CSCU Connecticut State Colleges & Universities

MEETING OF THE AUDIT COMMITTEE

Connecticut State Colleges and Universities
Board Room – Ground Floor
61 Woodland Street, Hartford, Connecticut
Tuesday, June 11, 2019 at 10:00 am

AGENDA

1. Approval of the Minutes of December 11, 2018
2. Controller Update (C. Forster)
   a. Organizational Changes
   b. APA Audits
3. Introduction of CSCU 2020 Auditors, CohnReznick (C. Kurth)
4. Interim Audit Update – Grant Thronton (C. Esten, Partner)
5. Internal Control Audit (B. Barnes)
6. Executive Session (if required)
7. Adjournment

Meeting of the
Audit Committee
Connecticut State Colleges and Universities
61 Woodland Street
Hartford, CT
Tuesday, December 11, 2018 @10:00

MINUTES

Regents Present
Elease Wright, Chair
Aviva Budd
JoAnn Ryan

BOR Staff Present
Chris Forster, Controller; Michael Moriarty, CFO Charter Oak College; Melissa Schwalbach, Assistant Counsel/Compliance Officer

Guests
Claire Esten, Brian Hopkins, Dave Murphy – Grant Thornton

With a quorum present, Chair Wright called the meeting to order at 10:00 a.m.

1. Approval of the Minutes of October 16, 2018

Motioned by Regent Budd, seconded by Regent Ryan, the minutes of the October 16, 2018 meeting were approved as submitted.

2. Update on Audits of the Auditors of Public Accounts (APA)

Melissa Schwalbach provided an audit update of the Auditors of Public Accounts. The Audit Team lead by Ramona Weingart continues to focus on monitoring the 120 day rule for rehired retirees at the Community Colleges; Payroll Exception Reports; and monitoring the Colleges' ability to do more with less given the challenges of the budget cuts. In addition, the auditors have indicated that they may focus on campus security/budget cut issues and cross-enrollment with a balance due on different campuses. It is the opinion of counsel that campus security is not within the audit authority, but no current audit has approached this issue.

The bi-annual Faculty Consulting and Research Reports are due to the BOR President on May 1 and November 1 in accordance with State Statute and Board policy. All of the Universities and Colleges are compliant with the exception of Gateway.

3. Year-End Reports and Discussion

Chris Forster provided an overview of the draft audited financial statements for the fiscal year ended June 30, 2018 and Michael Moriarty provided a GASB update for the Universities, Colleges and Charter Oak. The auditor's report noted that all three audits resulted in unqualified opinions and there were no disagreements with management.

The senior engagement team of Grant Thornton, lead by Claire Esten, Lead Engagement Partner, noted that two items were identified as significant deficiencies. Library assets should have been written down in prior periods and accrued compensated absences were not accurately calculated in the report received from the State. Both deficiencies have been rectified by management. There remains one open item related to Great Path Academy (GPA), a component of Manchester Community College. It was noted that GPA is the only magnet high school that is classified as a component unit. The auditors recommended the renewal contract with the Hartford Public Schools be amended to align with similar arrangements between magnet high schools and other institutions within our system that do not require us to identify the high schools as component units.

The implementation of GASB 75 in FY18, requires the System to recognize the unfunded portion of Other Post Employment Benefits (OPED), primarily health benefits that are attributed to the CSCU system. These are liabilities of the State of Connecticut but are recognized on our financial statements as required by accounting standards. The impact of recognizing the net pension and OPEB liabilities results in a negative net position for all three of our reporting entities.

4. Management Report of Audited Foundation Financial Statements (all institutions)

A summary was provided for the seventeen University and College Foundation Reports for fiscal year 2018. The Foundations are required to submit their financial statements to the BOR annually, as well as other supplemental information identifying any major changes in organizational structure, policies and governance. Each of the audits resulted in unqualified opinions and the Auditors states that the financial statements present fairly, in all material respects, the financial position of the Foundations.

With no other business to discuss, the meeting adjourned at 11:30 a.m. on a motion by Chairman Wright, seconded by Regent Ryan.

STATE OF CONNECTICUT

AUDITORS' REPORT
BOARD OF REGENTS FOR HIGHER EDUCATION
EASTERN CONNECTICUT STATE UNIVERSTIY
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2015 AND 2016

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

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210 Capitol Avenue
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ROBERT J. KANE

May 30, 2019

INTRODUCTION
AUDITORS' REPORT
BOARD OF REGENTS FOR HIGHER EDUCATION
EASTERN CONNECTICUT STATE UNIVERSITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2014, 2015 AND 2016

We have audited certain operations of Eastern Connecticut State University (university) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2014, 2015, and 2016. The objectives of our audit were to:

1. Evaluate the university's internal controls over significant management and financial functions;

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

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the university; 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 contracts, grant agreements, 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 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 information purposes. This information was obtained from various available sources, including but not limited to, the university's management and the state's information systems, 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;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of Eastern Connecticut State University.

COMMENTS

FOREWORD

Eastern Connecticut State University, located in Willimantic, Connecticut, is one of the four higher education institutions that collectively make up the Connecticut State University System (CSUS). The other three are Central Connecticut State University in New Britain, Southern Connecticut State University in New Haven, and Western Connecticut State University in Danbury. During the audited period, the university was overseen by the Board of Regents for Higher Education, which serves as the administrative office for CSUS, the Connecticut Community College System, and Charter Oak State College. CSUS, part of the Connecticut State Colleges and Universities (CSCU) System and a constituent unit of the State of Connecticut's system of higher education, operated principally under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes.

Dr. Elsa Núñez served as university president during the audited years.

Recent Legislation

The following notable legislative changes affecting the university took effect during the audited period:

- Public Act 14-98, effective July 1, 2014, authorized $103.5 million in new bonding under the Connecticut State University 2020 infrastructure program (renamed the Connecticut State Colleges and Universities 2020 Program).

- Public Act 15-82, effective July 1, 2015, expanded in-state tuition benefits at Connecticut public higher education institutions to include certain students who attended a Connecticut high school for at least 2 years rather than the 4 years required by the previous law. The act also extended the in-state tuition benefit to certain nonimmigrant aliens.

Enrollment Statistics

The university provided the following enrollment statistics for full- and part-time students during the audited period:

	Fall 2013	Spring 2014	Fall 2014	Spring 2015	Fall 2015	Spring 2016
Full-Time Undergraduate	4,395	4,092	4,288	3,981	4,267	4,014
Full-Time Graduate	67	42	44	33	44	52
Total Full-Time	4,462	4,134	4,332	4,014	4,311	4,066
Part-Time Undergraduate	784	789	851	888	830	861
Part-Time Graduate	122	126	104	117	120	108
Total Part-Time	906	915	955	1.005	950	969
Total Enrollment	**5,368**	**5,049**	**5,287**	**5,019**	**5,261**	**5,035**

The average of the fall and spring semesters' total enrollment was 5,209, 5,153 and 5,148 during the 2013-2014, 2014-2015 and 2015-2016 fiscal years, respectively, compared to an average of 5,187 during the 2012-2013 fiscal year. The average total enrollment varied slightly during the audited years.

RÉSUMÉ OF OPERATIONS

During the audited period, university operations were supported primarily by appropriations from the state's General Fund and tuition and fees credited to the university's operating fund. In addition, the university received capital projects funds generated from state bond issues.

General Fund appropriations were not made to the university directly. Rather, General Fund appropriations for the entire CSCU System were made available to the CSCU System Office, where the allocations of these amounts were calculated and funds were transferred periodically to the university's operating fund.

Operating fund receipts consisted in large part of student tuition payments. Under the provisions of Section 10a-99 (a) of the General Statutes, tuition charges were set by the Board of Regents for Higher Education. The following presents annual tuition charges for full-time students during the audited fiscal years:

	2013-2014		2014-2015		2015-2016	
	Undergraduate	Graduate	Undergraduate	Graduate	Undergraduate	Graduate
In-State	$ 4,510	$ 5,617	$ 4,600	$ 5,729	$ 4,968	$ 6,188
Out-of-State	14,594	15,650	14,886	15,963	16,078	17,240
Regional	6,764	8,428	6,898	8,596	7,450	9,284

In accordance with Section 10a-67 of the General Statutes, the Board of Trustees for the Connecticut State University System set tuition amounts for nonresident students enrolled in the State University System through the New England Regional Student Program at an amount equal to one and one-half times the in-state rate.

Besides tuition, the university charged students other fees during the audited years, including a general fee and a state university fee, among others. The following presents these fees, on an annual basis, during the audited fiscal years:

	2013-2014		2014-2015		2015-2016	
	General Fee	State University Fee	General Fee	State University Fee	General Fee	State University Fee
In-State	$ 3,646	$ 1,030	$ 3,719	$ 1,051	$ 4,018	$ 840
Out-of-State	3,646	2,451	3,719	2,500	4,018	2,000
Regional	3,646	1,030	3,719	1,051	4,018	840

In addition, the Housing and Food Service fees, required of resident students, represent a significant portion of the operating revenues category titled Auxiliary Revenues. The following presents the average annual Housing (double occupancy) and Food Service fees during the audited period:

Fee Description:	2013 – 2014	2014 – 2015	2015 - 2016
Housing	$ 6,392	$ 6,642	$ 6,902
Food Service	4,776	4,968	5,166

Operating Revenues

Operating revenues are derived from the sale or exchange of goods and services related to the university's educational and public service activities. Major sources of operating revenue include tuition and fees, federal grants, state grants, and auxiliary services.

Operating revenues as presented in the university's audited financial statements for the audited period and the previous fiscal year follow:

	2012-2013	2013-2014	2014-2015	2015-2016
Tuition and Fees (net of scholarship allowances)	$ 32,600,682	$ 32,948,278	$31,559,892	$31,068,762
Federal Grants and Contracts	5,902,376	6,591,145	6,509,469	543,193
State and Local Grants and Contracts	1,719,902	1,526,041	1,600,191	1,132,243
Non-Governmental Grants and Contracts	152,529	69,514	63,203	68,458
Indirect Cost Recoveries	74,794	24,862	29,308	20,629
Auxiliary Revenues	26,668,122	27,713,048	27,280,983	30,902,444
Other Operating Revenues	1,935,744	4,138,676	3,080,776	2,322,082
Total Operating Revenues	$69,054,149	$73,011,564	$70,123,822	$66,057,811

Operating revenues totaled $73,011,564, $70,123,822 and $66,057,811 during the fiscal years ended June 30, 2014, 2015 and 2016, respectively, compared to $69,054,149 during the fiscal year ended June 30, 2013. These revenues increased $3,957,415 (5.7 %) in fiscal year 2014, decreased $2,887,742 (4.0 %) in fiscal year 2015, and decreased $4,066,011 (5.8 %) in 2016.

The increase in operating revenues during the fiscal year ended June 30, 2014, can be attributed primarily to an increase in Connecticut Health and Education Facilities Authority (CHEFA) funds received by the university, reflected in the Other Operating Revenues category. Increases in student room and board rates, reflected in the Auxiliary Revenues category, also contributed to the increase in operating revenues.

The decrease in operating revenue during the fiscal year ended June 30, 2015 is largely the result of a decrease in CHEFA funds received by the university. In addition, there was a decrease in tuition and fees revenue due, in part, to a decrease in out-of-state student enrollment.

The decrease in operating revenues during the fiscal year ended June 30, 2016 is due, in large part, to a shift in classification of federal Pell Grant receipts. In previous years, these receipts were classified as operating revenues reflected in the Federal Grants and Contracts category. In the year ended June 30, 2016, the university began classifying these revenues as non-operating revenues. This decrease in Federal Grant and Contracts revenue was partially offset by an increase in the Auxiliary Revenues category, due, in part, to an increase in student room and board rates.

Operating Expenses

Operating expenses generally result from payments made for goods and services to achieve the university's mission of instruction and public service. Operating expenses include employee compensation and benefits, professional services, supplies, utilities, and depreciation, among others.

Operating expenses as presented in the university's audited financial statements for the audited period and the previous fiscal year follow:

	2012-2013	2013-2014	2014-2015	2015-2016
Personal Service and Fringe Benefits	$ 75,993,991	$ 84,568,257	$90,969,204	$92,384,137
Professional Services and Fees	3,617,708	4,028,536	3,964,543	4,481,614
Educational Services and Support	13,255,631	15,427,353	14,198,373	14,233,612
Travel Expenses	817,865	922,281	850,409	917,054
Operation of Facilities	7,470,392	7,321,560	7,386,293	7,243,739
Other Operating Supplies and Expenses	3,157,043	3,539,061	2,824,580	3,493,033
Depreciation Expense	11,930,214	12,139,451	12,632,787	13,382,070
Total Operating Expenses	$116,242,844	$127,946,499	$132,826,189	$136,135,259

Operating expenses totaled $127,946,499 and $132,826,189 and $136,135,259 during the fiscal years ended June 30, 2014, 2015 and 2016, respectively, compared to $116,242,844 during the fiscal year ended June 30, 2013. Expenses increased $11,703,655 (10.1 %), $4,879,690 (3.8 %), and $3,309,070 (2.5 %) during the 2014, 2015, and 2016 fiscal years, respectively.

The increase during the fiscal year ended June 30, 2014 was due, in large part, to increases in rates for state employee retirement plan fringe benefit costs. Higher student food service contract costs and student financial aid costs also contributed to the increase in operating expenses.

The increase in expenses during the fiscal year ended June 30, 2015 was primarily the result of employee transfers from the Alternate Retirement Plan to the costlier State Employees Retirement System. This increase was partly offset by a decrease in bad debt and auditing expenses.

The increase in expenditures during the fiscal year ended June 30, 2016 was the result of several factors, including employee transfers from the Alternate Retirement Plan to the costlier State Employees Retirement System, an increase in depreciation costs associated with the completion of the university's new fine arts building, and an increase in non-capitalized equipment purchases.

Nonoperating Revenues

Nonoperating revenues are receipts from other than the sale or exchange of goods or services related to the university's primary functions of instruction, academic support, and student services. Nonoperating revenues include items such as the state's General Fund appropriation, private gifts and donations, investment income, and state-financed plant facilities revenues.

Nonoperating revenues during the audited years and the previous fiscal year were presented in the university's audited financial statements as follows:

	2012-2013	2013-2014	2014-2015	2015-2016
State Appropriations	$ 40,573,165	$ 48,286,072	$52,513,366	$56,494,414
Pell Grant Revenue	-	-	-	6,357,772
Gifts	71,270	397,179	534,808	751,123
Investment Income	46,974	50,544	68,069	138,946
Interest Expense	-	-	(2,887)	(1,093)
Other Nonoperating Revenue	423,047	354,818	394,601	451,949
Transfers to the State of Connecticut	-	-	-	(779,861)
Total Nonoperating Revenues	$41,114,456	$49,088,613	$53,507,957	$63,413,250

Nonoperating revenues totaled $49,088,613, $53,507,957 and $63,413,250 during the fiscal years ended June 30, 2014, 2015, and 2016, respectively, compared to $41,114,456 during the fiscal year ended June 30, 2013. These revenues increased $7,974,157 (19.4 %), $4,419,344 (9.0 %), and $9,905,293 (18.5 %) during the respective audited years.

The increases during the 2014 and 2015 fiscal years are mostly due to increases in state appropriations. The increase during the 2016 fiscal year is primarily the result of a change in classification of federal Pell Grant revenue. In previous years, the university classified this revenue as operating revenue. Starting in the 2016 fiscal year, the university classified Pell Grant revenue as nonoperating revenue. In addition, an increase in state appropriations boosted nonoperating revenues during the 2016 fiscal year.

The nonoperating revenue increase during the 2016 fiscal year was offset, in part, by transfers to the State of Connecticut, totaling $779,861, in accordance with Connecticut Public Act 16-1. Effective March 30, 2016, section 7 of the act authorized the Office of Policy and Management to approve the transfer of up to $4,100,000 from the Connecticut State University Operating Fund to the General Fund for the 2016 fiscal year.

Eastern Connecticut State University Foundation, Inc.

The Eastern Connecticut State University Foundation, Inc. is a private, nonprofit corporation established to raise funds to support the activities of the university.

Sections 4-37e through 4-37k of the General Statutes define and set requirements for such organizations. The requirements address the annual filing of an updated list of board members with the state agency for which the foundation was established, financial recordkeeping and reporting in accordance with generally accepted accounting principles, financial statement and audit report criteria, written agreements concerning the use of facilities and resources, compensation of state officers or employees, and the state agency's responsibilities with respect to affiliated foundations.

Audits of the books and accounts of the foundation were performed by an independent certified public accounting firm for the fiscal years ended June 30, 2014, 2015, and 2016 in accordance with Section 4-37f (8) of the General Statutes. The auditors expressed unqualified opinions on the foundation's financial statements. In addition, the foundation's auditors indicated compliance, in all material respects, with Sections 4-37e through 4-37i of the General Statutes.

The audit of the foundation's financial statements reported support and revenues totaling $3,490,757, $2,187,626, and $2,152,743 during the fiscal years ended June 30, 2014, 2015, and 2016, respectively. Net assets were reported as $18,242,439, $17,960,965, and $17,641,515 as of June 30, 2014, 2015, and 2016, respectively.

STATE AUDITORS' FINDINGS AND RECOMMNEDATIONS

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

Information System Disaster Recovery Plan Not Updated or Tested

Criteria: Disaster recovery and business continuity plans should be established to help minimize the risks of negative business impacts in the event of an information technology service interruption. These plans should be updated regularly and routinely tested to ensure that systems and data can be recovered promptly following a disaster or other interruption.

Condition: At the time of our review in April 2017, the university's information technology disaster recovery plan was not up-to-date. Furthermore, we noted that the university last tested the plan in February 2012.

Effect: The lack of an adequate disaster recovery plan could extend the time required to recover and resume critical infrastructure and application systems after a disaster or interruption in service.

Cause: The university informed us that a lack of financial resources and personnel contributed to the delay in reviewing, updating, and testing the disaster recovery plan.

Recommendation: Eastern Connecticut State University should take steps to ensure that its information technology disaster recovery plan is updated and tested on a regular basis. (See Recommendation 1.)

Agency Response: "The university agrees with this finding. Information Technology Services has assigned the task of updating our disaster recovery plan as a priority over the next year. Critical systems are in the process of being identified and scheduled for testing. Eastern Connecticut State University has focused its resources on preventing disaster situations by hardening its critical infrastructure, improving redundancy, and moving systems to the cloud. Systems testing will commence in the FY18-19 academic year."

Lack of Defined Eligibility Criteria for STEP/CAP Program Tuition and Fee Waivers

Background: Under Section 10a-99 of the General Statutes, the Board of Regents for Higher Education shall set aside a portion of its tuition revenue to provide tuition waivers for students enrolled in a precollege remedial program who demonstrate substantial financial need.

Eastern Connecticut State University administers a six-week summer program for certain students to help ease the transition from high school to college. The program, known as the Summer Transition at Eastern Program/Contract Admissions Program (STEP/CAP), is open to high school graduates who are the first in their family to attend college, from low-income families, or from groups traditionally under-represented on college campuses.

Criteria: To ensure that only eligible students are granted tuition and fee waivers, it is a good business practice to establish measurable eligibility criteria for such waivers.

Condition: During the audited years, the university waived tuition and fees for certain students enrolled in the STEP/CAP program. The university informed us that eligible recipients of STEP/CAP waivers demonstrated financial need.

We requested the written criteria detailing the specific metrics, such as income guidelines, that the university used to determine eligibility for these waivers. The university provided us a document stating, in general terms, that its process for determining financial need included interviewing waiver candidates and reviewing their family tax returns, federal Pell grant eligibility, and employment situation. Based on the program coordinator's evaluation of this information, the coordinator recommends to the university provost whether a waiver should be granted and, if so, the amount of the waiver.

It appears that there are no established, written uniform income guidelines or any other measureable criteria to determine who is eligible to receive these waivers or the proper waiver amount. Instead, these decisions appear to be based primarily on the program coordinator's discretion.

Effect: Without written, measurable eligibility criteria for tuition and fee waivers, there is an increased risk that waivers will not be, or will not appear to be, granted in a fair, equitable, and uniform manner.

Cause: It is unknown why the condition occurred.

Recommendation: Eastern Connecticut State University should develop a written policy defining measureable eligibility criteria for STEP/CAP program tuition and fee waivers. (See Recommendation 2.)

Agency Response: "The university agrees with this finding. Eastern Connecticut State University has established a written policy (4/19/18) that identifies the process to provide waivers for eligible students in the Summer

Transition at Eastern Program/ Contract Admissions Program (STEP/CAP) with regard to tuition, food and housing. The program waives certain fees based on the State of Connecticut's median family income for the year as listed by the U.S. Census Bureau and Bureau of Economic Analysis."

Incorrect Student Employee Paid Sick Leave Records

Criteria: Section 31-57s of the General Statutes requires Connecticut employers to provide paid sick leave to certain service workers at the rate of one hour of paid sick leave for each 40 hours worked, effective January 1, 2012.

Condition: Our examination of attendance and leave records for 10 student workers disclosed incorrect sick leave balances for 3 student workers. In addition, for the records tested, the university did not post earned sick leave to student worker attendance records in a timely manner.

Effect: The university did not fully comply with the requirements of Section 31-57s of the General Statutes, resulting in incorrect records of student worker sick leave balances. In addition, the delayed posting of earned sick leave could impede employee use of sick leave.

Cause: The university informed us that it delayed posting earned sick leave for student workers as a result of delays in receiving the necessary records from its central office. This contributed to inaccurate student worker sick leave balances.

Recommendation: Eastern Connecticut State University should take steps to improve the accuracy and timeliness of student worker sick leave records.
(See Recommendation 3.)

Agency's Response: "The university agrees with this finding. Eastern Connecticut State University is currently utilizing a semi-automated electronic process for managing student worker sick leave which was released for production in December 2015 by the Connecticut State College and University System and CORE-CT. Regular communication goes out to student worker supervisors that they may request an update on employee sick accruals at any time."

Noncompliance with Equipment Disposal Controls and other Property Controls

Criteria: The Connecticut State University System Procedures for the Disposal of Surplus Property require that hard drives to be purged or, in certain instances, destroyed when disposing of computers. Additionally, the university must complete a signed certification, attesting that the hard drive of the discarded computer was purged or destroyed.

The procedures also provide for the disposal of surplus equipment through trade-in to obtain lower prices when purchasing new equipment. These procedures state that "purchase orders shall include the CSUS tag number and serial number of any item that is traded in."

In addition, according to the procedures, when surplus property is donated, the recipient must complete a form certifying or approving the transfer of property and waiving the university's and State University System's liability before property is released. The recipient must also sign a document certifying the receipt of the donated property.

Good internal control procedures require sufficient documentation to ensure that equipment disposed of by recycling is properly transferred to the recycler.

The State of Connecticut Property Control Manual provides that certain equipment items, although below the capitalization threshold, should be considered controllable. Connecticut State University policy states that "Each controllable item must be tagged and maintained on the System's perpetual inventory (records)."

Condition: We tested a selection of 30 equipment items that the university disposed of during the audited period. Our testing disclosed the following:

1. We noted 4 instances in which there was insufficient documentation supporting that the university purged data and software prior to a computer's transfer to a recycling company.

2. We noted 4 instances in which there was insufficient documentation supporting that a recycling company received a particular item slated for recycling.

3. We noted 1 instance in which a purchase order did not sufficiently identify an item traded in for the purchase of a new equipment item.

4. We noted 1 instance in which the university donated an item without obtaining the required waiver of liability from the recipient.

We also noted that the university purchased 14 computers in October 2015 that were not recorded in the university's inventory control records until April 2017, after we informed the university of this omission.

Effect: In some instances, the university did not comply with the Connecticut State University System Procedures for the Disposal of Surplus Property. As a result, there was decreased assurance that equipment was disposed of properly and university data was protected.

In some instances, equipment items were not recorded in inventory control records, exposing the items to an increased risk of loss or misplacement.

Cause: The university did not always carry out established controls as designed.

Recommendation: Eastern Connecticut State University should improve controls over equipment, especially equipment disposals, by complying with the policies and procedures set forth in the Connecticut State University System Procedures for the Disposal of Surplus Property and its Capital Asset Valuation Manual. In particular, the university should sufficiently document the purging of data and software from its disposed of computers. (See Recommendation 4.)

Agency Response: "The university agrees with this finding. Eastern Connecticut State University Purchasing function will ensure that the proper identification of the item, be it through the Serial Number, university tag number, or model, shall be on the purchase order and not only be contained on the supporting documentation. Our Information Technology Services procedures now include completion of the supporting documentation that hard drives have been wiped and tagged prior to disposal. Our equipment receipt process now includes the application of identification tags to new computer equipment at the time the shipments are received."

Late Termination of Banner Information System Access

Background: The Connecticut State University System (CSUS) primarily uses an automated information system, known as Banner, to maintain its accounting and student academic records.

Criteria: Access to information systems should be limited to appropriate employees only, who need such access to perform their duties and whose access should be terminated promptly upon separation from employment.

Condition: We examined the status of Banner information system privileges for 11 employees who separated from university employment during the audited years. Our audit test disclosed 3 instances in which the university did not terminate an employee's Banner user account promptly upon their separation from the university. In these instances, the university disabled the user accounts more than 1 month to more than 4 months after the employees separated from the university.

Effect: Unnecessary or inappropriate access to information systems could increase the risk of data system errors and fraud.

Cause: It appears that the controls in place were not sufficient to prevent these conditions.

Recommendation: Eastern Connecticut State University should regularly review information system access privileges granted to employees to determine whether access is appropriate. The university should remove access privileges promptly upon an employee's separation from employment. (See Recommendation 5.)

Agency Response: "The university agrees with this finding. Eastern Connecticut State University will follow a check and balance system where Human Resources notifies the Information Technology Services department when an employee separates from service and requests their access to the university's data system to be removed the same day. This process includes the sign off by the Information Technology Services department indicating they have suspended the access for the separated employee and that is recorded in the Human Resources department."

Lack of Written Agreement for Rental of Groton Campus Facilities

Background: Eastern Connecticut State University operates a satellite campus in Groton, Connecticut, to offer a convenient location to better serve southeastern Connecticut students.

Criteria: It is a good business practice to establish a formal, written lease or rental agreement, when renting real estate. A formal agreement provides some assurance that the parties understand their rights and obligations under the terms of the agreement. A written contract also provides legal protection to help ensure that the terms of the agreement are carried out as designed.

The Connecticut State Universities are required to obtain approval from the Office of the Attorney General and the Board of Regents when entering into lease agreements for office space or other types of facility space in accordance with Sections 4b-26(b) and 4b-30 of the General Statutes.

Condition: The university's Groton campus is housed in facilities that the university rents from the Child and Family Agency of Southeastern Connecticut, Inc. The university informed us that no formal, written lease or rental agreement exists for this rental arrangement. Instead, on an annual basis, the university completes a purchase order for the rental space and is charged an agreed-upon amount per course or contact hour taught at the facility. Furthermore, it appears that the university did not seek or obtain approval for this agreement from the Office of the Attorney General and the Board of Regents for Higher Education.

Effect: Without a written lease or rental agreement, there is an increased likelihood that the terms of the arrangement will be misconstrued, resulting in potential landlord-tenant disputes.

Cause: We reviewed documentation that indicates the university believed that no formal lease or rental agreement was necessary when this arrangement began, because space was rented on an as needed basis.

Recommendation: Eastern Connecticut State University should enter into a formal, written agreement for the rental of its Groton campus facilities. (See Recommendation 6.)

Agency Response: "The university agrees with this finding. Eastern Connecticut State University has entered into a formal rental agreement (5/1/18) for the use of the space known as the Groton Campus."

Other Audit Examination

The Board of Regents for Higher Education has entered into agreements with a public accounting firm to conduct certain auditing and consulting services on an annual basis, including an audit of the combined financial statements of the Connecticut State University System. As part of its audit work, the firm has made an annual study and evaluation of the system's internal controls to the extent deemed necessary to express an audit opinion on the financial statements. Certain matters involving internal controls have been included in an annual presentation to the Audit Committee report accompanying the audited financial statements.

A summary of the recommendations pertaining to Eastern Connecticut State University in the Presentation to the Audit Committee for the fiscal year ended June 30, 2016 is presented below:

- There were no comments made pertaining to Eastern Connecticut State University.

RECOMMENDATIONS

Our prior audit report on the university contained 15 recommendations for improving operations, 3 of which are being repeated or restated with modification in our current audit report. Our current audit report presents 6 recommendations, including 3 new recommendations.

Status of Prior Audit Recommendations:

- **Eastern Connecticut State University should improve compliance with the dual employment requirements of Section 5-208a of the General Statutes by promptly documenting, through signed certifications, that an employee holding multiple state positions is free of any conflicts of interest or conflicts in schedules.** We noted improvement during the current audit. The recommendation is not being repeated.

- **Eastern Connecticut State University should follow the Department of Administrative Services' requirements for calculating total wages for employees who file workers' compensation claims. Furthermore, the university should identify those employees whose average weekly wages were incorrectly calculated for workers' compensation purposes and compensate those employees who were underpaid.** No audit findings were noted in this area during our current audit. The recommendation is not being repeated.

- **Eastern Connecticut State University should either retain employee background check reports on durable media in it is own custody or use an appropriate records retention firm that is contractually obligated to retain these records in accordance with the State Library's records retention requirements. The university should also take steps to ensure that it complies with the Fair Credit Reporting Act with respect to obtaining an employee's, or a prospective employee's, signed, written consent prior to procuring the employee's background check report.** Our current audit disclosed improvement in this area. The recommendation is not being repeated.

- **Eastern Connecticut State University should implement paid sick leave benefits for student employees in accordance with the requirements Public Act 11-52.** While the university implemented paid sick leave benefits for student employees during the current audited period, we noted instances in which sick leave balances posted to student attendance records were incorrect. The recommendation is being repeated in modified form. (See Recommendation 3.)

- **Eastern Connecticut State University should improve internal control over purchasing. In particular, the university should take steps to ensure that purchases are charged to the correct accounts. Moreover, personal service agreements should be executed properly before corresponding services are provided**. Our current audit disclosed improvement in this area. Therefore, the recommendation is not being repeated.

- **Eastern Connecticut State University should improve its controls over travel expenditures by completing and adhering to properly prepared travel authorization documents and following the Connecticut State University System travel policy.** Improvement was noted. The recommendation is not being repeated.

- **Eastern Connecticut State University should improve controls over personal services expenditures by ensuring that, when necessary, written personal services agreements are established and retained. These agreements should be fully executed in a timely manner and related expenditures should be supported sufficiently.** Improvement was noted. The recommendation is not being repeated.

- **Eastern Connecticut State University should improve controls over purchasing card transactions by complying with its established purchasing card policies and procedures.** We noted improvement in this area during our current audit. The recommendation is not being repeated.

- **Eastern Connecticut State University should improve the timeliness of its bank deposits by adhering to the prompt deposit requirements of Section 4-32 of the General Statutes. In addition, the university should promptly confirm and journalize its bank deposit information within the Core-CT system as required by the Office of the State Treasurer.** During our current audit, we noted improvement in the timeliness and recording of deposits. Therefore, the recommendation is not being repeated.

- **Eastern Connecticut State University should improve controls over Athletics Department revenue-generating events. In particular, the university should take steps to ensure that ticket sales revenue accountability reports comparing amounts of expected revenue with amounts submitted for bank deposit are completed properly. Furthermore, the university should improve training for students and staff who handle sporting event ticket sales to reduce the number of discrepancies between records of expected ticket sales revenues and actual amounts turned in to the Bursar's Office for deposit.** The university informed us that, effective in May 2013, it discontinued charging admissions fees for sporting events. The recommendation is not being repeated.

- **Eastern Connecticut State University should improve controls over delinquent student accounts by following its own and the Connecticut State University System's collection policies and procedures. In particular, the university should refer past due accounts to collection agencies in a timely manner and send out past due collection notices promptly. The university should also ensure that holds placed on past due student payment plan accounts are enforced to prevent delinquent students from registering for additional courses.** In our current audit, we noted improvement in this area. The recommendation is not being repeated.

- **Eastern Connecticut State University should improve controls over student activity trustee account expenditures by following the requirements of the State**

Comptroller's Accounting Procedures Manual for Trustee Accounts, Connecticut State University System purchasing policies, and its own student activities purchasing policies. The university should ensure that the approval of student activity account purchases is timely and properly documented. Our current audit disclosed improvement in this area. The recommendation is not being repeated.

- **Eastern Connecticut State University should take steps to improve compliance with the policies and procedures set forth in the Connecticut State University System Procedures for the Disposal of Surplus Property. The university should ensure that it obtains and retains proper documentation of the approval of property disposals, certifications of the purging or destruction of disposed computer or server hard drives, and certifications indicating that donees received donated property. Lost, stolen, or damaged equipment items should be reported promptly to the appropriate state agencies. Software inventory records should be up to date, include all of the information required by the State Property Control Manual, and be supported by evidence of annual physical inventories.** Instances of noncompliance with control procedures for equipment disposals persisted during the current audited period along with other property control audit exceptions. The recommendation is being restated in modified form. (See Recommendation 4.)

- **Eastern Connecticut State University should regularly review information system access privileges granted to employees to determine whether access is appropriate. The university should promptly remove access privileges upon an employee's separation from university employment. Also, the university should adjust the level of Core-CT access for certain Human Resources Department employees to improve the separation of duties within that department. As an alternative, the university should implement a compensating control system that would require an employee independent of the Human Resources Department to monitor biweekly changes in payroll transactions to ensure that such changes are valid and authorized. Such reviews should be documented.** During our current audit, we noted that the university implemented compensating controls to mitigate the risk posed by the broad Core-CT system access granted to certain HR employees. However, we did note instances in which Banner information system access was not promptly disabled upon the employee's separation from university employment. The recommendation is being repeated with modification. (See Recommendation 5.)

- **Eastern Connecticut State University should revise its email policy to comply with the State of Connecticut's Acceptable Use of State Systems Policy regarding the distribution of union information via the state's email system.** According to the Board of Regents for Higher Education System Office, despite negotiations with state employee unions, the board and the unions could not come to an agreement on this issue. The recommendation is not being repeated.

Current Audit Recommendations:

1. **Eastern Connecticut State University should take steps to ensure that its information technology disaster recovery plan is updated and tested on a regular basis.**

   Comment:

   At the time of our review the university had not updated or tested its IT disaster recovery plan in more than 5 years.

2. **Eastern Connecticut State University should develop a written policy defining measureable eligibility criteria for STEP/CAP program tuition and fee waivers.**

   Comment:

   The university did not have a written policy defining eligibility criteria for STEP/CAP program tuition and fee waivers.

3. **Eastern Connecticut State University should take steps to improve the accuracy and timeliness of student worker sick leave records.**

   Comment:

   We noted instances in which the university recorded incorrect sick leave balances in student worker attendance records.

4. **Eastern Connecticut State University should improve controls over equipment, especially equipment disposals, by complying with the policies and procedures set forth in the Connecticut State University System Procedures for the Disposal of Surplus Property and its Capital Asset Valuation Manual. In particular, the university should sufficiently document the purging of data and software from its disposed of computers.**

   Comment:

   In some instances, the university disposed of computers without obtaining the required documentation and without assuring that hard drives and software were purged before disposal. We also noted instances in which the university did not record computers purchased during the audited period in its inventory control records.

5. **Eastern Connecticut State University should regularly review information system access privileges granted to employees to determine whether access is appropriate. The university should remove access privileges promptly upon an employee's separation from employment.**

   Comment:

   In some instances, the university did not terminate employee Banner user account access in a timely manner upon separation from university employment.

6. **Eastern Connecticut State University should enter into a formal, written agreement for the rental of its Groton campus facilities.**

   Comment:

   The university did not execute a written contract for the rental of its Groton campus facilities.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Amanda Butwell
Teresa Perkins
Daniel Puklin
Michael Stemmler
Jamie Swope

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Eastern Connecticut State University during the course of our examination.

Daniel F. Puklin
Principal Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor

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2019 Audit Planning Presentation and Discussion

Connecticut State Colleges and Universities

for the year ending June 30, 2019

June 11, 2019

Engagement Team Contact Information

Engagement Member	Role	Phone	Email
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Audit Timeline

April	**Client reacceptance**	• Client reacceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with audit support teams (IT & tax)
May-June	**Planning**	• Meet with management to confirm expectations and discuss business risks • Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance • Initial Audit Committee communications
May- June	**Preliminary risk assessment procedures**	• Develop audit plan that addresses risk areas • Update understanding of internal control environment • Coordinate planning with management and develop work calendar
June	**Interim fieldwork**	• Perform walk-throughs of business processes and controls • Perform selective substantive testing on interim balances
September-December	**Final fieldwork and deliverables**	• Perform final phase of audit and year-end fieldwork procedures • Meet with management to discuss results • Present results to the Audit Committee

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Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmark(s).

Entity	Benchmark
CSCU (4 campuses and system office)	Total Revenue
Charter Oak	Total Revenue
Community Colleges	Total Revenue
Magnet School (Great Path Academy)	Total Assets

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

Significant risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments:

	Central	Southern	Eastern	Western	System Office	CCC	Charter Oak
Tuition & Fees Revenue*	X	X	X	X		X	X
Auxiliary Revenues	X	X	X	X			X
Grant Revenues	X	X	X	X		X	X
Capital Assets	X	X	X	X	X	X	X
Debt					X		

State appropriations and employee compensation related accruals (compensated absences, net pension liability, and deferred outflows/inflows) are tested at the System Office for Universities. State appropriations and employee compensation related accruals will be tested for Community Colleges and Charter Oak at those respective locations. Journal entries, Net Assets, Cash, Operating Expenses, and Employee Compensation will also be tested at each entity/campus.

*- Denotes a significant risk

Technology support as part of the audit process

Understand and document business processes material to the audit

Phase 1

Assess IT risks

Phase 2

Identify IT controls that support audit objectives

Phase 3

Test technology-related controls

Phase 4

An important component of our audit approach is to understand how IT is used in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

Use of the Work of Others

Specialists
GT Business Advisory Services – IT reviews of Banner ERP system (CSUS and CCC) and Jenzabar (COSC). GT Pricing Group – Valuation of investments GT Tax Group – Review of UBIT and tax positions
Internal audit
Each of the Foundations of the Universities, System Office, Community Colleges, and Charter Oak have a separate auditor. We will rely upon and make reference to the work performed by these other auditors within our audit opinion.

Views of those charged with governance

Discussion points

- Risks of fraud
- Awareness of fraud
- Awareness of related party transactions; understanding of purpose of related party transactions
- Awareness of whistleblower tips or complaints
- Oversight of management's risk assessment process
- Views about the 's objectives and strategies and related risks of material misstatement
- Awareness of any internal control matters and views about management's response
- Oversight of financial reporting process
- Actions taken in response to developments in law, accounting standards and corporate governance matters
- Actions in response to our previous communications, if any

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Audit Planning Presentation

Industry Updates

Key themes in 2019

Good news:

- Colleges and universities are holding steady, with flat or modest revenue increases accompanied by warning signs
- Endowment assets and fund-raising are growing
- More and more experiments with "business model" are occurring

Not so good news:

- Revenue is highly constrained with limited prospects of improvement
- Price sensitivity (restraint on net price increases) continues
- Demographics worrisome in East and Midwest
- Washington won't come to the rescue

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S&P's "Top Ten Credit Stories of 2018" (for higher education)

S&P Global Ratings

- Significant gifts for financial aid
- International enrollment declines
- Amazon's deal with Virginia
- Natural disasters continue
- Harvard lawsuit over admissions practices
- Headline risk and the Dr. Nassar settlement
- Student loan debt hits $1.5 trillion
- Rising interest rates
- Midterm elections
- Purdue-Kaplan merger

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Brookings Institution Top Six Trends

BROOKINGS

- Online education increasingly accepted option
- Competency-based education (CBE) lowers costs and reduces completion time for students
- Income Share Agreements (ISAs) help students reduce the risk associated with student loans
- Online Program Manager (OPM) organizations benefit both universities and nontraditional, working-adult students
- Enterprise training companies are filling the skills gap by working directly with employers
- Pathway programs facilitate increasing transnational education, which serves as an additional revenue stream for universities

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Washington Update

- Prospects for Congressional action on higher education policy remain low
- Regulatory action by Department of Education will continue
  - Proposed Title IX overhaul
  - Reduced regulation of for-profit sector
- Negative views of globalization will continue to hurt international student enrollment and scholarly exchanges
  - Intent of administration to end DACA (held up by court challenges)

Moody's Outlook

MOODY'S

"Negative" for second year in a row

- Revenue will be constrained as low tuition revenue growth remains the most difficult business condition
- Colleges will remain focused on cost containment, stifling program & capital investment
- Overall flat number of high school graduates, declining in certain regions
- Reduction in international enrollment
- The good news is that several years of strong investment returns and fundraising growth have built up financial assets

What might turn the outlook "positive"?

- "Strong pricing power," i.e. if the market changes so that colleges can increase net revenue per student

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Moody's

Private sector:

- Nearly 60% of private institutions will achieve growth of at least 3%
- Private institutions will achieve median net tuition growth of 2.8%
- Less than 20% of small colleges and specialty schools will achieve revenue growth of at least 3%

Public sector:

- Less than half of public, four-year institutions will see their revenue increase by more than 3%
- Public universities will have the lowest net tuition growth in a decade, at a median 1.5%
- Increased state revenues have resulted in more support for public institutions but not uniformly (see following slide)
- State imposed limits on undergraduate tuition in some states

All sectors: decline of high school graduates in Northeast & Midwest (over 5% through 2025)

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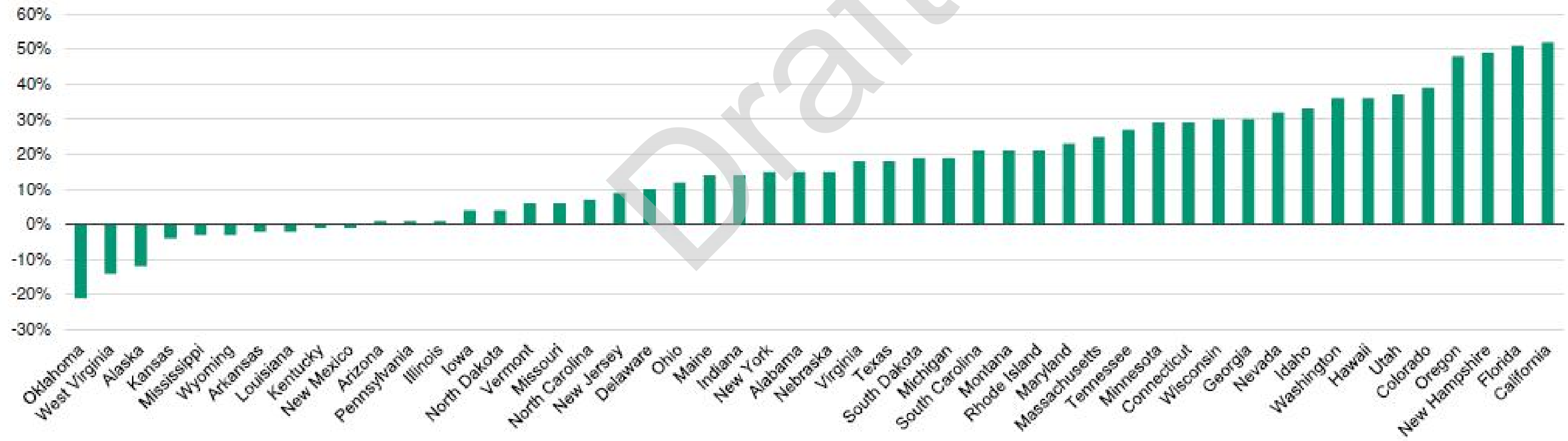
Changes in support vary significantly by state

MOODY'S

Exhibit 4

State funding trends vary greatly, emphasizing areas of greater credit challenges for public universities

State higher education funding five-year % change, fiscal 2013-18



Sources: Illinois State University Grapevine Data, Moody's Investors Service

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Standard & Poor's 2019 Sector Outlook

S&P Global Ratings

Opportunities:

- Innovative strategies and partnerships flourish
- Fundraising efforts remain robust
- More deliberate growth strategies

Risks:

- Demographics & international enrollment trends
- Declining net tuition revenue
- Heightened importance of enterprise risk management
- Slow economic growth could hurt state funding of public institutions
- Constrained capital market activity and tax reform issues will continue

S&P also gives **"a negative outlook"**

20 downgrades and only 3 upgrades

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What trustees say

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

What are your top three concerns about the future of higher education in the U.S.? (by sector)*		
Public	**Independent, non-profit**	**Private, for-profit**
1. Price of higher education for students and their families (53%) 2. Decrease in state funding for higher education (40%) 3. Financial sustainability of higher education institutions (33%)	1. Price of higher education for students and their families (58%) 2. Financial sustainability of higher education (54%) 3. Student debt (34%)	1. Price of higher education for students and their families (63%) 2. Financial sustainability of higher education (45%) 3. Student debt (40%)

*Percentages do not total 100% because respondents could select up to three concerns.

Trustees see **affordability and institutional sustainability** as the top issues for the industry

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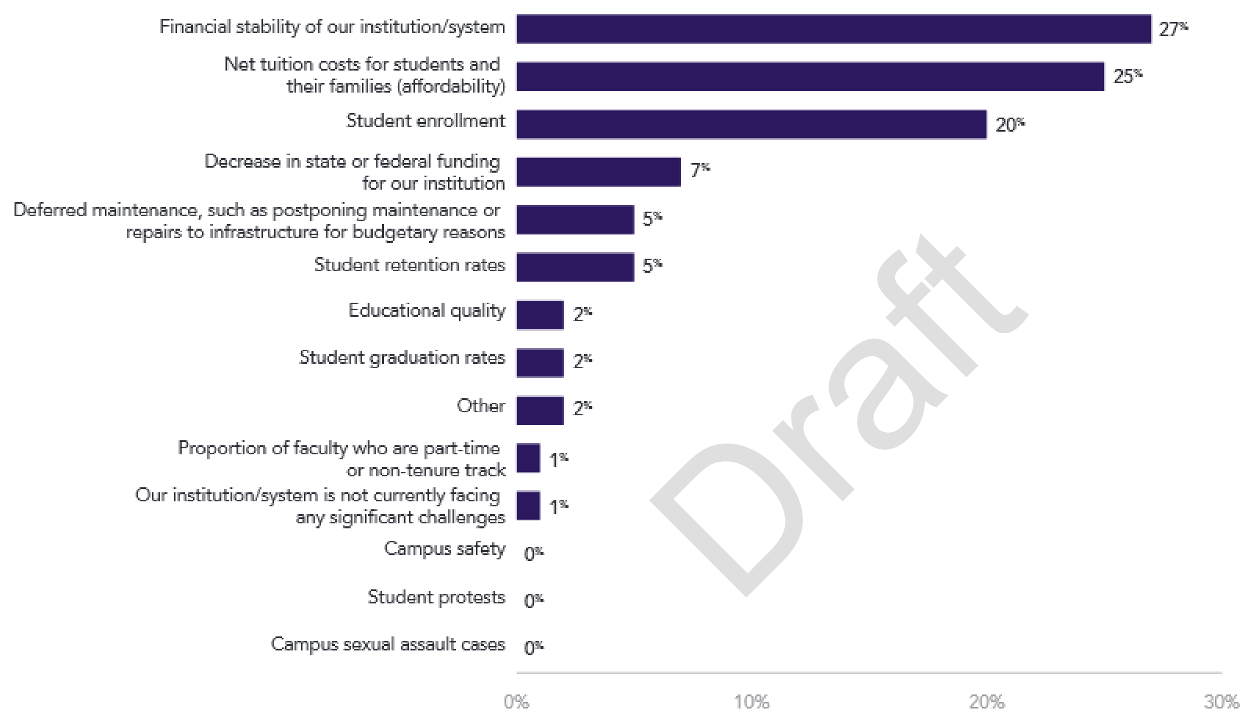
In your opinion, what is the most significant challenge, if any, currently facing your institution/system?



But see **financial stability** as the top issue for their institution, then **affordability**

What presidents say

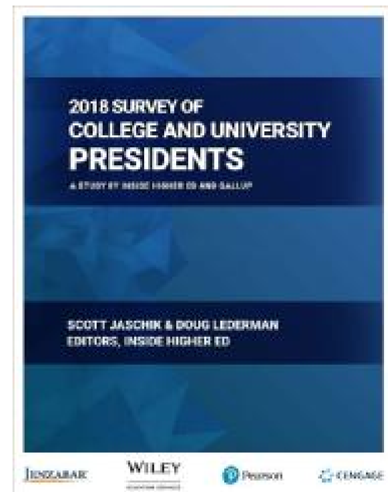
"Confident my institution will be financially **stable**"

Over five years…

63%	62%	61%
All institutions "agree or "strongly agree"	**Public** universities "agree or "strongly agree"	**Nonprofit private** colleges "agree or "strongly agree"

Over ten years…

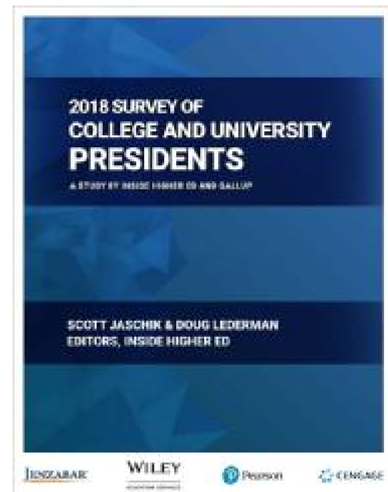
53%	47%	57%
All institutions "agree or "strongly agree"	**Public** universities "agree or "strongly agree"	**Nonprofit private** colleges "agree or "strongly agree"



What presidents say

"Confident my institution will be financially **sustainable stable over ten years**"

84%	89%	68%	13%
Elite private universities	Elite private colleges	Public flagship universities	Private colleges



Private tuition dependent colleges see themselves as most at risk!

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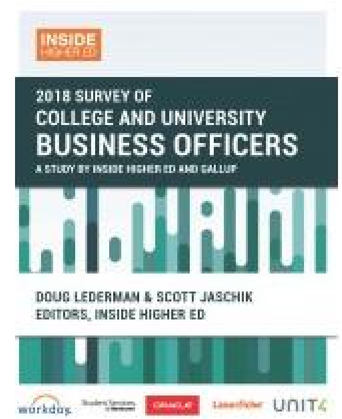
What chief business officers say:

"Confident my institution will be financially **sustainable stable over ten years**"

50%
in 2018

48%
in 2017

54%
in 2016

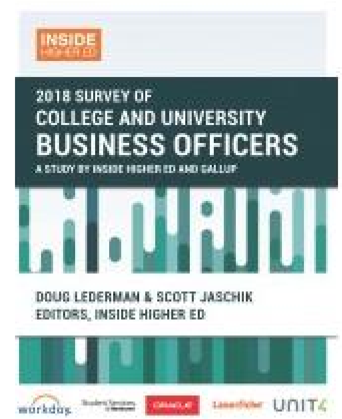


Confidence is declining.

At private nonprofit colleges:

"Confident my institution will be financially **sustainable stable over ten years**"

44% in 2018	52% in 2017	54% in 2016



Confidence is declining.

What chief business officers say

On mergers…

17%

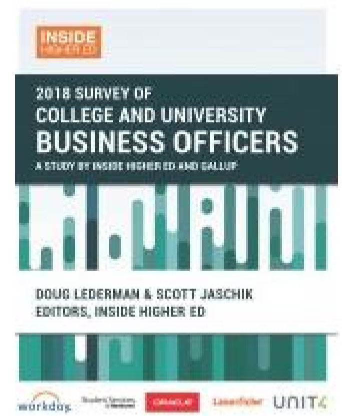
Institution had serious talks with another

18%

Believe their institution should merger with another

11%

Institution likely to merge with another



On shared services or programs (next three years)…

37%

Likely to share administrative services with another

50%

Should share administrative services with another

37%

Likely to combine academic programs with another

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Net tuition revenue pressures

College Board (see following two tables)

- Net tuition revenue has been essentially flat in the last few years (see following two tables)

Moody's (see table after College Board tables)

- "Demographic trends and tuition pricing constraints will continue to suppress tuition revenue growth in fiscal 2018"
- "Meaningful improvement in median net tuition revenue is unlikely in FY2020"

NACUBO

- Net tuition revenue has been flat or declining for the last five years.

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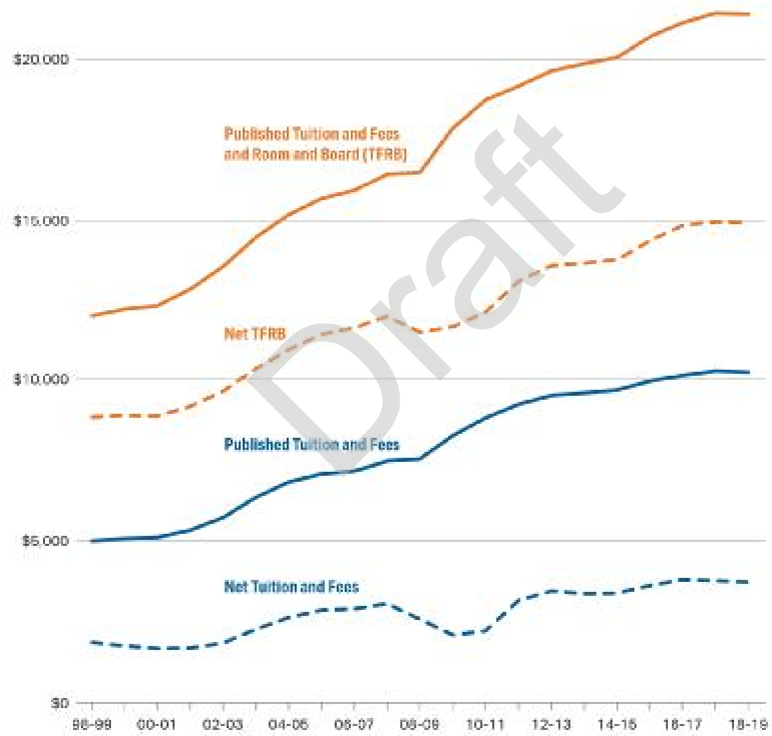
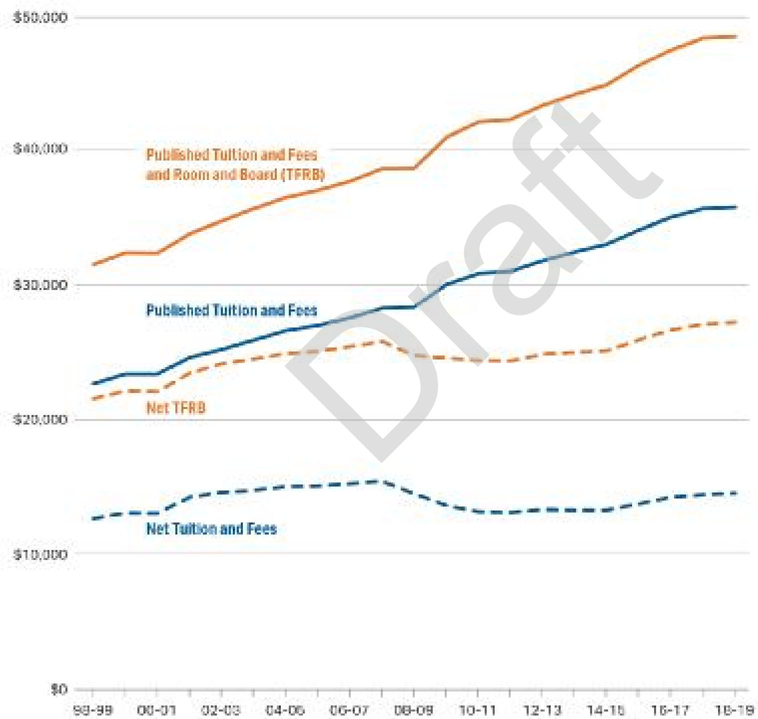
Average Published and Net Prices in 2018 Dollars, Full-Time In-State Undergraduate Students at Public Four-Year Institutions, 1998-99 to 2018-19



Source: The College Board, Trends in College Pricing 2018, Figure 9.

25

Average Published and Net Prices in 2018 Dollars, Full-Time Undergraduate Students at Private Nonprofit Four-Year Institutions, 1998-99 to 2018-19



Source: The College Board, Trends in College Pricing 2018, Figure 10.

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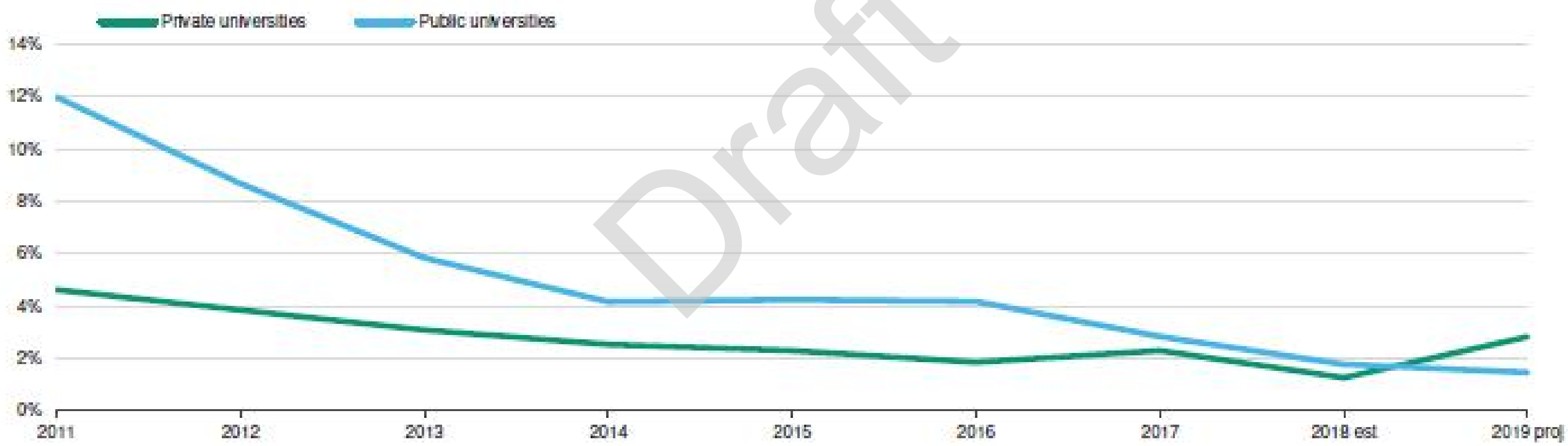
Flat increases in net tuition

Exhibit 1

Long-standing and emerging challenges weigh on net tuition revenue

Median annual net tuition revenue growth



Source: Moody's Investors Service

Flat increases in net tuition (part 2)

NACUBO Tuition Discounting Study:

- Using inflation-adjusted values, net-tuition revenue, which accounts for the bulk of funding for private institutions, has been flat or declining for the last five years (see table below)
- More than half of institutions, 53.3%, reported lower or no change in total undergraduate enrollment, and 43.6% said freshman enrollment dropped

Table 6
Comparison of current dollar and inflation-adjusted change in net tuition revenue per full-time freshman

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18*
Change in current dollars	3.4%	1.1%	2.1%	1.5%	2.8%	-0.1%
Change in inflation-adjusted dollars	1.8%	-1.9%	0.0%	-0.3%	-0.8%	

Source: NACUBO Tuition Discounting Study, 2012 to 2017. Data are as of the fall of each academic year.
*Preliminary estimate; inflation-adjusted dollar values are not available for preliminary data. Inflation-adjustments are based on the Higher Education Price Index (HEPI).

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Return on investment for degree

- Bachelor's degree is worth $2.8 million on average over a lifetime
- Bachelor’s degree holders earn 31% more than those with an Associate’s degree and 84 percent more than those with just a high school diploma.

Source: Georgetown University Center on Education & the Workforce

Student debt

- Student debt is a serious, but overstated, issue in nonprofit higher education.
- Total student debt amounts are distorted by the high numbers from the for-profit sector. Still a problem, but the nonprofit sector can't solve that part of it.
- Default rates are highest:
  - For those who don't complete their degrees – so degree completion is very important.
  - For those enrolled in the for-profit sector
  - For those who borrow the smaller amounts (see degree completion above)

Student debt

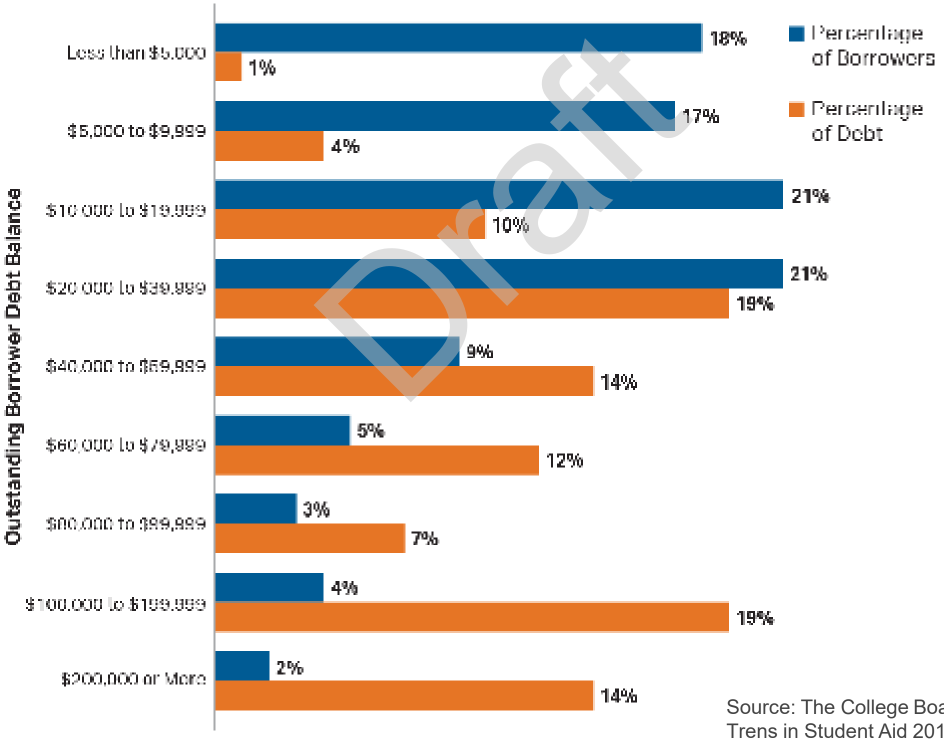
Average Cumulative Debt Levels in 2017 Dollars: Bachelor's Degree Recipients at Public and Private Nonprofit Four-Year Institutions, 2001-02 to 2016-17, Selected Years

	Percentage with Debt	Average Debt per Borrower	Average Debt per Graduate
2001-02	56%	$23,000	$12,800
2006-07	58%	$25,000	$14,600
2011-12	60%	$27,800	$16,600
2016-17	59%	$28,500	$16,700

Source: The College Board, Trends in Student Aid 2018, Figure 15.

Student debt

Distribution of Borrowers and Debt by Outstanding Balance, 2018



Source: The College Board, Trens in Student Aid 2018, Figure 11.

32

25

Endowment returns

- NACUBO/Commonfund Study of 802 endowments for FY2018:
  - Average return-> 8.2% (net of fees)
  - The ten year annualized return was 5.8% (compared to a 7.2% target set to keep endowments' purchasing power intact in the face of spending and the cost of inflation over time)

Endowment spending over time

- 66% of endowments reported increasing their effective spending rate; the median increase being 6.6%. The actual effective spending rate was 4.4%.

Colleges and universities with spending rates above their annualized annual return (after inflation):

- Could be eroding the purchasing power of their endowments over time
- Should reassess their spending rates and consider adjusting them

Gifts to endowment

- Total new gifts to endowments totaled $9.9 billion
- Median gift levels increased to $3.7 million, from $3.2 million in FY17
- While overall median gifts were $3.7 million, they ranged from $376,000 for smaller institutions to more than $50 million for the $1 billion-plus institutions
- Median gift values of public institutions outpaced that of private institutions, at $5 million and $3.1 million, respectively

Source: Fiscal Year 2018, NACUBO Endowment Study

*Net of fees.
Source: Fiscal years 2005-2007, NACUBO Endowment Study; Fiscal years 2008-2017, NACUBO-Commonfund Study of Endowments.

Fundraising remains positive

- Colleges and universities raised $46.7 billion in 2018, a 7.2% increase (and the highest level since the survey's inception in 1957)
- Gifts for capital purposes (40.8% of total) increased 8.6%
- Gifts for current operations (59.2% of total) increased 6.2%
- Alumni giving increased 14.4% and from non-alumni individuals 4.5%

Estimated Voluntary Support of Higher Education by Source and Purpose, 2017 and 2018 (Dollars in Millions)

	2017		2018		Percentage Change 2017 to 2018	
	Amount Raised of	Percentage Total	Amount Raised of	Percentage Total	Current $	Adj. for Inflation
Total Voluntary Support	$43,600	100.0	$46,730	100.0	7.2	4.6
Source						
Alumni	$11,370	26.1	$12,154	26.0	6.9	4.3
Nonalumni Individuals	7,860	18.0	8,567	18.3	9.0	6.3
Corporations	6,600	15.1	6,732	14.4	2.0	-0.5
Foundations	13,130	30.1	14,010	30.0	6.7	4.1
Other Organizations	4,640	10.6	5,266	11.3	13.5	10.7
Purpose						
Current Operations	$25,800	59.2	$27,400	58.6	6.2	3.6
Capital Purposes	17,800	40.8	19,330	41.4	8.6	5.9

Percentages may not add to 100, and details may not sum to totals, due to rounding
Source: Council for Aid to Education, 2018

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Top IT Issues in Higher Education in 2019

EDUCAUSE

1 **Information Security Strategy:** Developing a risk-based security strategy that effectively detects, responds to, and prevents security threats and challenges

2 **Student Success:** Serving as a trusted partner with other campus units to drive and achieve student success initiatives

3 **Privacy:** Safeguarding institutional constituents' privacy rights and maintaining accountability for protecting all types of restricted data

4 **Student-Centered Institution:** Understanding and advancing technology's role in optimizing the student experience (from applicants to alumni)

.

Closed or merged since 2016 (nonprofit)

Closed

- American Jewish University (California)
- Burlington College (Vermont)
- Concordia College (Alabama)
- Crossroads College (Minnesota)
- Dowling College (New York)
- Grace University (Nebraska)
- Green Mountain College (Vermont)
- Marygrove College (Michigan)
- Marylhurst University (Oregon)
- Morthland College (Illinois)
- Mount Ida College (Massachusetts)
- Newbury College (Massachusetts)
- St. Catharine College (Kentucky)
- St. Gregory's Unviersity (Oklahoma)
- Saint Joseph's College (Indiana)

Merging (or into larger organization)

- Andover Newton Theological School (into Yale University)
- Johnson State College & Lyndon State College
- John Wesley College (into Piedmont International University)
- New Hampshire Institute of Art (into New England College)
- Shimer College (into North Central College)
- Wheelock College (into Boston University)

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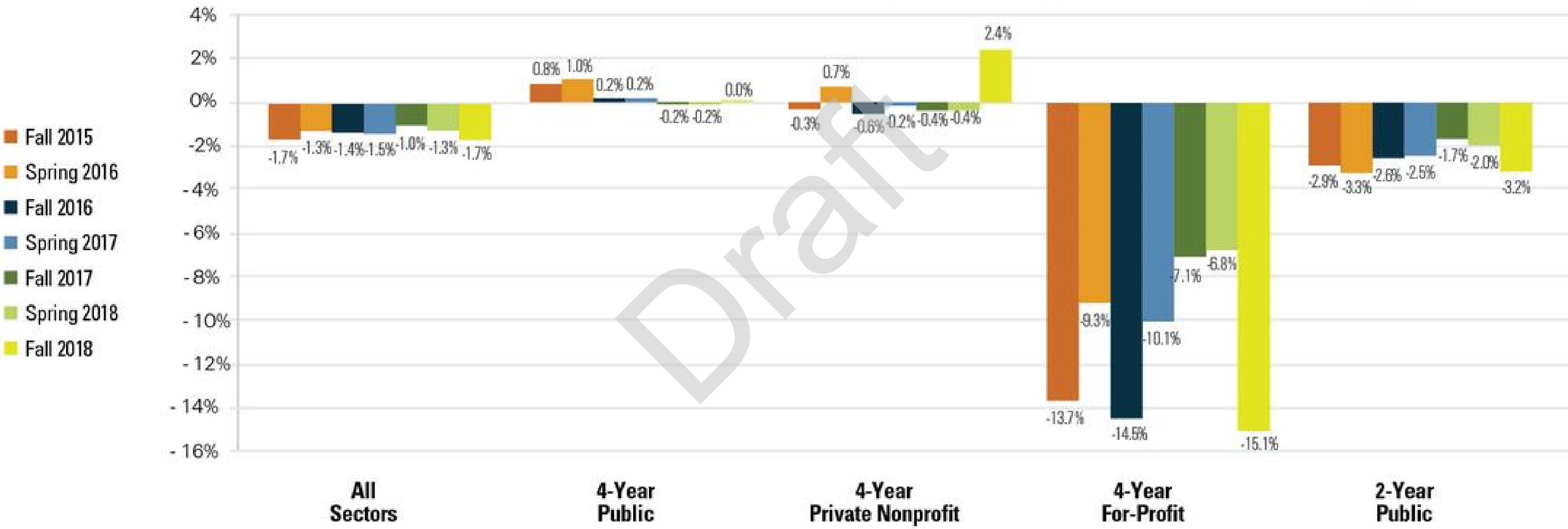
Enrollment overview by sector

Figure 1: Percent Change from Previous Year, Enrollment by Sector (Title IV, Degree-Granting Institutions)



Fall 2015 Spring 2016 Fall 2016 Spring 2017 Fall 2017 Spring 2018

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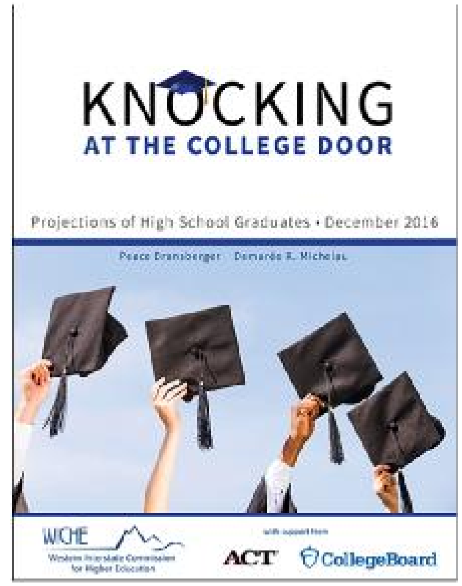
Demographics

- Number of high school graduates
  - Plateau nationally starting in 2019
  - Ongoing declines in East and Midwest

- Ethnicity of higher school graduates
  - Decline of non-Hispanic whites
  - Growth of Hispanics



WICHE 9th Ed., issued Dec. 2016 (latest)

What are colleges doing to generate financial return?

Innovation/
Strategy

- Targeting new populations
- Different pricing strategies
- Different locations, including cyber & satellite campuses

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What are colleges doing to generate financial return?

Academic modes

- Retention
- Online and hybrid programs
- Credentials (certificates & other "micro" credentials for competencies, 3 year degrees, joint degrees, masters)

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What are colleges doing to generate financial return?

Management

- Data analytics
- Understanding costs (& using that information for informed decision making)
- Sharing services
- Faculty productivity (workload, sabbatical policies, types of appointments)
- Outsourcing
- Budgeting by substitution

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What are colleges doing to generate financial return?

Governance

- Intensifying shared governance (working effectively with faculty)
- Board more focused on strategy than oversight
- Presidents are pro-active strategists, innovators, & risk takers

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What some universities are doing but should not

- Overspending from endowment
- "Borrowing" from endowment / restricted funds
- Using debt, in excess, for liquidity purposes
- Running deficits without a plan
- Overbuilding
- Selling physical assets without a plan
- Deferring maintenance

"A college's greatest enemies are **complacency** and **nostalgia**"

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Changes to consider going forward

- Making the case for value of higher education
- Developing capacity for change
- Delivering education in different styles and formats (including cheaper)
- Finding paths to success for new student populations
- Adjusting to lower net student revenue and modest growth in government support
- Holding all stakeholders committed to common purpose

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Stimulating ideas for small colleges & universities (AGB)

- Confirms the reality described in this update
- Offers "Five Contemporary Models of Small Colleges and Universities"

https://www.agb.org/sites/default/files/whitepaper_2017_small_college_imperative.pdf

Expansion and separation model

Extensive enrollment in branch campuses and online programs to capture additional students. Modest or nonexistent liberal arts core and residential campuses

Examples: Antioch University, Goddard College, Southern New Hampshire University

Distinctive program model

Establish a common student educational experience or signature program to enhance quality, recruitment, and relation. Most maintain New American College model core programs.

Examples: Agnes Scott College, Carroll College, Connecticut College, Dominican University of California, Furman University

Traditional model

Undergraduate, residential, liberal-arts based curriculum. Originally included faith-based and values-based institutions. Today, those that remain are wealthy, high reputation, with recruitment based on institutional quality and reputation.

Examples: Amherst College, Pomona College, Swarthmore College, Williams College

New American College model

Maintain liberal arts core and general education and residential experience. Professional programs and graduate programs added to strengthen student recruitment and expand market.

Examples: Vast majority of non-elite small private colleges in the country

Expansion model

Limited remaining liberal arts commitment, focus on additional professional and graduate programs and enrollment growth.

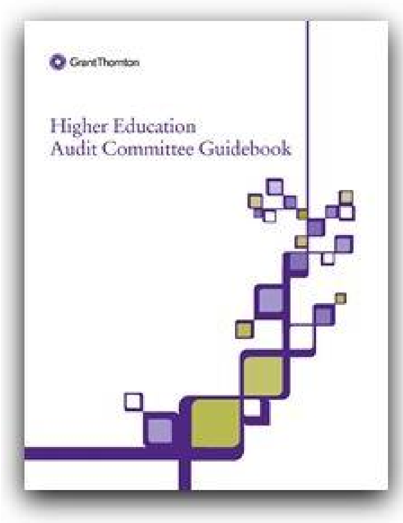
Examples: Chapman University, Drew University, Utica College

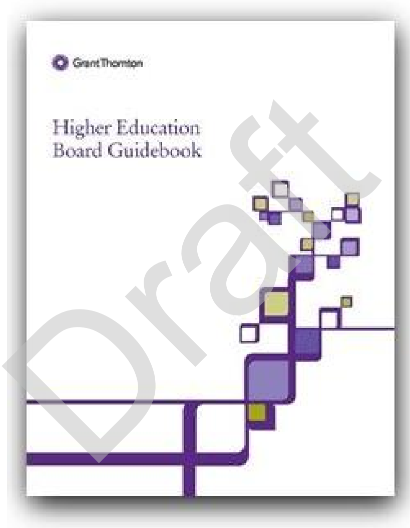
Stimulating ideas for small colleges & universities (CIC)

- Report issued by the Council of Independent Colleges
- Contains dozens of examples of ways that some of the group's 700+ members have altered or expanded their offerings or structures to increase revenue, cut costs or otherwise strengthen their financial positions.
- "Guidebook" for institutional leaders who want to push for more change and may need help creating a "climate of receptivity to change," says Richard Ekman, the CIC president

http://www.insidehighered.com/news/2018/03/28/report-shows-private-colleges-are-adapting-and-aims-encourage-more-change

Additional resources





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Guidance on important emerging developments and challenges

Articles in the 2019 report

- Plan your response to the inevitable data breach
- Supporting students with mental health challenges
- Administrative alchemy for superior outcomes
- Effecting greater change through data analytics
- Interrelated entities: Form following function?
- Using artificial intelligence to transform operations
- The evolving role of ethics and compliance
- Employ nontraditional approaches to fill talent gaps
- Imagine a future with national universities

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Appendix

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link: https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.

This communication is intended solely for the information and use of management and those charged with governance of the Audit Committee of Connecticut State Colleges and Universities and is not intended to be and should not be used by anyone other than these specified parties.

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