

- Graduate Student Senate Activity Fund
- Storrs Associated Student Government Activity Fund
- Connecticut Daily Campus Activity Fund
- WHUS Radio Station Activity Fund
- Student Organizations Activity Fund
- UConn PIRG (Storrs) Activity Fund
- Student Bar Association Activity Fund
- Legal Clinic Activity Fund
• Law Review Activity Fund
• School of Social Work Activity Fund
• Hartford Associated Student Government Activity Fund
• UConn Public Interest Research Group (Hartford) Activity Fund
• Torrington Associated Student Government Activity Fund
• Stamford Associated Student Government Activity Fund
• Southeastern (Avery Point) Associated Student Government Activity Fund
• Waterbury Associated Student Government Activity Fund
• Student Television Activity Fund

The UConn financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. The university 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. UConn did not elect this option, which was eliminated by GASB Statement No. 61, effective for periods beginning after December 15, 2011.

The UConn financial statements are adjusted as necessary and incorporated in the state’s Comprehensive Annual Financial Report. The financial balances and activity of the university are combined with those of the UConn Health Center, including the John Dempsey Hospital, and presented as an enterprise fund.

UConn employment was stable during the audited period. The university reported 4,410, 4,586 and 4,510 full and part-time faculty and staff (excluding graduate assistants, dining services employees and student labor) as of the Fall 2009, 2010 and 2011 semesters, respectively.

The UConn total net assets balance increased by $25,082,220 from $1,419,244,981 as of June 30, 2009, to $1,444,327,201 as of June 30, 2010. It then decreased by $48,971,792 to $1,395,355,409 as of June 30, 2011. These changes did not accurately reflect fluctuations in the results of operations. They were caused by the timing of the provision of state capital appropriation support to the university.

UConn received $61,714,293 in state capital appropriations in the form of the state debt service commitment for principle attendant on the sale of bonds in connection with the UConn 2000 infrastructure improvement program in the fiscal year ended June 30, 2010. No bonds were sold in the fiscal year ended June 30, 2011. If state capital appropriation support had accrued evenly during the audited period, the university’s total net assets balance would have fallen slightly in each fiscal year.
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The net decrease in total net assets during the audited period was attributable to a decrease in the amount of net assets restricted for capital projects from $88,449,046 as of June 30, 2009, to $35,204,393 as of June 30, 2011. The UConn unrestricted net assets balance increased by $15,558,392 from $147,248,610 as of June 30, 2009, to $162,807,002 as of June 30, 2010. It increased again during the following fiscal year, by $12,566,888, to $175,373,890 as of June 30, 2011. Similarly, the university’s cash and cash equivalents balance increased by $25,344,108 from $241,683,392 as of June 30, 2009, to $267,027,500 as of June 30, 2010, and again by $9,457,464 during the following fiscal year to $276,484,964 as of June 30, 2011.

Total UConn revenues, operating and non-operating, and other additions, were $1,006,344,067 and $992,165,520 for the fiscal years ended June 30, 2010 and 2011, respectively. General Fund support, primarily in the form of annual appropriations for operating expenses, in-kind fringe benefit support and the state debt service commitment for principle and interest on UConn 2000 related bonds, was the university’s largest source of revenue. It totaled $425,733,114 (42 percent) and $368,929,084 (37 percent) of total revenues and other additions for the fiscal years ended June 30, 2010 and 2011, respectively. The decrease in the second year of the audited period was primarily attributable to the timing of the provision of state capital appropriation support to the university, as discussed above.

Other significant sources of revenue included student tuition and fees, sales and services of auxiliary enterprises, and grant and contract revenues. Student tuition and fees were $223,765,745 and $233,881,176 for the fiscal years ended June 30, 2010 and 2011, respectively. Sales and services of auxiliary enterprises were $161,779,750 and $173,133,156 for the fiscal years ended June 30, 2010 and 2011, respectively. Grant and contract revenues totaled $147,183,551 and $164,554,991 for the fiscal years ended June 30, 2010 and 2011, respectively.

Total UConn expenses, operating and non-operating, and other deductions were $981,261,847 and $1,041,137,310 for the fiscal years ended June 30, 2010 and 2011, respectively. Most were classified as operating expenses. A schedule of operating expenses by functional classification, as presented in the university’s financial statements for the audited period follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>2009-2010</th>
<th>2010-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>271,938,477</td>
<td>292,202,505</td>
</tr>
<tr>
<td>Research</td>
<td>72,285,789</td>
<td>74,481,178</td>
</tr>
<tr>
<td>Public Service</td>
<td>35,623,219</td>
<td>41,469,821</td>
</tr>
<tr>
<td>Academic Support</td>
<td>90,592,860</td>
<td>98,392,707</td>
</tr>
<tr>
<td>Student Services</td>
<td>37,063,394</td>
<td>39,754,920</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>83,175,410</td>
<td>88,649,671</td>
</tr>
<tr>
<td>Operations and Maintenance of Plant</td>
<td>66,742,254</td>
<td>71,365,159</td>
</tr>
<tr>
<td>Depreciation</td>
<td>90,038,785</td>
<td>90,334,794</td>
</tr>
<tr>
<td>Student Aid</td>
<td>4,637,480</td>
<td>5,490,504</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>145,413,739</td>
<td>154,516,560</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>24,508,359</td>
<td>19,740,639</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>922,019,766</td>
<td>976,398,458</td>
</tr>
</tbody>
</table>
The non-operating expenses during the audited period consisted primarily of interest payments. Interest expense was $48,557,957 and $48,823,995 for the fiscal years ended June 30, 2010 and 2011, respectively. This expense was, for the most part, offset by transfers from the state General Fund. The state debt service commitment for interest was $38,557,064 and $39,978,225 for the fiscal years ended June 30, 2010 and 2011, respectively. The interest charges on debt issued to finance certain projects, primarily related to student housing, were absorbed by the UConn operating fund.

Non-operating expenses also included transfers of reserves to the state General Fund. The amounts transferred were $8,000,000 and $15,000,000 during the fiscal years ended June 30, 2010 and 2011, respectively.

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

<table>
<thead>
<tr>
<th></th>
<th>University of Connecticut Foundation, Inc.</th>
<th>Law School Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fiscal Year Ended</td>
<td>Fiscal Year Ended</td>
</tr>
<tr>
<td>Assets</td>
<td>348,244,000</td>
<td>396,314,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>13,329,000</td>
<td>18,207,000</td>
</tr>
<tr>
<td>Net Assets</td>
<td>334,915,000</td>
<td>378,107,000</td>
</tr>
<tr>
<td>Revenue and Support</td>
<td>66,289,000</td>
<td>83,176,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>36,771,000</td>
<td>39,984,000</td>
</tr>
</tbody>
</table>
STATE AUDITOR’S FINDINGS AND RECOMMENDATIONS

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

COMPENSATION LIMITS

Criteria: Compensation levels for state employees are normally determined by established salary schedules. Employees generally receive annual increases, advancing within the schedules until they reach the maximum salary for their positions. Once employees reach the maximum salary for their positions, their base salaries only increase when the salary schedules are adjusted for inflation.

Condition: Compensation for UConn employees that fall under one of the standard state collective bargaining agreements is in accordance with the practice described above. However, though the university has established hiring salary guidelines for employees that fall under the University of Connecticut Professional Employees Union, it has not established maximum rates of pay for such employees. For employees that fall under the American Association of University Professors collective bargaining agreement (primarily faculty), only minimum rates have been established. For other non-classified employees, such as managers and confidential employees, neither minimum nor maximum rates have been established.

Effect: The compensation levels of UConn professional employees can increase indefinitely.

Cause: Section 10a-108 of the General Statutes gives the board of trustees the authority to fix the compensation of the faculty and other professional employees under its jurisdiction. Action has been taken to improve oversight; the board established a Committee on Compensation to address non-faculty compensation in March 2011. However, the board has not opted to establish maximum salary levels, as is standard practice for state employees.

Recommendation: The University of Connecticut should establish maximum salaries for all professional employees, through the collective bargaining process if necessary. The maximum salaries should not be exceeded for new hires or existing employees without specific board approval. (See Recommendation 1.)

Agency Response: “The University continues to recognize that a sound compensation structure is important to the effective recruitment and retention of a highly qualified workforce, as well as to support effective management of
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financial resources. The University’s Board of Trustees Committee on Compensation continues to monitor the salaries and compensation of university executives and management employees, and supports established guidelines by which relevant national market data from CUPA (top 20 Public Research Universities, top 50 National Research Universities, top 50 Public Research Universities) and/or a blend of corporate and not-for profit data are used to benchmark the University’s executive management positions. Recent reports show that current salaries for UConn’s executive management positions are generally consistent with the salaries for positions with comparable duties and responsibilities in the four markets referenced above. The University has committed to providing the Board of Trustee’s Compensation Committee periodic reports to ensure compliance with these guidelines.

The compensation structure and application for university professional employees that are represented by a bargaining union are established through the collective bargaining process. Any changes to the provisions of the contract or established practices would have to be addressed through contract negotiations, which are not scheduled to begin until 2015.”

Auditors’ Concluding Comments: We recognize that UConn has made efforts to improve control over compensation, most notably with the establishment of the Board of Trustees Committee on Compensation to increase board oversight. The university should extend its efforts in this area by establishing maximum salaries for all professional employees, in keeping with standard state practice.

FOOD SERVICES EMPLOYEES

Background: The Associated Student Commissaries was an association of student-operated commissaries occupying UConn residences that was formed to provide central administrative services for the member commissaries. It operated as an activity fund established under the authority of Section 4-53 of the General Statutes, in accordance with procedures prescribed by the State Comptroller.

In 1979, the Connecticut State Board of Labor Relations was asked to determine whether the employer of cooks and kitchen assistants in the member commissaries was the Associated Student Commissaries or the individual member commissaries. The Board of Labor Relations concluded that they were employed by the individual student commissaries, as the power to hire, discharge and discipline the kitchen employees, as well as to control the wages, hours, and other conditions of
employment, was vested in the individual commissaries, not in the Associated Student Commissaries.

Employees of the member commissaries comprised only a portion of the UConn food service employees at that time. Employees serving in the large dining halls were state employees paid through the State Comptroller.

The degree of independence and authority possessed by the member commissaries gradually eroded over time. Eventually, the smaller dining halls formerly controlled by the member commissaries closed and the Associated Student Commissaries activity fund effectively ceased operations.

Currently, students are served by several large dining halls operated by the Department of Dining Services of the Division of Student Affairs. The power to hire, discharge and discipline staff and to control the wages, hours, and other conditions of employment rests with UConn administrators. However, most of the food service operations employees staffing these large dining halls are now paid directly by the university in a manner similar to the way the former employees of the member commissaries were compensated.

Most food service operations employees are not members of the state retirement system. Instead, they are eligible to participate in two other retirement plans, the Department of Dining Services Money Purchase Pension Plan or the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

UConn filed a request for a ruling regarding the status of the Department of Dining Services pension plans on May 17, 1999. In a ruling dated February 24, 2000, the Internal Revenue Service agreed that the food service operations employees are employees of an agency or instrumentality of the state and that the plans are governmental plans.

**Criteria:**

Under Section 10a-108 of the General Statutes, the board of trustees has the authority to “employ the faculty and other personnel needed” and “fix the compensation of such personnel.” The board’s authority to fix compensation does not extend to employees in state classified service. The work done by most food service operations employees appears to be of a type typically performed by employees in state classified service. Section 10a-108 does not address participation in retirement plans.

Section 3-25 of the General Statutes authorizes constituent units of the state system of higher education to pay certain claims directly, rather than
through the State Comptroller. However, Section 3-25 specifically excludes payments for payroll.

**Condition:**
The approximately 500 food service operations employees at UConn are generally referred to as dining services employees to distinguish them from other university employees. However, the Department of Dining Services is a unit of the university and, therefore, of the state. Accordingly, the employees of the university’s food service operation are employed by the state.

Unlike other UConn employees, they are paid directly by the university instead of through the State Comptroller. Additionally, as noted above, they participate in separate retirement plans.

In our prior audit report, we recommended that UConn seek clear statutory authority for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. The university has taken the position that this aspect of its Department of Dining Services operations is a separate entity that is not subject to Section 3-25 of the General Statutes. As we do not feel that this position is tenable, we continue to recommend that the university seek clear statutory authority to compensate its food service operations employees in this manner.

**Effect:**
Though there are sound operational reasons for the UConn method of compensating its food service operations employees, the legal basis for the direct payment of wages by the university is unclear, as is the participation of these employees in separate retirement plans.

**Cause:**
UConn did not seek clear statutory authority to compensate its dining service operations employees in this manner.

**Recommendation:**
The University of Connecticut should seek clear statutory authority for the direct payment of wages to its food service operations staff and for their participation in separate retirement plans. (See Recommendation 2.)

**Agency Response:**
“The General Counsel will lead the required investigation of whether the existing structure is legally supportable and an evaluation of other alternative structures which may be required or preferable. The analysis of alternatives and their viability will likely require operational and financial information obtained from others. Some of the alternatives may require legislative action. Identification of the recommended change, if any, by March 1, 2014. Time for implementation depends on the nature of the change.”
RESUME AND BACKGROUND CHECKING

Criteria: Employment candidate representations regarding their work experience and professional credentials are a key factor in hiring decisions. Verification of these representations is a fundamental part of the hiring process.

Condition: In spring 2012, we reviewed 40 instances in which individuals were appointed to new positions (new hires, promotions and transfers). We found that UConn:

- Did not have institution-wide policies regarding criminal background checks, although several university departments with safety and/or security concerns requested criminal background checks on prospective employees prior to finalizing a hiring decision.
- Did not appear to obtain adequate assurance regarding the truthfulness of the claims made by job candidates concerning their experience and professional credentials.

UConn has since addressed our concern regarding criminal background checks. Beginning in fall 2013, criminal background checks will be conducted for all new regular payroll hires, with further expansion of the program to follow.

Effect: Misrepresentation of work experience and professional credentials by a job candidate can result in unfortunate hiring decisions.

Cause: The hiring process at UConn is decentralized. Confusion may exist regarding the responsibility for verification of work experience and professional credentials. Additionally, reliance was placed on candidates’ electronic attestations regarding the accuracy of their representations.

Recommendation: The University of Connecticut should establish procedures for verifying the representations of job candidates regarding their work experience and professional credentials. The procedures should clearly assign responsibility for the task and be sufficient to provide adequate assurance. (See Recommendation 3.)

Agency Response: “The University agrees that verifying job candidates’ work experience and professional credentials is an important component of the hiring process, and will continue to emphasize with hiring administrators their obligation and accountability to validate credentials. Given the University’s decentralized hiring model, the Department of Human Resources will update the existing ‘Guide to Effective Recruiting’ to include specific tasks that hiring administrators should utilize to obtain assurances that the
chosen candidate possesses the required credentials for vacancies. In addition Human Resources will research the cost impact and feasibility of expanding the criminal background check program to also include credentials checks.”

Auditors’ Concluding Comments: It may not be cost effective to decentralize aspects of the hiring process that require specialized knowledge and training. The university should consider consolidating aspects of the hiring process under the Department of Human Resources to efficiently implement essential controls.

PAYMENTS FOR ACCRUED COMPENSATED ABSENCES

Criteria: When employees terminate their state service, they are entitled to be paid for unused vacation leave in accordance with the provisions of Section 5-252 of the General Statutes, subject to certain contractual limitations. When certain employees (those in the state’s classified service) retire, they are also entitled to be paid for unused sick leave at the rate of one-fourth of their salary up to a maximum payment equivalent to sixty days’ pay, in accordance with the provisions of Section 5-247 of the General Statutes. These unused leave balances are referred to as accrued compensated absences.

Additionally, certain UConn managers are paid for their accumulated vacation leave when they change status and become members of the faculty bargaining unit. This is a university policy established under the authority of Section 10a-108 of the General Statutes.

Condition: In our prior audit report, we noted that:

- In a review of payments to 20 employees for accrued compensated absences made during the period of March 2007 through April 2009, we found two errors that had not been detected by UConn, resulting in overpayments of $1,367 and $28,808.

- In a review of payments to 27 employees for accrued compensated absences made during the fiscal year ended June 30, 2010, we found two errors that had not been detected by UConn, resulting in underpayments of $138 and $3,290.

- In our report on UConn for the fiscal years ended June 30, 2006 and 2007, we noted that our review had disclosed errors, ranging from $93 to $835, in the calculation of five of 25 payments tested.
UConn instituted improved controls in this area starting with the pay period ended July 15, 2010. All payments for accrued compensated absences are now audited for accuracy by a payroll supervisor on a biweekly basis.

In our prior report, we recommended that UConn review payments made before the pay period ended July 15, 2010. In response, the university reviewed payments made during the fiscal year ended June 30, 2010. Since the condition that resulted in inaccurate payments was not confined to the fiscal year ended June 30, 2010, we believe the university should not have limited its review to that period.

**Effect:** We reviewed only a test sample of payments made. It is likely that other errors occurred and remain uncorrected.

**Cause:** Prior to the pay period ended July 15, 2010, payments for accrued compensated absences were not subject to routine supervisory review.

**Recommendation:** The University of Connecticut should expand its review of payments made for accrued compensated absences during the fiscal year ended June 30, 2010, to prior periods. (See Recommendation 4.)

**Agency Response:** “Agree. Management enhanced its review process after the initial audit finding, including an additional payroll supervisor review, of the calculation for compensated absences of all separated employees and has corrected this condition. In addition to the payments already reviewed for Fiscal Year 2010, the University completed a thorough review of all payments made for accrued compensated absences for Fiscal Year 2009. For discrepancies noted in this review, past employees were contacted to make necessary adjustments.”

**HIRE ACT**

**Criteria:** The Hiring Incentives to Restore Employment (HIRE) Act, enacted March 18, 2010, provided employers with an exemption from the employer’s 6.2 percent share of social security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010 through December 31, 2010.

**Condition:** UConn did not take advantage of the HIRE Act.

**Effect:** UConn did not benefit from any reduction in costs that the HIRE Act could have afforded.
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Cause:
Responsibility for processing the UConn payroll is shared between the university and the Office of the State Comptroller. It appears that there was a breakdown in communication between the two.

Recommendation:
The University of Connecticut should determine the feasibility of recovering Social Security taxes paid that, under the HIRE Act, it was not required to pay. (See Recommendation 5.)

Agency Response:
“Agree. The University completed an analysis of those employees hired during the qualifying period of the Hire Act (Act). It contacted current and former employees who met the hire date criteria under the Act and asked those employees that met the eligibility requirements to complete the IRS Form W-11 attesting to their eligibility under the Act. A total of $50,738, representing social security tax savings, was reported to the Office of the State Comptroller for inclusion in their amended 941 tax filing for calendar year 2010.”

Auditors’ Concluding Comments:
We were informed that the adjustment was included in the amended 941 tax filing for calendar year 2010. As of May 2014, recovery of the $50,738 was pending.

COST SHARING

Background:
Sponsored research projects benefit the universities that carry out the research, providing important educational opportunities for students and professional development for faculty. Since universities benefit from the projects, it is reasonable for them to share in the costs of the projects by funding a portion of those costs from their own unrestricted resources.

Granter may require universities to commit specified resources to the projects (mandatory cost sharing) and universities may volunteer to assume a share of the cost to give their proposals a competitive advantage (voluntary committed cost sharing). Additionally, faculty may voluntarily devote additional effort over and above what has been committed because of their personal interest in the projects (voluntary uncommitted cost sharing).

Criteria:
Cost sharing is commonly achieved by paying researchers out of unrestricted UConn resources (i.e., funding provided to the university from the resources of the state’s General Fund) while they work on sponsored projects. University administrators, and others with oversight responsibilities, need to know how much the university is spending to support sponsored programs in this manner in order to determine whether unrestricted resources are being used appropriately.
**Condition:**

UConn tracks mandatory and voluntary committed cost sharing in its time and effort reporting system. It does not track voluntary uncommitted cost sharing. Our reviews indicate that there is a significant amount of voluntary uncommitted cost sharing at the university.

For example, we questioned 35 researchers as to the accuracy of their Fall 2009 time and effort reports. We found that 25 of the reports appeared to overstate the percentage of effort devoted to instruction and understate the percentage of effort devoted to sponsored research. One researcher’s time and effort report showed 100 percent of effort devoted to instruction, but the researcher informed us that 70 percent was actually devoted to sponsored research. On average, the percentage of effort devoted to sponsored research was understated by unrecorded cost sharing amounting to 29 percent of total effort.

Though UConn does not track voluntary uncommitted cost sharing, and our reviews were not designed to quantify the amount of voluntary uncommitted cost sharing, it does appear that it absorbs a significant amount of unrestricted university resources.

**Effect:**

The use of unrestricted UConn resources for sponsored research is in keeping with the university’s goal of recognition as one of the nation’s top-20 public research universities, according to the annual rankings produced by *U.S. News and World Report*. However, without effective monitoring of the amount of unrestricted university resources directed to sponsored research projects by researchers, the university cannot reasonably estimate the associated concomitant costs and determine whether the amount used is appropriate.

Though we acknowledge that, given the UConn environment, time and effort reporting is necessarily imprecise, we believe that tracking voluntary uncommitted cost sharing in the university’s time and effort reporting system would increase the accuracy of the university’s breakdowns of costs incurred by function, especially the breakdown between instruction and research. This would allow the university to better make informed financial decisions.

**Cause:**

UConn feels that the cost of tracking voluntary uncommitted cost sharing would exceed the value of any benefits accruing from the process. We believe that it would not significantly increase costs, as researchers are already required to provide a reasonable breakdown of all their time and effort to document compliance with grantor requirements – it would only require more accurate reporting of the distribution of their time and effort between instruction and research.
Recommendation: The University of Connecticut should track voluntary uncommitted cost sharing in its time and effort reporting system. (See Recommendation 6.)

Agency Response: “The University disagrees with this finding. Faculty are paid by the University to devote a certain portion of their time to research. This includes mentoring graduate students, lab meetings, writing up research results for publication. Many faculty members get no outside funding for their research. Institutionally funded research is included in the Instruction category of the effort reports. OMB Memorandum 01-06 “Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs” dated January 5, 2001 clarifies that voluntary uncommitted cost is excluded from the effort reporting requirement of section J.8. Voluntary uncommitted cost sharing effort is defined as researcher’s effort that is over and above of what is committed in a proposal and award. Mandatory and voluntary committed cost sharing has to be reported as part of the effort certification. Voluntary uncommitted cost sharing effort is faculty-donated additional time above of what has been agreed to as part of the award and is excluded from the effort reporting requirement in section J.8. of A-21. This treatment is consistent with the guidance in section J.8.b (1).c, "Payroll Distribution," that a precise documentation of faculty effort is not always feasible, nor is it expected, because of the inextricably intermingled functions performed by the faculty in an academic setting (i.e., teaching, research, service and administration). We talked with representatives of some of our peer institutions, and none of them track voluntary uncommitted cost-share.”

Auditors’ Concluding Comments: We agree that there is no federal requirement to document voluntary uncommitted cost sharing in the time and effort reporting system and that it may be excluded from the organized research base when calculating facilities and administrative costs. Our recommendation is not being made from a federal compliance perspective.

Our reviews indicate that voluntary uncommitted cost sharing is substantial enough to have a significant fiscal impact. Currently, voluntary uncommitted cost sharing is classified as educational expense. This exaggerates the amount spent on education and understates the amount spent on research. It would be valuable to have a better cost breakdown between the educational and research functions in order to make more informed budgetary decisions.
FINANCIAL SYSTEM SELECTION PROCESS

**Background:** University management determined that the UConn legacy financial system had reached the end of its useful life. Management decided that it should be replaced with a higher education specific application that would offer improved workflow, eliminate paper-based processing and provide better internal control. A new financial system based on Kuali Financial System software was deployed effective July 1, 2012. As of June 30, 2013, $10,115,520 in Kuali development costs had been capitalized.

**Criteria:** Major software acquisitions should be subject to a formal selection process. All those whose work will be affected by the new technology should have representation in the process. Available alternatives should be comprehensively reviewed. The selection process, and the basis for the selection made, should be thoroughly documented.

**Condition:** We planned to review documentation of the financial system selection process to verify that UConn conducted a thorough review of available alternatives and provided a reasonable basis for the selection made.

We were unable to carry out our planned procedures, as UConn did not adequately document the selection process. The documentation that we were provided with appeared to have been created after the choice had been made and was focused on explaining the advantages of the chosen system to the university community.

We could not find any indication of a feature-by-feature comparison of competing products or any evidence that any systems other than PeopleSoft or Banner were considered.

The selection process appeared to have been driven solely by the UConn core financial management and staff. After Kuali was selected, there was significant effort to educate other stakeholders as to its advantages vis-à-vis the university’s existing financial system and obtain their buy-in to the decision. However, we found no evidence of significant input from the broader university community in the initial selection of Kuali over other competing accounting systems.

**Effect:** More advantageous alternatives may have been overlooked.

**Cause:** It is unclear why UConn did not issue a request for proposal and conduct a formal, well documented, selection process.

**Recommendation:** The University of Connecticut should conduct a formal, well documented, selection process for all major acquisitions. Every functional area that will
be significantly affected should have adequate representation and input into the process. (See Recommendation 7.)

Agency Response: “We agree.”

FINANCIAL SYSTEM IMPLEMENTATION PROCESS

Criteria: To reduce risk, projects should be subjected to a comprehensive risk assessment and mitigation process, and a detailed control framework should be developed.

Condition: UConn executed a fixed-price contract with a consulting firm to assist in the implementation process. However, it does not appear that the university verified the firm had sufficient financial resources to fulfill their contractual commitments if material cost overruns were experienced and/or required a performance bond.

The contract with the consulting firm was submitted to the board of trustees for approval. Subsequently, a presentation describing the project was made to the board. However, it does not appear that the board ever approved the project, per se. A project of this magnitude should not have been initiated without board approval.

UConn licensed SciQuest purchasing software effective December 31, 2009. Annual license fees paid were $331,500, $305,660 and $265,235 in the first three years of the contract period. Though significant licensing costs were incurred, the university did not make use of this software until Kuali Financial System software was deployed effective July 1, 2012. This software should not have been licensed before the university was ready to make use of it.

The UConn internal audit unit found that a detailed contingency plan specifying the actions to be taken in the event the implementation failed had not been prepared. It appears that the university intended to revert to the previous financial system if necessary, but had not established decision points that would trigger this action nor documented how it would be carried out.

The internal audit unit also found that “the Kuali project leadership utilized a hands-on approach in the management of the KFS project which successfully mitigated weaknesses associated with a lack of an adequate control framework.”

Effect: The successful implementation of the new financial system is a tribute to the efforts of the Kuali implementation team. However, UConn incurred
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risks that could have been avoided with a more deliberate approach that combined a more comprehensive risk assessment and mitigation process with the development of a more detailed control framework.

**Cause:** A comparable effort to implement a human resources system was abandoned 2011-2012 fiscal year, after significant delays and large cost overruns were experienced. Taking this into consideration, the Kuali implementation team prioritized deployment of the new financial system within the planned timeframe.

**Recommendation:** The University of Connecticut should develop a structured methodology for major software implementation projects. All projects should be approved by the board of trustees before they are initiated. (See Recommendation 8.)

**Agency Response:** “Agree. Major IT implementation projects will be required to have BOT approval and will have a defined implementation plan that specifies key milestones or decision points. These changes will be communicated to the board at the next meeting.”

**BUSINESS CONTINUITY AND DISASTER RECOVERY**

**Criteria:** Information technology systems provide mission critical support functions. A business continuity and disaster recovery plan provides a comprehensive framework for actions to be taken in response to disruptive events in order to minimize their effect on operations. A critical first step in preparing a business continuity and disaster recovery plan is to implement an ongoing risk assessment and mitigation process.

**Condition:** In our previous report, we noted that, as of June 2011, the UConn Information Technology Services Department, which maintains the university’s core systems, did not have an updated disaster recovery plan on file.

We followed up on this issue in December 2012. We found that UConn had engaged a consultant to begin the process of implementing an ongoing risk assessment and mitigation process and preparing a business continuity and disaster recovery plan. However, it appeared that no significant progress had been made.

**Effect:** The lack of a current business continuity and disaster recovery plan could hamper the ability of UConn to respond in a timely fashion if a disaster seriously compromised its core information technology systems. If key personnel crucial to the process were unavailable, the university’s ability to recover could be severely limited.
Cause: The cause could not be readily determined.

Recommendation: The University of Connecticut should implement an ongoing risk assessment and mitigation process, and prepare a business continuity and disaster recovery plan. The plan should be continuously updated, taking into consideration changes in the systems and resources available to address potential risks. (See Recommendation 9.)

Agency Response: “Agree. The University has developed a Risk & Compliance Self-questionnaire. It is expected that UITS/ISO will be requesting that all Deans, Directors and Dept. Heads complete the questionnaire annually beginning with a baseline solicitation in 2013. Any risk identified as a result to the questionnaire will be evaluated and prioritized through the Information Security Office’s Risk Management Program which includes a risk tracking and mitigation framework. BCP/DR specific concerns will be mapped to the recently developed Critical Infrastructure Protection Plan (CIPP) and the associated Business Continuity Plan framework.”

INFORMATION TECHNOLOGY ACCESS CONTROLS

Criteria: Both physical and logical access controls need to be properly designed and implemented to safeguard critical information and processes. Physical controls protect data processing equipment and storage media by restricting physical access to authorized staff. Logical controls preserve the integrity of the data and the software used to process it by preventing unauthorized users from viewing or altering the data and/or the software.

Condition: We found that data center access cards were still active for individuals that had either transferred to another area within the university, retired, or were no longer employed by the university. We also noted the issuance of generic (not assigned to a specific individual) data center access cards and found that some individuals were issued multiple access cards.

Firewall administration is decentralized at the university; there are several firewall administrators for the various systems/applications. Additionally, the current firewall policy does not cover all firewall infrastructures; it only addresses the internet firewall. The lack of centralized administration has led to an inconsistency in the application of firewall policies and procedures.

The UConn internal audit unit found problems with access controls during a review of the Student Administration System and the associated Student Administration Data Mart. To address these problems, the internal audit unit recommended that:
The creation, management and removal of permissions for Student Administration System user accounts be centralized to a single area.

The access afforded by Student Administration System user accounts be reviewed at least annually by system administrators working in concert with functional leads to ensure that the users’ access is in line with their business responsibilities.

Automated processes for identifying the Student Administration System accounts of separated staff and faculty be augmented and the accounts terminated in accordance with UConn policy. Unused accounts should be removed from the system or disabled with non-student roles removed, after a reasonable period of time.

A process for terminating access to the Student Administration Data Mart be developed that includes use of the separation and employee transfer report available from the Department of Human Resources to identify users whose access should be terminated.

All modifications to users’ access rights to the Student Administration Data Mart be reflected on properly completed and authorized access request forms, and all access request forms be stored in a single central location.

Effect: Unauthorized access to the UConn information technology systems could jeopardize the integrity of the data stored on those systems and the business processes they are used to carry out.

Cause: The cause could not be readily determined.

Recommendation: The University of Connecticut should make certain improvements to physical and logical information technology system access controls. (See Recommendation 10.)

Agency Response: “Information Technology Access Controls improvements to date include:

- Reviewed employee access to the University data center and implemented restricted access to only employees that require it.
- Implemented Firewall Rules changes alerts and periodic reviews.
- Access to the Student Admin system no longer uses shared accounts, roles and permissions are uniquely managed.
- Developed a process for terminating access to the SADM. This process uses the separation and employee transfer report available from Human Resources to identify users whose access to the SADM should be removed. Reviewed current accounts inventory and cleaned up extraneous accounts.
- Access request forms are now managed in a central location.
Functional leads performed a review of SA roles and permissions. All unnecessary roles have been removed and the remaining roles have been documented.

PURCHASING CARDS

Background: Under the University of Connecticut MasterCard Purchasing Card Program, cardholders can pay for goods and services using a University Purchasing Card, a credit card issued by JP Morgan Chase. This is a procurement tool that provides an alternative to the existing UConn procurement processes.

Criteria: Credit card purchases are not subject to the standard controls established for existing UConn procurement processes. Completion and approval of a monthly purchasing card log is a key compensating control. The log lists all purchases made and is signed by the cardholder and the record manager.

The cardholder signs the log, certifying that it, and by extension, the listed transactions, are consistent with UConn policies and procedures. Another staff member, designated as the record manager, then reviews and signs the report attesting to the accuracy of the cardholder’s statement.

Condition: We reviewed 25 purchasing card logs. We found that, with respect to 20 of the 25 logs reviewed, the record managers signing off on the logs were co-workers, subordinates, lower level staff or the cardholders themselves.

Effect: The effectiveness of this key control is greatly reduced when the individual reviewing and approving the purchasing card log has no authority over, or is under the authority of, the cardholder.

Cause: It is unclear why UConn procedures do not require that the responsibility for signing off on purchasing card logs be assigned to staff with supervisory authority over the cardholders.

Recommendation: The University of Connecticut should require that purchasing card logs be approved by a staff member with supervisory authority over the cardholder. (See Recommendation 11.)

Agency Response: “Partially agree. Due to the decentralized nature of the University, departmental structures and staffing levels models may not afford the ability for a direct supervisory review of the purchasing card (PCard) logs. However, a secondary review and systematic controls will be developed and deployed to ensure integrity of program intent and appropriateness of transactions. University PCard Program controls include a daily, active
review of each PCard transaction, which is in addition to random and scheduled, periodic departmental reviews. Training and program application requirements, along with existing policies and procedures, clearly define program responsibilities and participant compliance requirements.”

**Auditors’ Concluding Comments:**

UConn already has a procedure in place for review and signoff on purchasing card logs. The only problem we noted with this procedure is that, in some cases, responsibility for review and signoff had not been appropriately assigned.

Though the university is decentralized, virtually all staff report to a higher level. Developing and deploying a secondary review and systematic controls appears to be an unnecessary response. Properly assigning responsibility for review and signoff should be sufficient to address this control deficiency.

**CONTRACT EXECUTION**

**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:** We have repeatedly noted instances in which contracts were executed after work began. For example, during our testing of a sample of fiscal year 2010-2011 expenditures, we noted 14 instances in which contracts were executed by the university after the contractual start date. Delays ranged from 18 days to 10 months; contract amounts ranged from $12,000 to $1,391,137.

**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 processing the contracts did not adhere to the policies and procedures established by UConn.

**Recommendation:** The University of Connecticut should not authorize contractors to begin work before contracts are executed. (See Recommendation 12.)

**Agency Response:** “The University partially agrees with this finding. We agree that contracts in general should be issued and signed prior to their start dates. However, when dealing with research collaborations under grant funding, it may be
unavoidable to allow work to start prior to execution of the award document to allow for the time it takes to process the paperwork. UConn and its subawardee agree at the time of proposal in a signed document (Consortium Statement) to collaborate on the proposed project once funded. The sponsoring agency allows both prime recipient (UConn) and subawardee to start work once the award has been issued. The contractual paperwork solidifies the existing collaborative relationship established at the time of proposal. We are working on improving our processes so that the time elapsed between start date and execution date is as short as possible.”

Auditors’ Concluding Comments: Reducing the time period between start date and execution date decreases the period during which UConn is at risk, but the risk is still present. Additionally, authorizing contractors to begin work could conceivably create an implied contract without defined terms.

Contracts should be executed before work begins. If funding is not assured, payment can be made conditional on the receipt of funding.

RECEIVING REPORTS FOR PREPAYMENTS

Criteria: Payments for goods or services should be supported by a documented confirmation by a responsible party as to the satisfactory receipt of goods or services.

Condition: On August 16, 2010, UConn contracted with Columbia Artists Management LLC for a performance to be given on November 9, 2010, in the amount of $23,375. The check was issued in advance, as is common for this type of transaction. Staff did not prepare, subsequent to the event, a receiving report to document that the vendor had fulfilled its contractual obligations.

Effect: The lack of a receiving report lessens the assurance the university can have that the services were provided in accordance with the contract.

Cause: UConn procedures do not adequately address transactions of this nature that require payment prior to or at the time services are provided.

Recommendation: The University of Connecticut should prepare receiving reports when payment is required prior to a performance to document that the vendor has fulfilled its contractual obligations. (See Recommendation 13.)

Agency Response: “Agree. While management believes there is not a significant risk that payment would be made without the completion of a performance, it will
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develop new procedures. Currently, the check is handed to the performer on the day/night of the performance. New procedures will be implemented to confirm and document that the vendor has fulfilled its contractual obligations.

These procedures will include the following:

Jorgenson Auditorium and Student Activities: for performance payments made in advance through the Kuali Financial System (KFS), staff from the applicable area will email performance confirmation to Accounts Payable (AP), and AP will scan and upload the confirmation into KFS so that it becomes a permanent record in KFS.”

CERTIFICATIONS

Criteria: Per Section 4-252 of the General Statutes and Governor Rell’s Executive Order 7C, paragraph 10, state contracts amounting to more than $50,000 per year must be accompanied by a certification from the contractor regarding the provision of gifts to state officials or employees involved with or having authority over the procurement process. The state official or employee executing the contract must certify that the award was not the result of collusion, the giving of a gift or the promise of a gift, compensation, fraud or inappropriate influence from any person.

Per Section 1-101qq of the General Statutes, the contractor must affirm (1) receipt of the summary of state ethics laws developed by the Office of State Ethics pursuant to Section 1-81b and (2) that key employees of such person, contractor, subcontractor, or consultant have read and understood the summary and have agreed to comply with its provisions.

Condition: During our testing of expenditures of the 2010-2011 and 2011-2012 fiscal years, we found that the required certifications were not obtained for purchases of library materials. During our testing of expenditures of the 2011-2012 fiscal year, we found that the required certifications were not obtained for other purchases that were also handled at the department level, rather than processed through the purchasing department.

Effect: With respect to these transactions, the university did not comply with state requirements designed to encourage ethical behavior.

Cause: These purchases were handled at the departmental level by employees unfamiliar with these state requirements, rather than processed through the UConn purchasing department.
Recommendation: The University of Connecticut should process all procurement transactions through the purchasing department to ensure they are reviewed by staff familiar with the relevant state requirements. (See Recommendation 14.)

Agency Response: “Disagree. Due to the decentralized nature of the University, departmental structures and staffing level models, certain library materials acquisitions are acquired directly by library operations staff. Library material requests, when processed through the Procurement Services Department, adhere to required and relevant procurement contracting compliance certifications and documents. Additionally, Procurement Services works collaboratively with library department operations to educate library operations staff of the State and University procurement compliance and contracting requirements to ensure that directly acquired materials by the library satisfy these requirements through the establishment of a procurement certification requirements guideline with monitoring controls.”

Auditors’ Concluding Comments: We agree that, as stated in the agency response above, library material requests, when processed through the purchasing department, adhere to the relevant requirements. Our recommendation was prompted by problems we noted with transactions that were not processed through the purchasing department.

Evaluating library operations staff as to the procurement compliance and contracting requirements is a positive step, as is the establishment of monitoring controls. Processing all procurement transactions through the purchasing department will ensure they are monitored by staff conversant with the relevant requirements.

ENTITIES AFFILIATED WITH THE UNIVERSITY

Criteria: Certain independent entities, such as the Roper Center for Public Opinion Research, the Avery Point Lighthouse Society and Connecticut Urban Legal Initiative, Inc., carry out operations on UConn property. They make use of university resources and potentially expose the university to liability for their actions. Prudent business practice dictates that the university establish agreements with all such organizations to define the rights and obligations of each party.

Condition: In prior audit reports, we noted that UConn did not have agreements with some of the independent entities carrying out operations on the university’s property and, furthermore, could not identify to us all such entities. It does not appear that the university has made a comprehensive effort to identify all such entities and centralize control over its relationships with them.
Effect: The lack of written agreements with organizations that carry out operations on UConn property could allow university resources to be used in a manner inconsistent with policy and could expose the university to unforeseen legal exposure.

Cause: Many aspects of UConn operations are decentralized. However, a certain level of central control over independent entities carrying out operations on UConn property is needed. Management must be able to monitor these activities and verify that proper safeguards are in place. A comprehensive, ongoing process for identifying all such entities is a necessary first step.

Recommendation: The University of Connecticut should develop a comprehensive, ongoing process for identifying all independent entities carrying out operations on university property, and monitoring to verify that appropriate written agreements are in place. (See Recommendation 15.)

Agency Response: “The University administers its property through different units. Many independent entities that carry out operations on University property are already required to execute written agreements. The University will prepare a summary of those. The University will determine whether there are entities carrying out operations on University property who are not captured by existing procedures, whether the nature of the entity and their operations warrants requiring written agreements and, if so, how to implement an appropriate procedure to obtain written agreements when such agreements are required.”
RECOMMENDATIONS

Status of Prior Audit Recommendations:

In our previous report on our audit examination of UConn, we presented 11 recommendations pertaining to university operations. The following is a summary of those recommendations and the actions taken thereon:

- Establish compensation limits – this recommendation has been restated and repeated. (See Recommendation 1.)

- Clarify authority to fix compensation – we are not repeating this recommendation, as the Board of Trustees has established a Committee on Compensation to increase board oversight in this area.

- Seek clear statutory authority for the direct payment of wages to University food service operations employees and for their participation in separate retirement plans – this recommendation has been repeated. (See Recommendation 2.)

- Review payments for accrued compensated absences – this recommendation has been restated and repeated, as the University’s review should be extended. (See Recommendation 4.)

- Not process payroll actions unless the related payroll authorization forms are properly signed – we are not repeating this recommendation, as we did not find any new instances of the condition that prompted this recommendation.

- Implement a formal process that provides for the review, approval and documentation of all cost sharing – this recommendation has been restated and repeated. (See Recommendation 6.)

- Revise procedures to ensure that all contracts, express or implied, that exceed established thresholds, are submitted to the board of trustees for approval – we are not repeating this recommendation as the University has complied with it.

- Prepare a detailed plan addressing actions to be taken in the event a disaster interrupts key information technology services – this recommendation has been restated and repeated. (See Recommendation 9.)

- Obtain and document the required approvals for changes in the scope of exigent projects that affect the cost of the project – we are not repeating this recommendation, as we did not find any new instances of the condition that prompted this recommendation.
• Modify procedures to incorporate a formal review and approval of the award process when construction project subcontracts are awarded – we are not repeating this recommendation, as the University documented an ongoing review process.

• Develop a comprehensive, centralized process for identifying affiliated organizations, determining the nature of the University’s interaction with the organizations and verifying that the appropriate written agreements are in place – this recommendation has been restated and repeated. (See Recommendation 15.)

Current Audit Recommendations:

1. The University of Connecticut should establish maximum salaries for all professional employees, through the collective bargaining process if necessary. The maximum salaries should not be exceeded for new hires or existing employees without specific board approval.

Comment:

Normally, state employees are paid in accordance with established salary schedules. Once the employees reach the maximum salary for their positions, their base salaries only increase when the salary schedules are adjusted for inflation. However, maximum rates of pay have not been established for professional employees at UConn. The compensation levels of university professional employees can increase indefinitely.

2. The University of Connecticut should seek clear statutory authority for the direct payment of wages to its food service operations employees and for their participation in separate retirement plans.

Comment:

Section 3-25 of the General Statues authorizes constituent units of the state system of higher education to pay certain claims directly, rather than through the State Comptroller. However, Section 3-25 specifically excludes payments for payroll. Unlike other UConn employees, food service operations employees are paid directly by the university instead of through the State Comptroller. They also participate in separate retirement plans, although there is no clear statutory authority for this.

3. The University of Connecticut should establish procedures for verifying the representations of job candidates regarding their work experience and professional credentials. The procedures should clearly assign responsibility for the task and be sufficient to provide adequate assurance.

Comment:

In spring 2012, we reviewed 40 instances in which individuals were appointed to new positions (new hires, promotions and transfers). We found that UConn did not appear to be
obtaining adequate assurance regarding the accuracy of the claims made by job candidates concerning their work experience and professional credentials.

4. **The University of Connecticut should expand its review of payments made for accrued compensated absences during the fiscal year ended June 30, 2010, to prior periods.**

   Comment:

   We noted a significant error rate in payments made for accrued compensated absences, starting with our audit of the fiscal years ended June 30, 2006 and 2007. UConn recently reviewed payments made during the fiscal year ended June 30, 2010, but did not review those made during prior periods.

5. **The University of Connecticut should determine the feasibility of recovering Social Security taxes paid that, under the HIRE Act, it was not required to pay.**

   Comment:

   The Hiring Incentives to Restore Employment (HIRE) Act, enacted March 18, 2010, provided employers with an exemption from the employer’s 6.2 percent share of social security tax on wages paid to qualifying employees, effective for wages paid from March 19, 2010 through December 31, 2010. UConn did not take advantage of these provisions of the HIRE Act.

6. **The University of Connecticut should track voluntary uncommitted cost sharing in its time and effort reporting system.**

   Comment:

   The use of unrestricted UConn resources for sponsored research is in keeping with the university’s goal of recognition as one of the nation’s top-20 public research universities. However, without effective monitoring of the amount of unrestricted university resources directed to sponsored research projects by researchers, the university cannot reasonably estimate the concomitant costs and determine whether the amount used is appropriate.

7. **The University of Connecticut should conduct a formal, well documented, selection process for all major acquisitions. Every functional area that will be significantly affected should have adequate representation and input into the process.**

   Comment:

   UConn did not adequately document the selection of its new financial system. We could not find any indication of a feature-by-feature comparison of competing products or any evidence that any systems other than PeopleSoft or Banner were considered. Furthermore, the initial selection process appeared to have been driven solely by the UConn core
financial management and staff. We found no evidence of significant input from the wider university community.

8. **The University of Connecticut should develop a structured methodology for major software implementation projects. All projects should be approved by the board of trustees before they are initiated.**

   **Comment:**

   The successful implementation of the new financial system is a tribute to the efforts of the Kuali implementation team. However, UConn incurred risks that could have been avoided with a more deliberate approach that combined a more comprehensive risk assessment and mitigation process with the development of a more detailed control framework.

9. **The University of Connecticut should implement an ongoing risk assessment and mitigation process, and prepare a business continuity and disaster recovery plan. The plan should be continuously updated, taking into consideration changes in the systems and resources available to address potential risks.**

   **Comment:**

   In our prior report, we noted that, as of June 2011, the UConn Information Technology Services Department, which maintains the university’s core systems, did not have an updated disaster recovery plan on file. We followed up on this issue in December 2012. We found UConn had engaged a consultant to begin the process of implementing an ongoing risk assessment and mitigation process and preparing a business continuity and disaster recovery plan. However, it appeared that no significant progress had been made.

10. **The University of Connecticut should make certain improvements to physical and logical information technology system access controls.**

    **Comment:**

    We noted control weaknesses that need to be addressed. The UConn internal audit unit also reported access control issues.

11. **The University of Connecticut should require that purchasing card logs be approved by a staff member with supervisory authority over the cardholder.**

    **Comment:**

    We reviewed 25 purchasing card logs. We found that, with respect to 20 of the 25 logs reviewed, the record managers signing off on the logs were co-workers, subordinates, lower level staff or the cardholders themselves.
12. The University of Connecticut should not authorize contractors to begin work before contracts are executed.

Comment:

We have repeatedly noted instances in which contracts were executed after work began. For example, during our testing of a sample of fiscal year 2010-2011 expenditures, we noted 14 instances in which contracts were executed by the university after the contractual start date. Delays ranged from 18 days to 10 months; contract amounts ranged from $12,000 to $1,391,137.

13. The University of Connecticut should prepare receiving reports when payment is required prior to a performance to document that the vendor has fulfilled its contractual obligations.

Comment:

On August 16, 2010, UConn contracted with Columbia Artists Management LLC for a performance to be given on November 9, 2010, in the amount of $23,375. The check was issued in advance, as is common for this type of transaction. Staff did not prepare, subsequent to the event, a receiving report to document that the vendor had fulfilled its contractual obligations.

14. The University of Connecticut should process all procurement transactions through the purchasing department to ensure they are reviewed by staff familiar with the relevant state requirements.

Comment:

During our testing of expenditures of the 2009-2010, 2010-2011 and 2011-2012 fiscal years, we found that the required certifications were not obtained for purchases of library materials. During our testing of expenditures of the 2011-2012 fiscal year, we found that the required certifications were not obtained for other purchases that were also handled at the department level, rather than processed through the purchasing department.

15. The University of Connecticut should develop a comprehensive, ongoing process for identifying all independent entities carrying out operations on university property, and monitoring to verify that appropriate written agreements are in place.

Comment:

Many aspects of UConn operations are decentralized. However, a certain level of central control over independent entities carrying out operations on university property is needed. Management must be able to monitor these activities and verify that the proper safeguards
Auditors of Public Accounts

are in place. A comprehensive, ongoing process for identifying all such entities is a necessary first step.
CONCLUSION

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

State Auditor Robert M. Ward recused himself from reviewing and signing this audit report in order to avoid the appearance of a conflict of interest. Mr. Ward served on the Board of Trustees of the University of Connecticut for the period of July 1, 2010 through January 5, 2011.

James K. Carroll
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts
TAB 7
## The Office of Audit, Compliance & Ethics

### Status of External Audit Projects

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Area</th>
<th>Scope</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>BKD</td>
<td>Storrs Athletics</td>
<td>NCAA agreed upon procedures performed on all revenues, expenses, and capital expenditures for or on behalf of the University’s Athletics Program for FY2014.</td>
<td>OACE requesting approval to hire BKD for the FY2014 audit at the September 12, 2014 JACC meeting.</td>
</tr>
<tr>
<td>McGladrey</td>
<td>Storrs, Regionals &amp; UConn Health</td>
<td>Audit of UCONN 2000 named projects substantially completed during FY2014, deferred maintenance projects with designated budgets substantially completed in FY2014 and agreed upon procedures performed on total UCONN 2000 expenditures (named projects, deferred maintenance and equipment) for FY2014.</td>
<td>OACE requesting approval to hire McGladrey for the FY2014 audit at the September 12, 2014 JACC meeting.</td>
</tr>
<tr>
<td>Marcum, LLP</td>
<td>UConn Health</td>
<td>Audits of the John Dempsey Hospital and Dental Clinics (Clinical Programs Fund), including the OHCA filings, UConn Medical Group (UMG) and the University of Connecticut Health Center Finance Corporation for FY2014.</td>
<td>Engagement underway.</td>
</tr>
</tbody>
</table>
TO: Members of the Joint Audit and Compliance Committee

FROM: Cheryl Chiaputti
Interim Chief Audit and Compliance Officer

DATE: September 12, 2014

SUBJECT: APPOINTMENT OF AUDITORS – BKD

RECOMMENDATION

It is recommended that the Joint Audit and Compliance Committee approve the reappointment of the accounting firm BKD to provide audit services for the year ended June 30, 2014. These services include reporting on the application of agreed-upon procedures in compliance with The National Collegiate Athletic Association (NCAA) Financial Reporting Requirements. The proposed fee for the above service is $23,337 plus out of pocket expenses that will not exceed $700.

BACKGROUND AND METHODOLOGY

NCAA Constitution 3.2.4.16.1 requires that all revenues, expenses and capital expenditures for or on behalf of a Division I member institution’s intercollegiate athletic programs, including those by any affiliated or outside organization, agency, or group of individuals (two or more) be subject to annual agreed-upon procedures. The agreed upon procedures report should be prepared by a qualified independent accountant who is not a staff member of the institution and who is selected either by the institution’s chief executive or by an institutional administrator from outside the athletic department designated by the chief executive officer.

BKD presented their final report on the NCAA Financial Agreed-Upon Procedures for fiscal year 2013 to the Joint Audit & Compliance Committee (JACC) at their December 3, 2013 meeting. In accordance with the terms of the contract, the University may elect to utilize BKD to provide NCAA financial audit services on an annual basis for up to five consecutive years; this engagement represents the 4th consecutive year that the University will utilize the services of BKD to conduct the NCAA Financial Agreed-Upon Procedures.

OACE seeks JACC approval to move forward with this engagement.
UConn’s FOI Process

1. An FOI request received by a department should be forwarded immediately to the Office of Audit, Compliance & Ethics (OACE). Please note that the University must typically acknowledge receipt of the request within four business days.

2. OACE reviews, discusses the request with the department, notifies the subject of the request when appropriate and locates the requested records from the relevant divisions within the University. Where appropriate, the compliance office will confer with General Counsel regarding any interpretations of federal or state law (e.g., disclosure exceptions).

3. OACE contacts the requester to indicate the records are ready for review and informs the requester of any records that will not be disclosed and the legal authority for not disclosing such records.

4. When the requester seeks copies of the records, OACE will determine the charge and send copies upon receipt of payment. Alternatively, the requester may contact OACE to schedule a time to come to campus to view the records. OACE will remain with the requester while the records are reviewed.

FOI Contacts

Rachel Krinsky Rudnick
Assistant Director of Compliance/Privacy Officer
Office of Audit, Compliance & Ethics
Rachel.Krinsky@uconn.edu or 860.486.5256

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Office of Audit, Compliance & Ethics
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9 WALTERS AVENUE, UNIT 5084
STORRS, CT 06269-5084
860.486.4526
FAX 860.486.4527
audit.uconn.edu
Frequently Asked Questions

What is the Freedom of Information Act (FOIA)?
The Freedom of Information Act affords the public the right to inspect or request copies of records of state and local agencies. As a public university and state agency, UConn is subject to the requirements of the Connecticut Freedom of Information Act.

What do I do if I receive a Freedom of Information (FOI) request?
Immediately forward (or communicate, if the request is verbal) the request to the Office of Audit, Compliance & Ethics (OACE). There is no specific form for requesting information.

Is the University required to produce the records requested?
All records, regardless of medium or format, created or maintained by UConn faculty or staff are presumed to be available to the public, except under very limited circumstances. Discussions are held with the department, OACE, and, when appropriate, General Counsel in order to determine if certain records should or may be protected from disclosure or must be made available under federal and/or state law.

Are emails subject to FOI requests?
Yes. UConn employees should be aware that any emails or attachments shared between them and other colleagues or anyone outside the University are potentially public information.

Is there a fee for the requester?
The standard fee for a copy of a public record is 25¢ per page. Other fees may be charged for certified copies, transcripts, printouts, or records on electronic media.

As an employee, will I be notified that records I have created or about me have been requested?
When appropriate, OACE will typically notify you that a request has been made. We may, at times, seek your assistance to process the request and/or review the responsive records.

How exhaustive must our department’s search efforts be when looking for records related to a request?
It is imperative that when departments gather records responsive to FOI requests that a thorough search is conducted in a timely fashion.

How much time does the University have to respond?
For the majority of requests, the University must acknowledge receipt of the request within four business days of receipt by the University. Failure to take action promptly could result in an FOI complaint filed against the University.

Who may I contact with questions or notify of an FOI request?
Please contact:
Liz Vitullo at 860.486.2530 or Elizabeth.Vitullo@uconn.edu
Rachel Krinsky Rudnick at 860.486.5256 or Rachel.Krinsky@uconn.edu

What other resources are available to help me understand Connecticut’s Freedom of Information Act?
Several websites provide information:
audit.uconn.edu/foi.htm
ct.gov/foi
cga.ct.gov/2011/pub/chap014.htm
Internal Control — Integrated Framework

Executive Summary

May 2013
This project was commissioned by COSO, which is dedicated to providing thought leadership through the development of comprehensive frameworks and guidance on internal control, enterprise risk management, and fraud deterrence designed to improve organizational performance and oversight and to reduce the extent of fraud in organizations. COSO is a private sector initiative, jointly sponsored and funded by:

- American Accounting Association (AAA)
- American Institute of Certified Public Accountants (AICPA)
- Financial Executives International (FEI)
- Institute of Management Accountants (IMA)
- The Institute of Internal Auditors (IIA)
Committee of Sponsoring Organizations of the Treadway Commission

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2011-2012

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(Through June 2012)

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(Commencing July 2012)

Vincent Tophoff  
International Federation of Accountants  
Senior Technical Manager

Keith Wilson  
Public Company Accounting Oversight Board  
Deputy Chief Auditor
Foreword

In 1992 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its Internal Control—Integrated Framework (the original framework). The original framework has gained broad acceptance and is widely used around the world. It is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control.

In the twenty years since the inception of the original framework, business and operating environments have changed dramatically, becoming increasingly complex, technologically driven, and global. At the same time, stakeholders are more engaged, seeking greater transparency and accountability for the integrity of systems of internal control that support business decisions and governance of the organization.

COSO is pleased to present the updated Internal Control—Integrated Framework (Framework). COSO believes the Framework will enable organizations to effectively and efficiently develop and maintain systems of internal control that can enhance the likelihood of achieving the entity’s objectives and adapt to changes in the business and operating environments.

The experienced reader will find much that is familiar in the Framework, which builds on what has proven useful in the original version. It retains the core definition of internal control and the five components of internal control. The requirement to consider the five components to assess the effectiveness of a system of internal control remains unchanged fundamentally. Also, the Framework continues to emphasize the importance of management judgment in designing, implementing, and conducting internal control, and in assessing the effectiveness of a system of internal control.

At the same time, the Framework includes enhancements and clarifications that are intended to ease use and application. One of the more significant enhancements is the formalization of fundamental concepts that were introduced in the original framework. In the updated Framework, these concepts are now principles, which are associated with the five components, and which provide clarity for the user in designing and implementing systems of internal control and for understanding requirements for effective internal control.

The Framework has been enhanced by expanding the financial reporting category of objectives to include other important forms of reporting, such as non-financial and internal reporting. Also, the Framework reflects considerations of many changes in the business and operating environments over the past several decades, including:

- Expectations for governance oversight
- Globalization of markets and operations
- Changes and greater complexities of business
- Demands and complexities in laws, rules, regulations, and standards
- Expectations for competencies and accountabilities
- Use of, and reliance on, evolving technologies
- Expectations relating to preventing and detecting fraud
This Executive Summary, provides a high-level overview intended for the board of directors, chief executive officer, and other senior management. The Framework and Appendices publication sets out the Framework, defining internal control, describing requirements for effective internal control including components and relevant principles, and providing direction for all levels of management to use in designing, implementing, and conducting internal control and in assessing its effectiveness. Appendices within the Framework and Appendices provide additional reference, but are not considered a part of the Framework. The Illustrative Tools for Assessing Effectiveness of a System of Internal Control, provides templates and scenarios that may be useful in applying the Framework.

In addition to the Framework, Internal Control over External Financial Reporting: A Compendium of Approaches and Examples has been published concurrently to provide practical approaches and examples that illustrate how the components and principles set forth in the Framework can be applied in preparing external financial statements.

COSO previously issued Guidance on Monitoring Internal Control Systems to help organizations understand and apply monitoring activities within a system of internal control. While this guidance was prepared to assist in applying the original framework, COSO believes this guidance has similar applicability to the updated Framework.

COSO may, in the future, issue other documents to provide assistance in applying the Framework. However, neither the Internal Control over External Financial Reporting: A Compendium of Approaches and Examples, Guidance on Monitoring Internal Control Systems, nor any other past or future guidance takes precedence over the Framework.

Among other publications published by COSO is the Enterprise Risk Management—Integrated Framework (ERM Framework). The ERM Framework and the Framework are intended to be complementary, and neither supersedes the other. Yet, while these frameworks are distinct and provide a different focus, they do overlap. The ERM Framework encompasses internal control, with several portions of the text of the original Internal Control—Integrated Framework reproduced. Consequently, the ERM Framework remains viable and suitable for designing, implementing, conducting, and assessing enterprise risk management.

Finally, COSO would like to thank PwC and the Advisory Council for their contributions in developing the Framework and related documents. Their full consideration of input provided by many stakeholders and their insight were instrumental in ensuring that the core strengths of the original framework have been preserved, clarified, and strengthened.

David L. Landsittel
COSO Chair
Executive Summary

Internal control helps entities achieve important objectives and sustain and improve performance. COSO's Internal Control—Integrated Framework (Framework) enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization.

Designing and implementing an effective system of internal control can be challenging; operating that system effectively and efficiently every day can be daunting. New and rapidly changing business models, greater use and dependence on technology, increasing regulatory requirements and scrutiny, globalization, and other challenges demand any system of internal control to be agile in adapting to changes in business, operating and regulatory environments.

An effective system of internal control demands more than rigorous adherence to policies and procedures: it requires the use of judgment. Management and boards of directors' use judgment to determine how much control is enough. Management and other personnel use judgment every day to select, develop, and deploy controls across the entity. Management and internal auditors, among other personnel, apply judgment as they monitor and assess the effectiveness of the system of internal control.

The Framework assists management, boards of directors, external stakeholders, and others interacting with the entity in their respective duties regarding internal control without being overly prescriptive. It does so by providing both understanding of what constitutes a system of internal control and insight into when internal control is being applied effectively.

For management and boards of directors, the Framework provides:

- A means to apply internal control to any type of entity, regardless of industry or legal structure, at the levels of entity, operating unit, or function
- A principles-based approach that provides flexibility and allows for judgment in designing, implementing, and conducting internal control—principles that can be applied at the entity, operating, and functional levels
- Requirements for an effective system of internal control by considering how components and principles are present and functioning and how components operate together
- A means to identify and analyze risks, and to develop and manage appropriate responses to risks within acceptable levels and with a greater focus on anti-fraud measures

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1 The Framework uses the term “board of directors,” which encompasses the governing body, including board, board of trustees, general partners, owner, or supervisory board.
• An opportunity to expand the application of internal control beyond financial reporting to other forms of reporting, operations, and compliance objectives
• An opportunity to eliminate ineffective, redundant, or inefficient controls that provide minimal value in reducing risks to the achievement of the entity's objectives

For external stakeholders of an entity and others that interact with the entity, application of this Framework provides:
• Greater confidence in the board of directors' oversight of internal control systems
• Greater confidence regarding the achievement of entity objectives
• Greater confidence in the organization's ability to identify, analyze, and respond to risk and changes in the business and operating environments
• Greater understanding of the requirement of an effective system of internal control
• Greater understanding that through the use of judgment, management may be able to eliminate ineffective, redundant, or inefficient controls

Internal control is not a serial process but a dynamic and integrated process. The Framework applies to all entities: large, mid-size, small, for-profit and not-for-profit, and government bodies. However, each organization may choose to implement internal control differently. For instance, a smaller entity's system of internal control may be less formal and less structured, yet still have effective internal control.

The remainder of this Executive Summary provides an overview of internal control, including a definition, categories of objective, description of the requisite components and associated principles, and requirement of an effective system of internal control. It also includes a discussion of limitations—the reasons why no system of internal control can be perfect. Finally, it offers considerations on how various parties may use the Framework.
Defining Internal Control

Internal control is defined as follows:

*Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.*

This definition reflects certain fundamental concepts. Internal control is:

- **Centered to the achievement of objectives**—in one or more categories—operations, reporting, and compliance
- **A process**—consisting of ongoing tasks and activities—"a means to an end, not an end in itself"
- **Effectuated by people**—not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of an organization to affect internal control
- **Able to provide reasonable assurance**—but not absolute assurance, to an entity's senior management and board of directors
- **Adaptable to the entity structure**—flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process

This definition is intentionally broad. It captures important concepts that are fundamental to how organizations design, implement, and conduct internal control, providing a basis for application across organizations that operate in different entity structures, industries, and geographic regions.

Objectives

The Framework provides for three categories of objectives, which allow organizations to focus on differing aspects of internal control:

- **Operations Objectives**—These pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.
- **Reporting Objectives**—These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the entity's policies.
- **Compliance Objectives**—These pertain to adherence to laws and regulations to which the entity is subject.
Components of Internal Control

Internal control consists of five integrated components.

Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

Risk Assessment

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

A precondition to risk assessment is the establishment of objectives, linked at different levels of the entity. Management specifies objectives within categories relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyze risks to those objectives. Management also considers the suitability of the objectives for the entity. Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective.

Control Activities

Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.
Information and Communication

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

Monitoring Activities

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.
Relationship of Objectives and Components

A direct relationship exists between objectives, which are what an entity strives to achieve, components, which represent what is required to achieve the objectives, and the organizational structure of the entity (the operating units, legal entities, and other). The relationship can be depicted in the form of a cube.

- The three categories of objectives—operations, reporting, and compliance—are represented by the columns.
- The five components are represented by the rows.
- An entity’s organizational structure is represented by the third dimension.

Components and Principles

The Framework sets out seventeen principles representing the fundamental concepts associated with each component. Because these principles are drawn directly from the components, an entity can achieve effective internal control by applying all principles. All principles apply to operations, reporting, and compliance objectives. The principles supporting the components of internal control are listed below.

Control Environment

1. The organization\(^2\) demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

\(^2\) For purposes of the Framework, the term “organization” is used to collectively capture the board, management, and other personnel, as reflected in the definition of internal control.
Risk Assessment

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.

9. The organization identifies and assesses changes that could significantly impact the system of internal control.

Control Activities

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

11. The organization selects and develops general control activities over technology to support the achievement of objectives.

12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information and Communication

13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities

16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.
Effective Internal Control

The Framework sets forth the requirements for an effective system of internal control. An effective system provides reasonable assurance regarding achievement of an entity’s objectives. An effective system of internal control reduces, to an acceptable level, the risk of not achieving an entity objective and may relate to one, two, or all three categories of objectives. It requires that:

- Each of the five components and relevant principles is present and functioning. “Present” refers to the determination that the components and relevant principles exist in the design and implementation of the system of internal control to achieve specified objectives. “Functioning” refers to the determination that the components and relevant principles continue to exist in the operations and conduct of the system of internal control to achieve specified objectives.

- The five components operate together in an integrated manner. “Operating together” refers to the determination that all five components collectively reduce, to an acceptable level, the risk of not achieving an objective. Components should not be considered discretely; instead, they operate together as an integrated system. Components are interdependent with a multitude of interrelationships and linkages among them, particularly the manner in which principles interact within and across components.

When a major deficiency exists with respect to the presence and functioning of a component or relevant principle, or with respect to the components operating together in an integrated manner, the organization cannot conclude that it has met the requirements for an effective system of internal control.

When a system of internal control is determined to be effective, senior management and the board of directors have reasonable assurance, relative to the application within the entity structure, that the organization:

- Achieves effective and efficient operations when external events are considered unlikely to have a significant impact on the achievement of objectives or where the organization can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level

- Understands the extent to which operations are managed effectively and efficiently when external events may have a significant impact on the achievement of objectives or where the organization can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level

- Prepares reports in conformity with applicable rules, regulations, and standards or with the entity’s specified reporting objectives

- Complies with applicable laws, rules, regulations, and external standards

The Framework requires judgment in designing, implementing, and conducting internal control and assessing its effectiveness. The use of judgment, within the boundaries established by laws, rules, regulations, and standards, enhances management’s ability to make better decisions about internal control, but cannot guarantee perfect outcomes.
Limitations

The Framework recognizes that while internal control provides reasonable assurance of achieving the entity's objectives, limitations do exist. Internal control cannot prevent bad judgment or decisions, or external events that can cause an organization to fail to achieve its operational goals. In other words, even an effective system of internal control can experience a failure. Limitations may result from the:

- Suitability of objectives established as a precondition to internal control
- Reality that human judgment in decision making can be faulty and subject to bias
- Breakdowns that can occur because of human failures such as simple errors
- Ability of management to override internal control
- Ability of management, other personnel, and/or third parties to circumvent controls through collusion
- External events beyond the organization's control

These limitations preclude the board and management from having absolute assurance of the achievement of the entity's objectives—that is, internal control provides reasonable but not absolute assurance. Notwithstanding these inherent limitations, management should be aware of them when selecting, developing, and deploying controls that minimize, to the extent practical, these limitations.

Using the Internal Control—Integrated Framework

How this report can be used depends on the roles of the interested parties:

- The Board of Directors—The board should discuss with senior management the state of the entity's system of internal control and provide oversight as needed. Senior management is accountable for internal control and to the board of directors, and the board needs to establish its policies and expectations of how members should provide oversight of the entity's internal control. The board should be apprised of the risks to the achievement of the entity's objectives, the assessments of internal control deficiencies, the management actions deployed to mitigate such risks and deficiencies, and how management assesses the effectiveness of the entity's system of internal control. The board should challenge management and ask the tough questions, as necessary, and seek input and support from internal auditors, external auditors, and others. Sub-committees of the board often can assist the board by addressing some of these oversight activities.

- Senior Management—Senior management should assess the entity's system of internal control in relation to the Framework, focusing on how the organization applies the seventeen principles in support of the components of internal control. Where management has applied the 1992 edition of the framework, it should first review the updates made to this version (as noted in Appendix F of the Framework), and consider implications of those updates to the entity's
system of internal control. Management may consider using the *Illustrative Tools* as part of this initial comparison and as an ongoing evaluation of the overall effectiveness of the entity's system of internal control.

- **Other Management and Personnel**—Managers and other personnel should review the changes made to this version and assess implications of those changes on the entity's system of internal control. In addition, they should consider how they are conducting their responsibilities in light of the *Framework* and discuss with more senior personnel ideas for strengthening internal control. More specifically, they should consider how existing controls affect the relevant principles within the five components of internal control.

- **Internal Auditors**—Internal auditors should review their internal audit plans and how they applied the 1992 edition of the framework. Internal auditors also should review in detail the changes made to this version and consider possible implications of those changes on audit plans, evaluations, and any reporting on the entity's system of internal control.

- **Independent Auditors**—In some jurisdictions, an independent auditor is engaged to audit or examine the effectiveness of the client's internal control over financial reporting in addition to auditing the entity's financial statements. Auditors can assess the entity's system of internal control in relation to the *Framework*, focusing on how the organization has selected, developed, and deployed controls that affect the principles within the components of internal control. Auditors, similar to management, may use the *Illustrative Tools* as part of this evaluation of the overall effectiveness of the entity's system of internal control.

- **Other Professional Organizations**—Other professional organizations providing guidance on operations, reporting, and compliance may consider their standards and guidance in comparison to the *Framework*. To the extent diversity in concepts and terminology is eliminated, all parties benefit.

- **Educators**—With the presumption that the *Framework* attains broad acceptance, its concepts and terms should find their way into university curricula.
Internal Controls: Policies and Procedures

An evaluation of the effectiveness of a department’s internal controls is one of the key areas of focus during the audit process and is used to identify specific audit risks. The lack of written departmental policies and procedures is the most common “red flag” indicating weak internal controls encountered by the audit staff.

Written policies and procedures illustrate that managers are aware of a department’s mission and goals and knowledgeable about the department’s financial operations.

Written procedures should include:

- A brief description of the flow of major transactions that are processed, from their beginning to their recording in the accounts.
- Staff responsibility for initiating transactions and controlling the movements of assets.
- The identification of "control points" (i.e., the safeguard functions that staff perform to minimize risk of error, theft, or loss).

Departments might use a detailed description or flowchart to describe the operation of the internal control system, identify the control procedures in place and the staff that perform relevant tasks.

The Compliance Courier is a quarterly newsletter issued by the Office of Audit, Compliance & Ethics. Each newsletter will provide updates on important compliance issues. For questions or concerns or to suggest future articles, please contact Kimberly Fearney at (860) 486-6195 or Kim.Fearney@uconn.edu.

Code of Conduct Spotlight

The University’s Code of Conduct serves to guide the daily operations of the entire University. This summer we are featuring one of the Campus-Wide Standards found in the Code—Civility.

- The University values an environment that promotes a spirit of civility and collegiality, while fostering open and constructive intellectual debate.
- All members of the University community have a responsibility to treat each other with consideration and respect. Managers and supervisors have an elevated responsibility to demonstrate these behaviors and support their expression in the workplace.
- Engaging in behaviors that harass, intimidate, bully, threaten or harm another member of the University community does not support a respectful and civil work environment.

Whether you new or long time employee, please read the document carefully, and take all steps necessary to apply its standards. The Code of Conduct can be found here or a paper copy can be requested by contacting 860-486-4526.
Facilities Operations & Building Services Guideline

The University recently approved The Facilities Operations & Building Services Guideline for Maintenance and Repair Services, used to determine who pays for maintenance and repair services in different situations.

Read the entire policy at http://policy.uconn.edu/?p=3423 or contact Facilities Operations & Building Services at 860-486-3138.

New to UConn? Don’t Forget Diversity & Sexual Harassment Prevention Training

Connecticut law mandates Diversity and Sexual Harassment Prevention training for all University of Connecticut employees on a one-time basis. The Office of Diversity & Equity (ODE) in partnership with the Cultural Centers periodically offers these mandatory trainings throughout the academic year. The scheduled dates for the 2014 – 2015 academic year are September 5, November 18, January 23, April 2 and June 5. You can register for any of these sessions by logging into https://web2.uconn.edu/hrtraining/training/. Reminders will be posted in the Daily Digest as the dates approach and information is available at ode.uconn.edu. All sessions take place in the Dodd Center’s Konover Auditorium.

Contact ODE with questions at 860-486-8709.

Official Personnel Records Centralization

In collaboration with the Office of Audit, Compliance & Ethics (OACE), and as part of the University’s Records Management Initiative, the Department of Human Resources (HR) has launched a University-wide effort to consolidate and centralize Official Personnel Records. This effort will enhance compliance with the State’s Record Retention Policy as well as create consistency and efficiency of personnel file maintenance across the University. The project will take place between August 15, 2014 through November 30, 2014.

Learn more by visiting the Official Personnel Records Centralization Project website. Please contact Melody Williamson of Human Resources with any questions.

Guide to UConn’s Freedom of Information Process

The Freedom of Information Act affords the public the right to inspect or request copies of records of state and local agencies. As a public university and state agency, UConn is subject to the requirements of the Connecticut Freedom of Information Act. In collaboration with University Communications, OACE now has a quick reference guide to UConn’s Freedom of Information Process, including FAQs, and step-by-step instructions available online:


To request a paper copy, please contact OACE at 860-486-4526.

Thank You for Completing the 2014 Compliance Training!!

UConn
Office of Audit, Compliance & Ethics
9 Walter's Avenue, Unit 5084
Storrs, Connecticut, 06269-5084
Telephone: (860) 486-4526
Facsimile: (860) 486-4527
Web: www.audit.uconn.edu

REPORTLINE
Phone: 1-888-685-2637
Web: https://uconncares.alertline.com/gcs/welcome
Any contribution and participation of a student to the performance of a billable service (other than the review of systems and/or past family/social history which are not separately billable, but are taken as part of an E/M service) must be performed in the physical presence of a teaching physician or physical presence of a resident in a service, meeting the requirements described per the CMS Claim Processing Manual for teaching physician billing. Students may document services in the medical record. However, the documentation of an E/M service by a student that may be referred to by the teaching physician is limited to documentation related to the review of systems and/or past family/social history. The teaching physician may not refer to a student's documentation of physical exam findings or medical decision making in his or her personal note. If the medical student documents E/M services, the teaching physician must verify and re-document the history of present illness as well as perform and re-document the physical exam and medical decision making activities of the service. (Per the CMS Claims Processing Manual, 100-04, Chapter 12, 100.1.1)

THEREFORE: The only Medical Student documentation that supports a professional service by a physician is the Review of Systems and the Past, Family/Social History portion of the history. The teaching physician must both perform and document the rest of the service. The teaching physician must repeat the history of the present illness, the exam, and documentation to support medical decision making even if the medical student performed these portions of the professional service in the teaching physician's presence.

Janice McDonnell, Compliance Specialist, x4093 or Janice.Mcdonnell@uchc.edu

What is Fraud?

A common question that often comes to our office is “What is fraud?” Fraud is a deliberate deception or misrepresentation practiced in order to gain something of value that results in harm or loss to the institution. Unintentional errors, mistakes or policy violations are not necessarily fraud. Common examples of fraud include: purposeful improper billing for clinical services, diverting cash, supplies or equipment for personal use; requesting reimbursement for personal expenses or for expenses in excess of actual and necessary business costs; and misrepresenting education or credentials to gain employment.

Fraud is most often perpetrated by an individual with complete or inappropriate ownership of a business process, for example by someone who:

- Approves his/her own expenses, reimbursements, timecards or voids
- Has access to others' passwords, signature stamps or workflows
- Never takes time off or allows anyone else to perform a function
- Has the ability to override and/or circumvent established internal controls
- Opens the mail, makes the deposit and applies the payment
- Creates a vendor, makes a purchase and receives and applies the payment
- Performs a reconciliation that no one else reviews or understands

Other conditions that may enable fraud include no requirement for original documentation or receipts to substantiate a claimed business expense and a lack of a management review and approval process. If you suspect fraud at UConn Health, please contact OACE’s Reportline at 1-888-685-2637. Please call the Police at 860-679-2121 if direct theft occurs (e.g. items are stolen).
**Lets Talk Policies:**

**Access and Education Make the Difference** *

One of your subordinates comes to you to ask if she is permitted to keep a gift from a customer. How do you know you are giving her the right answer? You certified that you read our code of conduct and other pertinent policies but, with everything you are asked to keep track of, how accurate is your memory?

Our policies, including our code of conduct linked here:  
http://www.audit.uconn.edu/doc/codeofconduct.pdf are important tools for managing the business risks they address. They set the behavioral standards for all our staff members, but they are only good controls if employees consult the policies when faced with a pertinent issue, and act according to the guidance. As a manager, you have two important responsibilities related to our organization’s policies—ensuring access and use.

Employees generally want to do the right thing. It is part of your job to make sure they have access to and know how to use all the important tools that are available to support their efforts. Our organization’s policies and procedures are some of those tools and should be referenced and brought forward to encourage continued use. This helps to protect our stakeholders, our coworkers, and our organization. UConn Health’s policies can be accessed here:  
http://www.policies.uchc.edu/. Additionally specific units and departments have their own applicable policies and procedures that staff and faculty should be able to easily access.

*TAKEN FROM: Compliance Communicator written by the advisory services division of NAVEX Global, the Ethical Leadership Group.

Iris Mauriello RN, CHC Compliance Integrity & Privacy Officer, x3501 mauriello@uchc.edu

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**Medtronic Settles Lawsuit with United States Government**

Medtronic, the largest manufacturer of heart rhythm devices, agreed to pay 9.9 million to settle allegations that it violated the False Claims Act by providing physicians with illegal kickbacks. According to prosecutors, the kickbacks were provided as incentives to encourage physicians to implant Medtronic pacemakers and defibrillators. Prosecutors further argued that the kickbacks resulted in the submission of false claims seeking reimbursement from Medicare and Medicaid for the devices.

The lawsuit arose from a whistle-blower complaint filed by a former Medtronic manager who is expected to receive approximately 1.73 million.*

This settlement is part of the Government’s on-going enforcement efforts to limit the ability of manufacturers to influence physician judgment and decision-making with regards to patient care. “Improper financial incentives have the potential to compromise physician medical judgment,” said Assistant Attorney General Stuart F. Delery of the Justice Department’s Civil Division. “This case demonstrates the Department of Justice’s commitment to pursue medical device manufacturers that use improper financial relationships to influence physician decision-making.”*

To read the Department of Justice press release please access the following link:  
http://www.justice.gov/opa/pr/2014/May/14-civ571.html

Kimberly Bailot, Associate Compliance Officer, Kbailot@uchc.edu (860) 679-4746  

* Department of Justice, Office of Public Affairs Press Release Minnesota-Based Medtronic Inc. to Pay 9.9 Million to Resolve Claims That Company Paid Kickbacks to Physicians  
http://www.justice.gov/opa/pr/2014/May/14-civ571.html (May 2014)
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The Office of Audit, Compliance Ethics  
JACC Agenda Forecast

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