

AUDIT COMMITTEE  
Board of Regents for Higher Education  
39 Woodland Street, Hartford, Connecticut

Thursday, June 7, 2012, at 10:00 a.m.  
Room 209

AGENDA

1. Minutes of the January 11, 2012 meeting
2. Approval of Audit Committee Charter
3. Approval of Internal Audit Charter
4. Resolution concerning The Leadership, Responsibility, and Ongoing Operational Management of the Information Security Programs for the Board of Regents of Higher Education and its Institutions
5. Audit Plan for FY13
6. Audit Proposal – CSU (Lee Leahy, Carol Ruiz)  
  
Audit Proposal – CCCs (Shannon Smith)
7. Charter Oak State College External Audit RFP
8. Quarterly Internal Audit Report
9. Risk Management
10. Other Business
11. Adjournment

**MEETING OF THE  
AUDIT COMMITTEE**  
Connecticut State Colleges and Universities  
Board of Regents for Higher Education  
39 Woodland Street  
Hartford, Connecticut

Wednesday, January 11, 2012, at 12:00 p.m.  
Room 209

Minutes

**REGENTS PRESENT**

Craig Lappen, Chair  
Michael Pollard

**REGENTS ABSENT**

Nick Donofrio

**CONNSCU STAFF PRESENT**

Vicky Greene, Chief Financial and Administrative Officer, CCCs, Elizabeth Squillace, Director of Accounting and Finance, CCCs; Cliff Williams, Chief Financial and Administrative Officer, COSC, Pamela J. Kedderis, Executive Director for Finance and Administration, ConnSCU/BOR; Mitch Knight, Director of Internal Audit, CSU; Rosalie Butler, Administrative Assistant for Finance, ConnSCU/BOR

**PWC STAFF PRESENT**

LeeAnn Leahy, Partner (for CSU); Carol Ruiz, Managing Director (for CSU); Shannon Smith, Managing Director, (for CCCs)

*With a quorum present, the meeting was called to order at 12:00 p.m.*

1. Review and Acceptance of 2011 Audited Financial Statements for CSU and CCC Systems
  - a. Review and Discussion of Related Management Letters from PwC

PricewaterhouseCoopers staff provided Regents with brief historical background and a detailed overview of FY2011 Financial Statements, Management Letters and other required communications for the Community Colleges and the Connecticut State University System. An unqualified opinion has been issued for all financial statements. There were no material weaknesses or significant deficiencies.

*The FY2011 Financial Statements, Management Letters and Required Communications for CSU and CCC Systems were unanimously accepted.*

b. Executive Session; Discussion with PwC

*At 12:50 p.m., Chairman Lappen moved to Executive Session to discuss Management's performance during the audits with PricewaterhouseCoopers. ConnSCU staff left the meeting.*

*The Committee meeting returned to Open Session at 1:10 p.m. ConnSCU staff returned to the meeting. Chairman Lappen announced that the Committee discussion was limited to the audit process and Management's performance. No votes were taken in Executive Session.*

2. Discussion of Audit Committee Charter

Ms. Kedderis provided some background on the draft Charter before the Committee, explaining it had been based on the document ratified by the predecessor CSU BOT Audit and Risk Management Committee. Discussion followed.

*The Committee agreed to consider incorporating best practice language from Charter documents of other College and University Audit Committees as well as the AICPA. The draft Charter will be refined and discussed further at the next meeting.*

3. Internal Audit Report for CSU System and Discussion of Expanding Internal Audit Function to CCC System

Committee members were given a broad overview of the elements involved in the CSU Internal Audit function from Mr. Knight. Discussion followed on potential expansion of that function to the CCCs and COSC to encompass all the enterprises under the BOR. Limited available resources and the need for further assessment were discussed.

4. Approval of Meeting Dates for Calendar Year 2012

*The Committee revised the proposed calendar for 2012, eliminating the November 12 meeting and replacing it with a meeting to be held the week of December 10, with the exact date to be determined following a poll of Committee members to determine their availability.*

*With no other business to discuss, the meeting was adjourned at 1:45 p.m.*

**ITEM**

Approval of the Board of Regents Audit Committee Charter

**RECOMMENDED MOTION FOR FULL BOARD**

RESOLVED, that the Board of Regents hereby approves the Audit Committee Charter as described in Attachment A.

**BACKGROUND**

Following passage of the Sarbanes-Oxley Act of 2002, the American Institute of CPAs (AICPA) Association of College and University Business Officers (NACUBO) and similar national organizations advised governing organizations of universities and colleges to establish new standards for the oversight of financial operations. Although the provisions of Sarbanes-Oxley are not directly applicable to universities and colleges, public institutions share the same concerns as public corporations regarding issues of auditor independence, board responsibility for financial oversight, financial disclosures and accountability for financial results.

At its first meeting in January 2012, the newly formed audit committee of the Board of Regents agreed to the creation of an Audit Committee Charter. An initial draft was presented to, and reviewed by, the Committee. The Committee requested BOR staff refine the draft, using input from the independent audit firm assigned to audit the financial reports of the state universities and community technical colleges and reviewing audit charters established by comparable higher education governance organizations across the country.

The charter presented for action by the Committee today reflects the results of consultation with PricewaterhouseCoopers, the Board's independent audit firm for ConnSCU institutions (except Charter Oak State College) and a review of several charters of similar governance organizations.

**ANALYSIS**

Consistent with best practices, the Audit Committee Charter provides for direct control by the committee over external auditors, does not allow management to serve as voting members of the committee, clearly establishes the role and authority of the committee regarding financial matters and provides that at least one member of the committee will be a financial expert. The provisions of the charter, when fully implemented, will provide for appropriate accountability, responsibility and transparency in accord with best practices.

**Board of Regents for Higher Education  
Connecticut State Colleges & Universities  
Audit Committee Charter**

**Introduction**

There is established a committee to be called the Audit Committee of the Board of Regents for Higher Education (BOR). This charter broadly defines the Committee's roles with respect to auditing, risk management and compliance.

**Membership**

The Audit Committee shall be appointed by the Chair of the Board of Regents. It shall be composed of not less than three members of the board of regents, who shall be independent of management. One board member shall serve as chair of the Committee. At least one board member shall have professional expertise in financial matters, including familiarity with financial management, accounting, forecasting, and reporting.

**General Purpose and Scope**

The Audit Committee shall be a standing committee of the Board of Regents. The Committee is charged with oversight for auditing, risk management, and compliance and ethics activities within the Connecticut State College & University System.

**Committee Responsibilities**

The responsibilities of the Committee are as follows:

1. Monitor the effectiveness of management's accounting policies and system of internal controls
2. Monitor the effectiveness of management's efforts to prevent, deter and detect fraud.
3. Monitor the performance of the internal audit function, including the qualifications and independence of the Board of Regents Chief Audit Officer (CAO).
4. Approve the appointment and termination of the CAO.
5. Review the internal audit charter, audit risk assessment and audit plan with the CAO.
6. Review State Auditor of Public Accounts reports
7. Conduct an annual review of policies and procedures with respect to officers' expense and the need to test these expenditures by internal auditors
8. Engage independent counsel or other advisors as necessary to carry out its duties.
9. Approve the appointment of independent, external auditors.
10. Direct the CAO to conduct audits or reviews as needed to address significant risk issues.

11. Review and accept the annual financial statements and auditors' reports.
12. Review audit findings and management's responses.
  - a. Review with the CAO and management selected significant findings during the year and management's responses, and any significant changes to the approved audit plan.
  - b. Periodically review the status of open audit findings and related issues to include assessment of progress made in resolving findings.
13. Review management's performance to implement and enforce the requirements of the state of Connecticut Code of Ethics; ensure that the proper tenor for compliance and ethics is established and reinforced.
14. Review the adequacy of policies and procedures for receiving and resolving complaints concerning potential fraud, misuse of state funds, or issues of internal controls within the provisions of state law.
15. Review and monitor institutions regarding changes in accounting and reporting requirements or regulations promulgated by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), or the state of Connecticut Office of Planning and Management.

### **Meetings**

The Audit Committee shall meet as often as deemed necessary by the Chairman, but not less than three times a year.

### **Annual Review of Activities and Committee Charter**

Each year, the committee will assess its activities with respect to the responsibilities outlined in this charter and take action as needed. This assessment shall include the adequacy of the charter itself. Recommendations to modify the charter shall require approval by the board.

**ITEM**

Approval of the BOR Internal Audit Department Charter

**RECOMMENDED MOTION FOR FULL BOARD**

RESOLVED, that the Board of Regents hereby approves the BOR Internal Audit Department Charter, as described in Attachment A.

**BACKGROUND**

An Internal Audit Department Charter sets forth the independence and authority necessary for the effective and efficient operations of an Internal Audit function. The Institute of Internal Auditors (IIA), one of the key international governing bodies tied to the profession of internal auditing, cites the existence of an Internal Audit Charter as best practice. The BOR Internal Audit Charter sets forth the objective and responsibilities of the function, while at the same time clearly establishing that management is solely responsible for the ongoing internal control environment in their respective areas of the organization.

**ANALYSIS**

The provisions of the BOR Internal Audit Department Charter will provide for appropriate accountability, professionalism and responsibility.

Consistent with best practices, the BOR Internal Audit Department Charter continues the practice of having a signed document to articulate the ongoing authority of the Internal Audit Department function throughout ConnSCU.



CONNECTICUT STATE COLLEGES & UNIVERSITIES BOARD OF REGENTS FOR HIGHER EDUCATION

INTERNAL AUDIT DEPARTMENT CHARTER

POLICY STATEMENT: It is the policy of the Board of Regents (BOR) to maintain an Internal Audit function.

OBJECTIVE: The objective of the BOR Internal Audit function is to assist Connecticut State Colleges and Universities (ConnSCU) management and the BOR in the effective discharge of their responsibilities. To this end, Internal Audit furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

INDEPENDENCE: The Audit Director reports administratively to the BOR President, but functionally to the BOR Chairperson. This reporting relationship ensures departmental independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

AUTHORITY: Personnel of the Internal Audit Department, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, have, to the extent permitted by law, complete and unrestricted access to any and all activities, information, records, property and employees, in all BOR and ConnSCU entities. Internal Audit may be concerned with any activity within any BOR or ConnSCU entity, and consequently, the function of Internal Audit is not restricted to matters of accounting and finance and goes beyond examining accounting controls to obtaining a full understanding of the operations under review.

Internal Audit is a staff function that has no direct authority over activities that its personnel review. The performance of these reviews does not relieve management of any assigned responsibilities, including being responsible for the internal control environment in their respective areas of the organization.

Objectivity is essential to the audit staff in the proper fulfillment of their duties. Performance of line responsibilities by internal auditors may compromise their objectivity. This practice will be limited and controlled by the Audit Director.

PROFESSIONALISM: The Internal Audit function will be maintained in general compliance with the Standards set forth by the various Auditing, Accounting and Fraud associations in which membership is maintained.

RESPONSIBILITY: The Internal Audit function will add value by helping the organization to improve operations and accomplish its objectives. This will be achieved by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, control and governance processes. The fulfillment of this responsibility is not confined to, but includes:

- Appraising the effectiveness and application of administrative and financial controls and reliability of data that is developed within the BOR and ConnSCU entities.
• Evaluating sufficiency of and adherence to BOR and ConnSCU entity plans, policies and procedures and compliance with governmental laws and regulations.
• Ascertaining the adequacy of controls for safeguarding BOR and ConnSCU entity assets and, when appropriate, verifying the existence of assets.
• Performing special reviews requested by ConnSCU management or the BOR.

Internal Audit Director, Board of Regents date

President, Board of Regents date

Chairperson, Board of Regents date



## RESOLUTION

concerning

The Leadership, Responsibility, and Ongoing Operational Management of the Information Security Programs for the Board of Regents of Higher Education and its Institutions

June 21, 2012

- WHEREAS, The Board of Regents (BOR) for the Connecticut State Colleges and Universities (ConnSCU) recognizes that unauthorized disclosure of certain personal information is prohibited by various state and federal statutes, including but not limited to: Connecticut General Statutes Section 36a-701b et seq., Family Educational Rights and Privacy Act (FERPA), Gramm-Leach-Bliley Act (GLBA), Health Insurance Portability and Accountability Act (HIPPA), and Electronic Communication Privacy ACT (ECPA), and
- WHEREAS, The BOR must assure that all institutions and the Board office maintain an Information Security Program (“ISP”); and
- WHEREAS, The increasing use of internet resources, mobile computing and storage devices along with the increasing sophistication and volume of malware has significantly increased the risk of confidential data being misplaced, exposed to unauthorized users, or breached by hackers; and
- WHEREAS, The substantial monetary loss and reputation damage associated with security breaches require that the BOR looks for organizational and operational changes that will maximize the efficiency and effectiveness of its ISP; therefore be it
- RESOLVED, That the college and university Presidents are responsible for the implementation and maintenance of an ISP at their institution; and be it further
- RESOLVED, That the senior IT leaders of colleges and universities shall implement the best security controls practiced in the industry; apprise the Presidents of all unmitigated risks in privacy and security at their respective institutions; and be it further
- RESOLVED, That all senior managers whose staff use personally identifiable information in the carrying out their institutional duties shall ensure that their staff have been provided the appropriate level of data security awareness training and are in ongoing compliance with data security standards and practices; and be it further
- RESOLVED, That the BOR Chief Information Officer shall conduct all investigations and responses related to unauthorized access and/or disclosure of sensitive information as well as all computer security incidents to minimize risk to BOR and its institutions; and be it further

RESOLVED, That all costs associated with mitigating security breaches shall be the responsibility of the institution or office that was responsible for on-going operational management of security controls; and be it further

RESOLVED, That each institution shall annually provide the Board of Regents a report detailing the security controls implemented at their locations with the first report be completed by September 1, 2012. The report shall describe controls in firewall management, network intrusion detection and mitigation, patch management, virus detection and mitigation, incident response management, data stewardship, training, and risk management.

A Certified True Copy:

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Lewis J. Robinson, Jr.  
Chairman

**2013 CSUS Internal Audit Plan**  
Prepared by: Mitch Knight, Audit Director

Audit / Activity Name	Audit Number	General Description of Areas of Audit Emphasis	Location						Time		Commentary
			CCSU	ECSU	SCSU	WCSU	CCC	Charter Oak	SysOff	Budget	
<b>Direct Resource Allocation:</b>											
<b>Audits:</b>											
<b>2012 Work-In-Process carryover:</b>											
Financial Aid Allocation Process, including Perkins Loans	115 and 117	Review and documentation of financial aid process, from application through post award, to ascertain controls are in place to ensure consistency / efficiency / effectiveness. Review of Perkins controls over required student notifications, billing and collections and the accuracy of Fiscal operations Report and Application to Participate (FISAP).		200	300					500	
Human Resources - Compensatory Time	310	Compensatory time accumulation, usage, balances, compliance with policies.	150							150	
<b>2013 Audits:</b>											
Financial Aid Allocation Process	115 and 117	Review and documentation of financial aid process, from application through post award, to ascertain controls are in place to ensure consistency / efficiency / effectiveness.					500	400		900	
Connecticut Distance Learning Consortium(CTDLC) revenue	127	Review the contracts/compilation of charges/billing and collection related to CTDLC business of Charter Oak						400		400	
Student Billing and Collection	100	Review and documentation student billing and collection process, from charge posting to final settlement, to ascertain controls are in place to ensure accuracy, timeliness, maximization of collectability, and efficiency / effectiveness.					500	400		900	
Student One Card	145	Review controls over the debit card activity, meal plans and building access related to the student card.			300					300	
<b>2012 IT Work-In-Process carryover:</b>											
Firewall and Router	IT 315	Review of Firewall rulesets and router configurations.							200	200	
<b>2013 IT Audits:</b>											
Firewall and Router	IT 315	Review of Firewall rulesets and router configurations.					500	500		1000	
Information Security	IT120	Information Security Program, Controls over Personally Identifiable Information (PII), Risk Assessment Model (RAM), Security Awareness Program, Incident Response (e.g., security breach procedures). <b>[NOTE: Vulnerability assessments were done by PWC and the implementation status of those recommendations will be determined in this audit.]</b>		350	350					700	
<b>Special Projects:</b>											
Unallocated for mgt. / BoT and BoR requests	n/a	Reserved for special reviews of campus situations that materialize.	50	50	50	50	50	50		300	
<b>Annual Commitments:</b>											
APA Staff Reports	n/a	Review / analysis / synopsis and staff report generation.	10	10	10	10	10	10	10	70	
<b>Follow Up:</b>											
Quarterly Inventory of Findings	n/a	Analysis of status / follow - up on open items	20	20	20	20			20	100	
<b>Audit Director Functions</b>	n/a								1400	1400	
<b>Total Budgeted Direct Resources:</b>			<b>230</b>	<b>630</b>	<b>1030</b>	<b>80</b>			<b>1630</b>	<b>6920</b>	

**Indirect Resource Allocation:**

Staff Administration
Professional Development
Vacation / Personal Days
Holidays
Illness

staff mtgs. / perf. evals. / campus mgt.mtgs. / S.O. functions / etc.										300	
										200	
										800	
										384	
										200	

<b>Total Budgeted Indirect Resources:</b>										<b>1884</b>	
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<b>Total Budgeted Resources:</b>										<b>8804</b>	
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Total Budgeted Resources	8804
Available resources (4 FTE's x 2088 hours)	8352
WIP Carry-over to next year	452

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***Connecticut State  
Colleges and  
Universities***  
Service Plan for the  
year ending June 30,  
2012

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*June 7, 2012*





To the Board of Regents  
of the Connecticut State Colleges and Universities

June 7, 2012

Dear Board of Regents:

We are pleased to present our Service Plan summarizing our service objectives and audit plan in connection with our audit of the consolidated financial statements of Connecticut Community Colleges ("CCC") and our audit of the combined financial statements of Connecticut State University System ("CSUS") for the year ending June 30, 2012.

We look forward to presenting this report to you, addressing your questions and discussing any other matters of interest to the Board of Regents.

Please feel free to contact Raymond Vicks at 617-823-7918, Lee Leahy at (617) 530-4554 or Shannon Smith at (860) 241-7442 with any questions you may have.

Very truly yours,

PricewaterhouseCoopers LLP

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THIS REPORT AND THE INFORMATION THAT IT CONTAINS ARE SOLELY FOR THE BENEFIT AND RESTRICTED USE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS AND ARE NOT INTENDED TO BE USED OR RELIED UPON BY ANY OTHER PARTY.

## Audit Reports and Services

Our understanding of the needs and expectations of the Board of Regents and management is summarized as follows:

- Highest quality service, integrity and independence
- A focus on the impact of recent organizational changes on the internal control structures of CCC and CSUS
- A continued focus on efficiency and timeliness for the year-end audit fieldwork
- Open lines of communication with management during the audit in order to expedite the process and ensure prompt resolution of issues that may arise
- Identification and communication of internal control weaknesses and recommendations for improvement
- Technical guidance and assistance on accounting and financial reporting issues currently facing CCC and CSUS

The services we will be providing are as follows:

### Audit Opinions

- Audit of the consolidated financial statements of Connecticut Community Colleges
- Audit of the combined financial statements of Connecticut State University System
- Debt Compliance Letter - CSUS
- Endowment State Match Reports - CSUS

### Audit Committee Reports

- Service Plan
- Results of the Audit
- Letter of Comments and Recommendations



## Areas of Audit Emphasis

Our audit approach is a top-down, risk-based approach, which we reassess throughout the audit process.

As part of our annual audit process, we classify financial statement risks as a **significant risk, elevated risk, or normal risk** of material misstatement. This helps us to further focus our attention on those areas that are of greater risk. Such areas are subject to critical accounting policies and/or significant judgment and estimation, which are key considerations as we assess risk and develop our audit approach. These higher risk areas, in our judgment, require special audit consideration because of the nature of the risk (higher inherent risk), the likely magnitude of a potential misstatement (including the possibility that the risk may give rise to multiple misstatements) and the likelihood of the risk occurring. The audit standards require that the engagement team presume there is a significant risk of management override of the control environment and a significant risk of fraud in revenue. Additionally, we will be reassessing the impact of recent control and administrative changes and its impact on the CCC and CSUS control structure. As a result of our interim testing, we may identify additional areas as either significant or elevated risks. We will update the committee if any changes in our risk assessment are made. All other audit areas are judged to be normal risk.

The following lists our areas of audit emphasis and the key procedures in each area:

	Audit Area	Risk Factors	Audit Approach
<b>S</b>	Management override of controls	<ul style="list-style-type: none"> <li>■ Management may enter into transactions that are not authorized or do not have an underlying business purpose.</li> <li>■ Management may record entries not supported by underlying transactions.</li> <li>■ Management may bias estimates.</li> </ul>	<ul style="list-style-type: none"> <li>■ Perform testing of recorded journal entries.</li> <li>■ Testing of manual entries.</li> <li>■ Substantive testing over material estimates.</li> <li>■ Understanding and testing material, non-recurring transactions, if any.</li> </ul>
<b>S</b>	Risk of fraud in revenue	<ul style="list-style-type: none"> <li>■ Revenue may be recorded for non-existent transactions.</li> <li>■ Revenue may be accelerated before its appropriate recognition period.</li> <li>■ Revenue may be recorded that does not meet all the criteria for revenue recognition.</li> </ul>	<ul style="list-style-type: none"> <li>■ Testing of tuition revenue and student fees revenue by testing student accounts for existence.</li> <li>■ Testing of appropriations received from the State.</li> <li>■ Testing of other revenue by tracing back to contracts or cash receipts.</li> </ul>
<div style="display: flex; justify-content: space-around; font-weight: bold; color: #C00000;"> <span>S - Significant Risk</span> <span>E - Elevated Risk</span> <span>N - Normal Risk</span> </div>			

	Audit Area	Risk Factors	Audit Approach
N	Cash and cash equivalents	<ul style="list-style-type: none"> <li>■ Existence and accuracy of cash balance.</li> <li>■ CSUS – Risk of Fraud as cash is collected at a cashier window at each of the Universities; there is a risk that a cashier receives the tuition payment but does not record the payment in the system.</li> </ul>	<ul style="list-style-type: none"> <li>■ Externally confirm all ending cash balances and perform bank reconciling items testing.</li> <li>■ Inquire regarding STIF account's short term investments.</li> <li>■ Confirm Department of Construction Services (DCS) account balances.</li> </ul>
N	Investments	<ul style="list-style-type: none"> <li>■ CSUS – Existence, accuracy and valuation of investments.</li> </ul>	<ul style="list-style-type: none"> <li>■ Externally confirm all ending investment balances.</li> </ul>
N	Accounts Receivable	<ul style="list-style-type: none"> <li>■ Account receivable balances may not be accurate or collectible.</li> </ul>	<ul style="list-style-type: none"> <li>■ Evaluate aged balances and the need to reserve such balances, subsequent cash receipts and past write-off history.</li> <li>■ Test reconciliation between the students accounts receivable detailed listing and general ledger.</li> <li>■ Assess the reasonableness of management's estimates for bad debts by evaluating current year's methodology, assessing the adequacy of the prior year's estimates and substantive analytics.</li> </ul>
N	Property, plant and equipment	<ul style="list-style-type: none"> <li>■ Newly capitalized assets may not exist.</li> <li>■ Depreciation expense may not be accurate.</li> <li>■ CSUS – Capitalized interest on constructed assets may not be accurate or calculated in accordance with GAAP.</li> </ul>	<ul style="list-style-type: none"> <li>■ Test depreciable lives and depreciation expense for a sample of assets.</li> <li>■ Review capitalization thresholds.</li> <li>■ Test fixed asset additions and disposals.</li> <li>■ Test repairs and maintenance expense on fixed assets to determine if any should be capitalized.</li> <li>■ CSUS only - Test interest capitalized on constructed assets.</li> </ul>

S - Significant Risk

E - Elevated Risk

N - Normal Risk

	Audit Area	Risk Factors	Audit Approach
N	Net assets	<ul style="list-style-type: none"> <li>■ CCC and CSUS may not be in compliance with gift restrictions and may not allocate this income to the appropriate restriction or fund.</li> </ul>	<ul style="list-style-type: none"> <li>■ Test classification of invested in capital assets, restricted - nonexpendable, restricted - expendable, and unrestricted net assets.</li> <li>■ Test compliance with donor restrictions related to gifts and pledges.</li> <li>■ Test release from restriction.</li> </ul>
N	Accounts payable	<ul style="list-style-type: none"> <li>■ Accuracy of cut-off related to accounts payable and accrued liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>■ Test cut-off of Accounts Payable at June 30, 2012.</li> </ul>
N	Accrued Compensated Absences	<ul style="list-style-type: none"> <li>■ There is some valuation risk associated with accrued compensated absences. Accrued vacation and sick pay is estimated by management based on sick pay benefits and assumptions regarding the percentage of employees who will stay to retirement. The fringe rate used for the compensated absences accrual is determined by the State of Connecticut and provided to CCC and CSUS.</li> </ul>	<ul style="list-style-type: none"> <li>■ Management has controls in place over payroll to ensure proper tracking of vacation and sick days and assumptions used in calculating the sick pay accrual are reevaluated periodically for calculation.</li> <li>■ The engagement team will recalculate the liability pertaining to individual's sick pay benefits.</li> <li>■ For a sample of employees, the accrued compensated absence amount is tested to payroll files and outstanding sick and vacation days as of June 30.</li> </ul>
N	Bonds Payable	<ul style="list-style-type: none"> <li>■ CSUS may not be in compliance with its debt covenants.</li> <li>■ Accounting for new debt and related costs may be inaccurate.</li> </ul>	<ul style="list-style-type: none"> <li>■ Review of new debt agreements and related accounting of transactions.</li> <li>■ Test of compliance with debt covenants.</li> <li>■ Confirm debt balances with holders.</li> </ul>
N	Salaries/ payroll expense	<ul style="list-style-type: none"> <li>■ Payroll costs or deductions may not be appropriately recorded.</li> <li>■ Existence and accuracy of payroll expense and the amount of accrued payroll.</li> </ul>	<ul style="list-style-type: none"> <li>■ Perform analytical procedures over the reasonableness of payroll expense.</li> <li>■ For a sample of employees, test accrued salaries and payroll expense to determine accuracy of account balance.</li> </ul>

S - Significant Risk

E - Elevated Risk

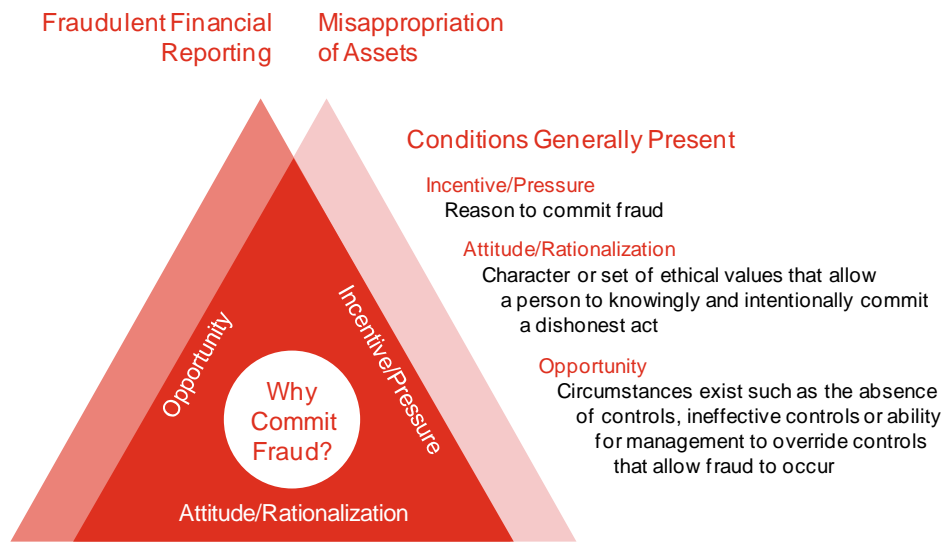
N - Normal Risk

	Audit Area	Risk Factors	Audit Approach
N	Other expenses	<ul style="list-style-type: none"> <li>■ Other expenses may not be appropriately recorded.</li> <li>■ Existence and accuracy of other expenses.</li> </ul>	<ul style="list-style-type: none"> <li>■ Test other expenses, as applicable.</li> </ul>
N	Internal Control Structure	<ul style="list-style-type: none"> <li>■ Impact of potential organizational changes on the internal control structure and financial reporting.</li> </ul>	<ul style="list-style-type: none"> <li>■ Understand organizational changes and their impact to the current operational and monitoring controls at both the individual college level as well as at the System Office.</li> </ul>
N	Information Technology	<ul style="list-style-type: none"> <li>■ Access to information technology systems may be unauthorized.</li> <li>■ Changes/enhancements to financially insignificant applications and databases may not be properly requested and authorized prior to implementation in production.</li> </ul>	<ul style="list-style-type: none"> <li>■ Evaluate and validate the design and operating effectiveness of CCC and CSUS's information technology general controls focusing on security, program changes and data backup management.</li> <li>■ Conduct walkthroughs of each key area. Assess risks and determine testing requirements.</li> <li>■ Provide comments and observations on the information technology general controls.</li> </ul>
S - Significant Risk		E - Elevated Risk	N - Normal Risk

## Perspectives on Fraud Risk and Responsibilities

We have a responsibility to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In order to fulfill that responsibility, as part of our audit, we are required to gain an understanding of the risk of material misstatement due to fraud at CCC and CSUS and perform certain procedures to respond to the fraud risks identified.

### Types of Fraud



#### Attributes Contributing to Increased Fraud Risk

- Size, complexity and ownership attributes of the Company
- Type, significance, likelihood and pervasiveness of the risk

In addition to our responsibilities to understand and respond to the risks of material misstatement due to fraud, management and those responsible for the oversight of the financial reporting process have certain responsibilities related to fraud. The oversight responsibilities of senior management and the Board of Regents and the auditor’s responsibilities are outlined on the next page.

<p>Management Responsibilities</p>	<ul style="list-style-type: none"> <li>■ Design and implement programs and controls to prevent, deter and detect fraud (antifraud programs)</li> <li>■ Ensure that CCC's and CSUS's culture and environment promote honesty and ethical behavior</li> <li>■ Perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalization</li> <li>■ Assess management override of controls and communicate with the Board of Regents</li> </ul>
<p>Audit Committee Considerations</p>	<ul style="list-style-type: none"> <li>■ Evaluate management's identification of fraud risks, implementation of antifraud measures, and creation of appropriate "tone at the top"</li> <li>■ Investigate any alleged or suspected wrongdoing brought to its attention</li> <li>■ Challenge management in the areas of nonroutine, related party and inter-entity transactions</li> </ul>
<p>PwC's Role</p>	<ul style="list-style-type: none"> <li>■ Plan and perform the audit to provide reasonable assurance that the financial statements are free of material misstatement, whether caused by fraud or error</li> <li>■ Evaluate whether CCC's and CSUS's programs and controls that address identified risks of material misstatement due to fraud have been suitably designed and placed in operation</li> <li>■ Evaluate management's process for assessing effectiveness of antifraud programs and controls</li> <li>■ Evaluate fraud of any magnitude on the part of senior management and the impact on the control environment</li> </ul>
<p>PwC's Procedures</p>	<p>In order to fulfill our responsibilities related to fraud, we plan to perform the following procedures:</p> <ul style="list-style-type: none"> <li>■ Inquiries of management, the Board of Regents and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by CCC and CSUS</li> <li>■ Disaggregated analytical procedures, primarily over revenue</li> <li>■ Review accounting estimates for biases</li> <li>■ Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed</li> <li>■ Identify and select journal entries and other adjustments for testing</li> <li>■ On-going assessment of risk of fraud throughout the audit</li> </ul>

## *Materiality*

We consider both quantitative and qualitative factors in our assessment of materiality. We also assess the metrics used by the users of the financial statements in determining the appropriate base for calculating materiality.

We identify and assess the risk of material misstatement at:

- The overall financial statement level, and
- In relation to classes of transactions, account balances and disclosures.

Our materiality measure for the financial statements of colleges and universities generally falls between one and two percent of total revenues or expenses. For the 2012 audit of CCC, materiality is estimated to be \$4.5 million. For the 2012 audit of CSUS, materiality is estimated to be \$6.5 million. The individual account balances at each University and System Office will be considered and materiality levels at each location will be lower than the overall materiality level for CSUS.

## Audit Timeline

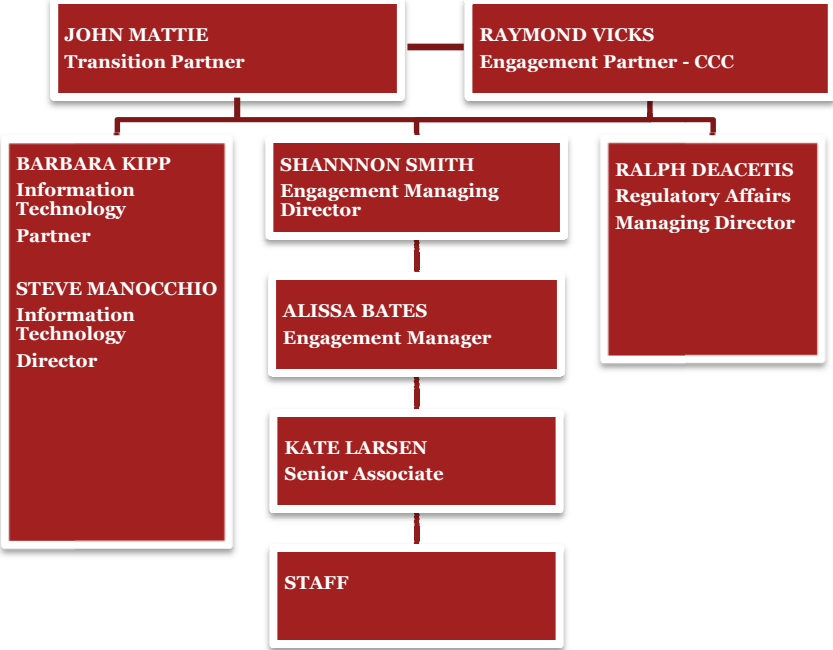
Our time-lines for both CCC and CSUS are consistent, although different engagement teams are utilized to perform the work.

Timing of Audit Procedures	2012											
Phase	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Planning and Audit Management</b>												
Assess business risks and determine audit scope				■	■	■						
Present audit scope to the Board of Regents						■						
<b>Execution and Audit Management</b>												
Perform interim audit tests					■	■	■					
Year-end audit substantive procedures									■			
Financial statement tie-out											■	
Issuance of audit report												■
Required Communications to the Board of Regents												■

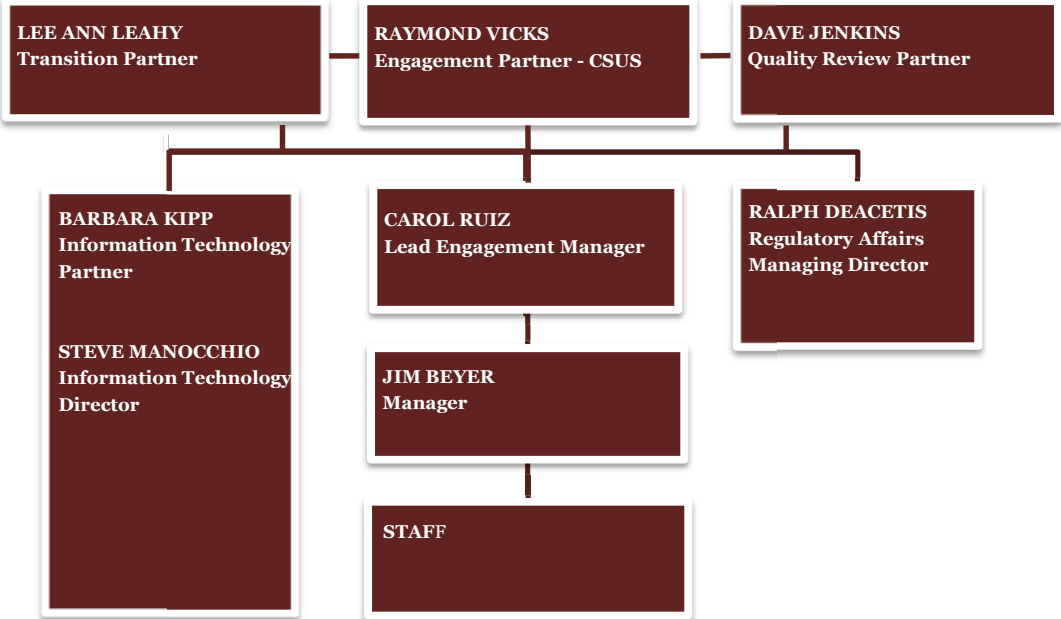


# Engagement Team

## Connecticut Community Colleges



## Connecticut State University System



## ***Estimate of 2012 Fees***

Our fees are based on the estimated time required by the individuals assigned to the engagement. We will inform management and the Board of Regents of any significant changes in the level of effort and associated professional fees necessary to complete the engagement over the course of the audit to the extent circumstances warrant. We estimate our fees for the 2012 audits, as follows:

<b>Audit Services</b>	<b>2012</b>
<b>Connecticut Community Colleges</b>	
Financial Statements	\$256,000
<b>CSUS</b>	
System Office	\$50,660
CCSU	\$65,960
ECSU	\$61,710
SCSU	\$65,960
WCSU	\$61,710
IT Audit Work	\$17,000
Financial Statement Audit Fees Total	\$323,000
Estimated Out of Pocket Expenses	\$9,785
Certification of institutional advancement receipts	\$17,500

# Appendix A

## ***Accounting, Auditing and Regulatory Developments***

In our continuing efforts to keep the Audit Committee apprised of new developments, the following section will summarize areas of interest.

### **FASB Not-for-Profit Advisory Committee (NAC)**

During the summer of 2010, the FASB formed a Not-for-Profit Advisory Committee to serve as a standing resource for the board and staff. They are expected to advise the FASB on longer-term issues affecting not-for-profit accounting and financial reporting -- for example, the alternatives and recommended courses of action if the SEC decides to mandate IFRS for registered companies in the US, or if when the FAF deliberates whether to establish a separate private company standard-setter. The NAC held its inaugural meeting in September 2010 and met again in February 2011.

The NAC has established subgroups to develop recommendations for improving the current not-for-profit financial reporting model. One subgroup is considering ways that the reporting of financial performance via the statement of activities and the statement of cash flows might be improved. That group is likely to revisit issues such as whether all not-for-profit organizations should present a separate operating statement and a performance indicator (and if so, how a performance indicator should be defined); the degree of flexibility that should be afforded in presenting changes in net assets; and the interrelationship of the statement of activities/statement of operations with the statement of cash flows. A second subgroup is considering improvements in reporting financial performance that go beyond the statement of activities and statement of cash flows. This subgroup is looking at issues such as whether management's discussion and analysis (MD&A) should be a required part of general purpose external financial reporting (as it is for organizations that follow GASB standards), segment reporting, use of a statement of functional expenses, and summarized financial statements. The third subgroup is considering potential ways to improve the balance sheet requirements and notes to better reflect liquidity or other key measures of financial health.

#### ***Implications***

In addition to changes to the financial reporting model, a key consideration is the potential for a new private company standard-setter. The recently-established NAC described above would be expected to have significant input on these matters. If the FAF establishes a third board to help make GAAP more manageable for entities with certain characteristics, it seems unlikely that it would bar all not-for-profits from that constituency. However, it would seem equally unlikely that all not-for-profits would be placed under that new standard setter. The profile of not-for-profit organizations that prepare GAAP financial statements varies widely, ranging from very small charities up to nonprofit businesses with billions of dollars of revenues and assets. What's more, many not-for-profit organizations have publicly-traded debt (through the municipal securities market) and as such, have investors relying on their financial statements in making investing decisions. All of these characteristics would likely be weighed in establishing the parameters that would define any new board's constituency.

Although neither CSUS or CCC follow accounting established by the FASB, it could ultimately have an impact on the accounting and reporting of public colleges universities over the next five years.

## **Audit Quality and the Audit Regulatory Environment**

Audit quality continues to be top of mind for regulators, preparers, and users of financial statements. The PCAOB and European Union have been the most active in publishing position papers or concept releases which explore proposals to increase audit quality, and although none of their proposals directly impact audits of higher education/not-for-profit institutions, we continue to monitor their progress and evaluate how it may impact our industry.

In addition to position papers, the PCAOB also seeks to improve audit quality and enhance investor protection by rigorously inspecting a firm's audit practice and bringing enforcement actions against firms and individuals when it deems necessary. PCAOB inspectors conduct annual inspections of the largest audit firms and consider a variety of matters, from whether procedures performed by the auditor comply with the requirements of PCAOB auditing standards to reviews of functional areas supporting the auditors' system of quality control. Inspectors focus not only on significant risk areas, but any audit area where a potential material misstatement of the financial statements could occur, including areas where that risk is assessed as greater than remote but nevertheless low. Accordingly, we consider the results of PCAOB inspections, in addition to our own internal inspections, when determining where to make improvements to our audit approach and our internal supporting processes.

### ***Implications***

Although any rulemaking by the PCAOB pertains only to audits of public companies, actions by the PCAOB may influence the views of other regulators, policymakers and stakeholders as they consider similar issues. We believe that proposals by the PCAOB may eventually be adopted by the AICPA or the GAO. In addition, changes to our audit approach are applied across all of our clients, while considering the unique aspects of each client's industry, systems, and processes. There are no immediate changes on the horizon related to the concept releases, but audit committees can expect to see changes to our audit approach as we evaluate both internal and external feedback.

## SEC Developments - Municipal Securities

### *Background*

Although municipal securities issuers (e.g. CSUS' debt issuances) are subject to the antifraud provisions of the federal securities laws, they are exempt from the SEC's periodic reporting and registration requirements (for example, they are not required to file 10-Ks or to register their securities). Thus, the SEC's regulatory authority over municipal securities issuers is limited to protecting investors in municipal securities from fraud.

In 1994, the SEC amended Rule 15c2-12 in an effort to improve the disclosure provided to investors subsequent to the initial issuance of bonds. The 1994 amendments centered on broker-dealers obtaining "continuing disclosure covenants" from issuers, in which the issuers agree to provide annual reports and notices of material events to the NRMSIRs throughout the life of a bond issue.

### *Will the SEC's Regulatory Authority be Expanded?*

At present, neither the SEC nor any other federal regulator has the authority to regulate the type, quality, and timeliness of disclosure investors receive related to municipal securities. The climate may be right for change. The events of the recent financial crisis demonstrated that the municipal market is inextricably intertwined with the US financial system as a whole. The extent of the interrelationship became apparent when financial pressures on bond insurers and investment banks directly resulted in ratings downgrades, failed auctions, and derivative terminations in the municipal market. A number of municipal bond refinancings and some near-bankruptcies ensued, along with a renewed call by the SEC for increased oversight.

During 2010, Chairman Schapiro launched a nationwide inquiry into the municipal market. Information obtained from the inquiry will be compiled into a report that is expected to recommend specific statutory and regulatory changes in the SEC's authority relative to those findings. Independent of the SEC's efforts, Congress is also considering the need for reform of the municipal market. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Government Accounting Office (GAO) to conduct a study regarding disclosures.

## ***GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements***

The GASB issued Statement 60 to provide guidance on accounting for service concession arrangements (SCAs). A SCA is a contractual agreement whereby a government transfers to another entity the right and related obligation to provide public services (e.g. parking, book stores) using a government owned capital asset in exchange for significant consideration from that entity. The entity to which these rights and obligations are transferred (which might be a private company, a not-for-profit, or another government) in effect has purchased the right to the revenues generated from use of the public asset during the term of the contract.

Some SCAs involve an up-front cash payment from the other entity (the "operator"), thus generating a significant cash inflow that the government can use to provide needed services

or for other purposes. For example, a private company might pay \$40 million to a city in exchange for the right to operate the city parking garage and collect parking fees for 50 years. In that situation, the government would report cash of \$40 million and credit a "deferred inflow of resources". The government would then recognize revenue by systematically amortizing the deferred inflow of resources over the 50-year term of the agreement.

GASB 60 is applicable for CSUS and CCC's June 30, 2013 financial statements.

## **GASB Statement No. 61, *The Financial Reporting Entity: Omnibus***

The requirements of this Statement are designed to result in governmental financial statements that include all appropriate entities that a government is accountable for or financially intertwined with. The Statement amends GASB Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

GASB Statement No. 61 increases the emphasis on the financial relationships between a primary government and component units. It raises the bar for including a separate entity as a component unit in certain circumstances, and it therefore may result in the exclusion of some entities that previously were included in the financial reporting entity.

Statement 61 also refocuses and clarifies the requirement for how certain component units are presented in the financial statements. Component units generally are displayed discretely on an organization's financial statements, meaning they are shown in columns separate from the primary government's activities. However, some component units are so intertwined with the primary government, that they are shown blended or aggregated within the same columns as the primary government. Statement 61 requires that in order for an organization to show the primary government and component unit blended, the primary government must manage the component unit as if it were just one of the primary government's departments or programs.

Finally, Statement 61 clarifies that current note disclosures require governments to explain the rationale for including each component unit, and whether it is discretely presented, blended, or include as a fiduciary fund. The Statement does not call for any new footnote disclosures.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012 (CCC's and CSCUs June 30, 2013 financial statements). Earlier application is encouraged.

## **Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***

The GASB introduced a new financial elements, "deferred inflows of resources" and "deferred outflows of resources". Many questions exist as to how these elements should be presented, and in particular whether they should be included in (or, alternatively, excluded from) the net

assets section of the balance sheet. As defined, "net assets" represents the difference between assets and liabilities. However, "deferred outflows of resources" are not an asset and "deferred inflows of resources" are not a liability.

GASB 63 was issued in response to requests for guidance on these important presentation matters. Effective for CSUS and CCC's June 30, 2013 financial statements, GASB 63 will replace the "net assets" section of the balance sheet with a new residual section called "net position". The net position section represents net assets modified for the effects of deferred inflows/outflows of resources. Similarly, the current requirement to provide information about three categories of net assets will be replaced with a requirement to provide information on three categories of net position: net investment in capital assets, restricted, and unrestricted.

The balance sheet must report "deferred outflows of resources" in a separate section following assets and "deferred inflows of resources" would be reported in a separate section following liabilities. Thus BTA reporting will report assets plus deferred outflows of resources = liabilities plus deferred inflows of resources plus net position.

Presently, the only GASB standards that explicitly require reporting of deferred inflows/outflows of resources are statement 53 related to derivatives and statement 60 related to service Concession arrangement. In addition, Statement 65 (see below) identifies items previously reported as assets and liabilities that should now be reported as deferred outflows of resources or inflows of resources.

## **Statement 65, Items Previously Reported as Assets and Liabilities**

GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

Assets and liabilities impacted include:

- Gain or loss on debt refunding
- Resources received in advance in a voluntary nonexchange transaction
- Sale of future revenues
- Debt issuance costs
- Gain/loss from sale-leaseback transactions
- Insurance acquisition costs



The provisions of this Statement are effective for CSUS and CCC's year ended June 30, 2014. Early adoption is encouraged.

## **Statement 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62**

Statement 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

*This Statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively.*

The provisions of this Statement are effective for CSUS and CCC's year ended June 30, 2014. Early adoption is encouraged.

## PwC's Center for Board Governance Publications and resources

Available online at [www.pwc.com/us/corporategovernancepublications](http://www.pwc.com/us/corporategovernancepublications)

**Sign up to have our publications and resources sent directly to your inbox or mailbox at [www.pwc.com/us/cbgsignup](http://www.pwc.com/us/cbgsignup)**



**Board Center App.** PwC's App provides timely insights on corporate governance issues and trends to enable board members to more effectively meet the challenges of their critical role. Available for your iPad, the App brings together insights on strategy and growth, executive compensation, financial reporting, and risk management with the corporate director in mind.

Download at [www.pwc.com/us/BoardCenterApp](http://www.pwc.com/us/BoardCenterApp).



**Audit committee effectiveness—What works best, 4th edition.**

The audit committee's role in ensuring accurate and transparent disclosure is more important than it has ever been. This 4th edition helps audit committee members understand how best to carry out their many complex responsibilities.



**Board effectiveness—What works best, 2<sup>nd</sup> edition.** The pressure on boards is constant — with scrutiny from shareholders, regulators, and other stakeholders. This book provides directors with advice on leading practices so they can effectively oversee the companies on whose boards they serve. It provides insights on lessons learned from directors and PwC professionals.



**2012 Current developments for directors.** *Current developments for directors* highlights how new global trends are affecting companies' operations and international expansion opportunities. This year's publication also covers how regulatory reform, financial reporting developments, and tax reform may affect your company.



**10 Minutes on Effective Audit Committees.** Audit committees, management, and auditors work together to meet the information needs of the capital markets and to promote quality audits and financial reporting. The audit committee's oversight role is particularly critical. The leading practices in this 10Minutes may help audit committees continue to improve their oversight of auditors and management, thereby enhancing the quality of audits and financial reporting.

# Appendix B

# *Independence Letter*

June 7, 2012

To the Board of Regents  
of the Connecticut State Colleges and Universities

Dear Board of Regents:

Pursuant to Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants, we must communicate with you prior to accepting an initial engagement conducted pursuant to the standards of the American Institute of Certified Public Accountants and at least annually regarding all relationships between PricewaterhouseCoopers LLP ("PwC") and Connecticut Community Colleges ("CCC") and Connecticut State University System ("CSUS") or persons in financial reporting oversight roles at CCC and CSUS that may reasonably be thought to bear on our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between PwC and CCC and CSUS or persons in financial reporting oversight roles at CCC and CSUS that may reasonably be thought to bear on our independence through the date of this letter.

We hereby affirm that, as of the date of this letter, we are independent accountants with respect to CCC and CSUS, within the requirements of the Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and its interpretations and rulings, and the Government Accountability Office Independent Standard ("Yellow Book").

This report is intended solely for the use of the Board of Regents and management of CCC and CSUS and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Very truly yours,

PricewaterhouseCoopers LLP



CONNECTICUT STATE  
COLLEGES & UNIVERSITIES

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BOARD OF REGENTS FOR HIGHER EDUCATION

**Internal Audit memorandum**

**To:** Mr. Lewis J. Robinson, Jr., Chairman, BOR  
**From:** Mitch Knight, Audit Director, ConnSCU, BOR  
**Date:** May 1, 2012  
**Subj.:** Third Quarter - FY 2012 Internal Audit Activities Update

Attached please find my quarterly Departmental report, consisting of a Narrative of Activity, the Fiscal Year 2012 Audit Plan, Summary of Open Audit Recommendations and the detailed Inventory of Open Audit Recommendations. These reflect activity through Quarter-end 3/31/2012.

I welcome any feedback you may have. Thank you.

CC: Dr. Robert A. Kennedy, Interim President, ConnSCU/BOR  
Mr. Craig S. Lappen, Chairman, Audit Committee, BOR  
Mr. Michael E. Pollard, Audit Committee, BOR  
Mr. Nicholas M. Donofrio, Audit Committee, BOR  
Mr. Michael P. Meotti, Executive Vice President, ConnSCU/BOR



# CONNECTICUT STATE COLLEGES & UNIVERSITIES

BOARD OF REGENTS FOR HIGHER EDUCATION

## **Internal Audit Department FY 2012 Quarterly Activity Narrative Third Quarter - Ending 3/31/2012**

### Audit Administration:

- Staff continues to interact with our key campus contacts to ensure up-to-date general knowledge of campus issues and initiatives.
- Staff attended a one day seminar on techniques for detecting cybercriminals and various other data threats.
- Staff continues to participate in all no-cost online training provided by ACUA, ACL, and others to stay abreast of relevant industry issues and enhancements to analytical tools.

### Audit Staffing:

- ConnSCU Internal Audit function continues to be staffed at one director, two senior auditors and one Information Technology Auditor. Once the Internal Audit Universe is expanded to include the Connecticut Community Colleges and Charter Oak, work will begin to analyze audit staffing needs against overall risk exposure.

### Audit Activity:

- SCSU Firewall/Router Audit Report issued.
- SCSU, CCSU and WCSU non-governmental grants Audit Reports issued.
- System Office Firewall/Router audit in progress.
- SCSU and ECSU Financial Aid audits in progress.
- CCSU Compensatory Time audit in progress.
- Confidential report issued on Data Breaches at CCSU and Housatonic.
- Continued the follow-up on all significant open audit comments.
- Prepared an informational analysis report on Enterprise Risk Management (ERM) best practices for the BOR President.

### Audit Director Development:

- Regularly attended Board of Regents meetings to begin aligning function with new BOR.
- Participated in no-cost online training provided by ACUA and ACL.
- Held introductory meetings with all new key campus management members.
- Audit universes are being developed and risk-rated for the Connecticut Community Colleges and Charter Oak, for inclusion in BOR Internal Audit Universe.
- Attended a one day seminar on detecting cybercriminals and various other data threats.

**2012 ConnSCU Internal Audit Plan**

Third Quarter Ending March 31, 2012

Prepared by: Mitch Knight, Audit Director

Audit / Activity Name	Audit Number	General Description of Areas of Audit Emphasis	Campus					Time		Commentary
			CCSU	ECSU	SCSU	WCSU	SysOff	Budget	Actual	
<b>Direct Resource Allocation:</b>										
<b>Audits:</b>										
<b>2011 Work-In-Process carryover:</b>										
Non - Federal Grants	705	Compliance, recordkeeping, reporting and settlement.	200		200			400	1193	Audits complete. Reports issued.
Purchasing Card	320	Review controls over the authorization, usage and subsequent reconciliation of transactions related to the P-card.		125				125	85	Audit complete, report issued.
<b>2012 Audits:</b>										
Student One Card	145	Review controls over the debit card activity, meal plans and building access related to the student card.			300	300		600		
Financial Aid Allocation Process, including Perkins Loans	115 and 117	Review and documentation of financial aid process, from application through post award, to ascertain controls are in place to ensure consistency / efficiency / effectiveness. Review of Perkins controls over required student notifications, billing and collections and the accuracy of Fiscal operations Report and Application to Participate (FISAP).		400	400	400		1200	577	ECSU and SCSU in progress.
Human Resources - Compensatory Time	310	Compensatory time accumulation, usage, balances, compliance with policies.	300					300	53	CCSU audit in progress.
Non - Federal Grants	705	Compliance, recordkeeping, reporting and settlement.		250		250		500	503	Audits complete. Report issued.
<b>2011 IT Work-In-Process carryover:</b>										
Firewall and Router	IT 315	Review of Firewall rulesets and router configurations.		200		75		275	196	WCSU complete. ECSU complete.
<b>2012 IT Audits:</b>										
Firewall and Router	IT 315	Review of Firewall rulesets and router configurations.			400		400	800	583	SCSU report issued. SO audit in progress.
VPN and Remote Access Controls	IT 325	Remote access to CSUS LANs and the WAN for the System Office and the four universities and includes VPN architecture, topology, security, and implementation strategy.	350	350	350	350	350	1750		
<b>Special Projects:</b>										
Unallocated for mgt. / BoT and BoR requests	n/a	Reserved for special reviews of campus situations that materialize. SCSU Athletics Matter - 110 CCSU/Housatonic Data Breaches - 160 Developing Audit Universes for CCC's and Charter Oak - 189	50	50	50	50		200	459	Reports issued, where germane.
<b>Annual Commitments:</b>										
APA Staff Reports	n/a	Review / analysis / synopsis and staff report generation.	10	10	10	10	10	50	10	
Faculty Consulting and Research Compliance	n/a	Review semi-annual compliance aspect of statutory requirement.	25	25	25	25		100		
<b>Follow Up:</b>										
Quarterly Inventory of Findings	n/a	Analysis of status / follow - up on open items	30	30	30	30		120	141	
<b>Audit Director Functions</b>										
	n/a							1400	1400	996
<b>Total Budgeted Direct Resources:</b>			<b>965</b>	<b>1440</b>	<b>1765</b>	<b>1490</b>	<b>2160</b>	<b>7820</b>	<b>4796</b>	

**Indirect Resource Allocation:**

Staff Administration
Professional Development
Vacation / Personal Days
Holidays
Illness

staff mtgs. / perf. evals. / campus mgt.mtgs. / S.O. functions / etc.								300	351
								200	166
								800	425
								384	352
								200	182

<b>Total Budgeted Indirect Resources:</b>								1884	1476
---	--	--	--	--	--	--	--	------	------

<b>Total Budgeted Resources:</b>								9704	6272
----------------------------------	--	--	--	--	--	--	--	------	------

Total Budgeted Resources	9704
Available resources (4 FTE's x 2088 hours)	8352
WIP Carry-over to next year	1352



**Inventory of Open Audit Recommendations Being Tracked By Internal Audit  
Quarter Ending: March 31, 2012.**

**Note:** The items listed in this document are from Internal Audit Reports and University-related APA reports. Internal Audit routinely follows up on these items to ensure completion of agreed to resolution activities.

**KEY:**

- Blue:** The institution has mitigated the risk related to the situation to the extent it deems feasible, from an operational expense and efficiency standpoint OR to the extent of its authority, where the ultimate resolution goes beyond that authority, residing elsewhere.
- Green:** Corrective action has been fully implemented.
- Yellow:** Corrective action implementation is in progress, but not yet fully complete.
- Red:** No corrective action yet taken.

ConnSCU System Wide							
Issuing Source	Audit Reference Number	Priority	Nature of Recommendation	Summary of Mgt. Response	Recommendation Date	Stated Completion Date	I/A Follow-Up date
None							
ConnSCU System Office							
Issuing Source	Audit Reference Number	Priority	Nature of Recommendation	Summary of Mgt. Response	Recommendation Date	Stated Completion Date	I/A Follow-Up date
None							

### Central CSU

Issuing Source	Audit Reference Number	Priority	Nature of Recommendation	Summary of Mgt. Response	Recommendation Date	Stated Completion Date	I/A Follow-Up date
ConnSCU IA	CCSU Firewalls/Routers	H	1. Need Pol. and Proc. over Implementation / Maintenance / Security	Agree. Documentation will be completed.	12/22/2010	7/2011	Re-diary for 7/1/2012
ConnSCU IA	CCSU Firewalls/Routers	M	3. Firewall and Router logging and monitoring controls need	Agree. Monitoring will be strengthened.	12/22/2010	12/2011	Re-diary for 7/1/2012
ConnSCU IA	CCSU Firewalls/Routers	H	6. Formal change management process needs to be defined and	Agree. This will occur as part of CSUS-wide Change Management	12/22/2010	12/2011	Re-diary for 7/1/2012
ConnSCU IA	CCSU Non-governmental grants	H	A. Develop a Policies and Procedures manual.	Agree. Will develop a manual.	2/16/2012	6/2012	Re-diary for 7/1/2012

### Eastern CSU

Issuing Source	Audit Reference Number	Priority	Nature of Recommendation	Summary of Mgt. Response	Recommendation Date	Stated Completion Date	I/A Follow-Up date
ConnSCU IA	ECSU BRP	H	2. Obtain and use Encryption for tapes in transit and off-site storage.	Agree. Specific tech. Being acquired in next two years will allow for this.	5/13/2010	12/15/2011	4/2012
ConnSCU IA	ECSU Firewalls/Routers	H	1. Need Pol. and Proc. over Implementation / Maintenance / Security	Agree. Documentation will be completed.	11/21/2011	6/30/2012	10/2012
ConnSCU IA	ECSU Firewalls/Routers	H	2. Need documented configuration and hardening standards.	Agree. Documentation will be completed.	11/21/2011	6/30/2012	10/2012
ConnSCU IA	ECSU Firewalls/Routers	M	3. Firewall and Router logging and monitoring controls need enhancement.	Agree. Monitoring will be strengthened.	11/21/2011	6/30/2012	10/2012

ConnSCU IA	ECSU Firewalls/Routers	H	4. Password controls need to be strengthened.	Agree. Password controls will be strengthened. Documentation will be completed.	11/21/2011	6/30/2012	10/2012
ConnSCU IA	ECSU Firewalls/Routers	M	6. Formal change management process needs to be enhanced.	Agree. This will occur as part of CSUS-wide Change Management initiative.	11/21/2011	6/30/2012	10/2012

**Southern CSU**

Issuing Source	Audit Reference Number	Priority	Nature of Recommendation	Summary of Mgt. Response	Recommendation Date	Stated Completion Date	I/A Follow-Up date
ConnSCU IA	SCSU Firewalls/Routers	H	1. Need Pol. and Proc. over Implementation / Maintenance / Security	Agree. Documentation will be completed.	3/8/2012	9/1/2012	11/2012
ConnSCU IA	SCSU Firewalls/Routers	H	2. Need documented configuration and hardening standards.	Agree. Documentation will be completed.	3/8/2012	9/1/2012	11/2012
ConnSCU IA	SCSU Firewalls/Routers	M	3. Firewall and Router logging and monitoring controls need	Agree. Monitoring will be strengthened.	3/8/2012	7/1/2012	11/2012
ConnSCU IA	SCSU Firewalls/Routers	H	4. Password controls need to be strengthened.	Agree. Password controls will be strengthened. Documentation will be completed.	3/8/2012	9/1/2012	11/2012
ConnSCU IA	SCSU Firewalls/Routers	M	5. Document and use only authorized protocols for remote access.	Agree. Will implement.	3/8/2012	7/1/2012	11/2012
ConnSCU IA	SCSU Firewalls/Routers	M	6. Formal change management process needs to be enhanced.	Agree. This will occur as part of CSUS-wide Change Management initiative.	3/8/2012	6/1/2012	11/2012

ConnSCU IA	SCSU Non-governmental grants	H	A. Monitor actual fund receipts, track in-kind contributions and annually reconcile open grant financial activity.	Agree. Will develop and implement procedures for these.	3/30/2012	7/1/2012	10/2012
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**Western CSU**

Issuing Source	Audit Reference Number	Priority	Nature of Recommendation	Summary of Mgt. Response	Recommendation Date	Stated Completion Date	I/A Follow Update
ConnSCU IA	WCSU BRP	H	1. Establish a formal IT Disaster Recovery Plan	Agree. Will develop by 12/15/2010.	5/13/2010	12/15/2010	1/2012
ConnSCU IA	WCSU BRP	H	2. Obtain and use Encryption for tapes in transit and off-site storage.	Agree. Will begin encrypting 10/15/2010.	5/13/2010	10/15/2010	1/2012
ConnSCU IA	WCSU Routers and Firewalls	H	1. Document IT processes are firewall and router environments.	Agree. Will have complete by 7/1/2012	7/28/2011	7/1/2012	10/1/2012
ConnSCU IA	WCSU Routers and Firewalls	H	2. Document Firewall configuration and hardening standards and back-up firewall logs.	Agree. Will have complete by 9/1/2012	7/28/2011	9/1/2012	10/1/2012
ConnSCU IA	WCSU Routers and Firewalls	H	3. Enhance Firewall and Router monitoring and logging controls.	Agree. Will have complete by 7/1/2012	7/28/2011	7/1/2012	10/1/2012
ConnSCU IA	WCSU Routers and Firewalls	H	4. Password controls over Routers and Firewalls should be strengthened.	Agree. Will have complete by 9/1/2012	7/28/2011	9/1/2012	10/1/2012
ConnSCU IA	WCSU Routers and Firewalls	H	5. The tools for Router and Switch management need to be strengthened.	Agree. Will have complete by 1/1/2012	7/28/2011	1/1/2012	10/1/2012
ConnSCU IA	WCSU Routers and Firewalls	H	6. Firewall and Switch change management procedures require enhancement.	Agree. Will have complete by 9/1/2011.	7/28/2011	9/1/2011	10/1/2012

***ConnSCU Internal Audit  
Summary of Issued/Open Audit Recommendations  
(High and Medium Priority Only)  
Quarter Ending March 31, 2012***

Attached are the audit recommendation inventory sheets. These capture audit recommendations from Internal Audit and outside Auditors (PWC, APA, etc.), that Internal Audit has deemed as **high** or **medium** priority and that **require follow-up** to ensure implementation. Internal Audit tracks and follows through to ensure that agreed to changes are implemented by management. This document is updated on a quarterly basis and provided as part of the ConnSCU Internal Audit Quarterly Report.

<b>Inventory of Issued/Open Recommendations Summary</b>				
	<u>Beginning</u>	<u>Added</u>	<b>Closed</b>	<u>Ending</u>
<b>ConnSCU System-wide</b>	0	0	0	0
<b>ConnSCU System Office</b>	0	0	0	0
<b>CCSU</b>	5	1	2	4
<b>ECSU</b>	1	5	0	6
<b>SCSU</b>	11	7	11	7
<b>WCSU</b>	8	0	0	8
<b><i>Totals</i></b>	25	13	13	25