(see BR90-31)

BR#90-156

Connecticut State University
Central • Eastern • Southern • Western

P.O. Box 2008, New Britain, Connecticut 06050
(203) 827-7700

Office of the President

RESOLUTION
CONCERNING THE FIRST ANNUAL FOUNDATION REPORTS
October 5, 1990

WHEREAS The five private foundations* associated with Connecticut State University and its campuses, and recognized by the CSU Board of Trustees, each have submitted their listings of foundation board members and officers; and

WHEREAS Said foundations also have submitted reports on foundation salaries, consulting fees, loans, and perquisites, if any, paid or given to CSU employees; and

WHEREAS Said foundations have undergone or are in the process of undergoing private independent audits for the first fiscal year ending after October 1, 1989, and have submitted or will submit said audit report including management letter, audit opinion, financial statement, and a statement by the appropriate campus President that he has reviewed said report with the appropriate campus Vice President for Finance and Administration; and

WHEREAS Such audit reports will be filed with the CSU Board Executive Offices, with the Commissioner of Higher Education, and with the Auditors for Public Accounts as soon as such reports are completed; and

WHEREAS Said foundations have on file in the Executive Offices an updated letter of agreement between themselves and their corresponding University/University Campuses; and

WHEREAS Such letters of agreement and/or their revisions have been ratified by the Board of Trustees separately; therefore be it

RESOLVED That the Board of Trustees accept these first-year annual foundation reports as being in substantial compliance with Public Act 89-267, the Board of Governors' guidelines as revised on February 21, 1989, and CSU Board Resolution #90-31 on October 5, 1990.

*The Henry Barnard Foundation, Inc.
CCSU Foundation, Inc.
Eastern Connecticut State University Foundation, Inc.
Southern Connecticut State University Foundation, Inc.
University Foundation of Western Connecticut, Inc.

A Certified True Copy

Lawrence J. Davidson
Chairperson

Ms. Higgins
File Behind Reso

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Office of the President

M E M O R A N D U M

TO: Presidents Adanti, Carter, Feldman, Shumaker

FROM: Dallas K. Beal DKB

DATE: January 28, 1991

SUBJ: Foundation Audit Reports

As you know, the independent auditors working for each of our private foundations have met with the state auditors to discuss the appropriate standards to be employed in the audits of our foundation accounts. What precipitated this meeting was the state auditors' criticism of Western's audit, the first such audit made public because of its calendar fiscal year. Specifically discussed, was what standard would be acceptable to the state auditors relative to the independent assessment of our Universities' compliance with Sections 1 through 5 of Public Act 89-267.

At their meeting, the independent auditors were able to ascertain that while the "negative assurance" standard employed by Western was not acceptable to the state auditors, certain methodology short of a full and costly compliance audit indeed would be acceptable. Among the alternatives discussed was the "agreed-upon-procedures" standard which is being employed by UConn, and the "positive-assurance-on-tested-items; negative-assurance-on-other-items" methodology recommended by Peat-Marwick. It appears that these two alternate methods would be acceptable to the state auditors.

While it is our position that the negative assurance employed in Western's independent audit is consistent with the intent of the law, the suggestion made by Peat-Marwick to use the latter methodology and to hold off from completing our remaining foundation audits until UConn's audit emerges, is well taken. Indeed, I would recommend that completion of our remaining audits wait until the UConn audit is public or until May 1, whichever date is earlier. (The May 1 date would be within one year of the effective date of the legislation which does not address a time frame for such an audit).

There is still much uncertainty about the audit of private foundations. Given the unprecedented fiscal problems we are facing in this state, concern about the subtleties surrounding the foundation legislation pales in comparison. Until greater clarity is forthcoming, therefore, I would suggest the following:

1. Request that your independent auditors complete your foundation's audit no earlier than UConn's audit or by May 1, whichever comes first.

2. Ask that the remaining audits (Central's, Eastern's, and Southern's) be conducted under the standard of "positive assurance on tested items; negative assurance for other items." I am told that this standard would not be significantly more expensive than the negative assurance standard, and that it would be substantially less costly than the positive assurance standard. WestConn should employ this compromise methodology for its next audit.

3. Assure a coordinated reporting of our remaining foundation audits. This would be most helpful in projecting a united front to the state auditors. John Moriarity (522-3200 or 297-5555) — Partner with Peat-Marwick, and auditor of Eastern's and Western's foundations as well as the Barnard Foundation — would be willing to coordinate these efforts at uniformity. Those of you who are not using Peat Marwick can encourage your auditors to communicate with him for such consistency.

These procedural questions continue to test our patience. We all have heard commentary regarding higher education foundations. It recently has been reported to me that the state auditors see the foundations associated with UConn, Southern and Central, in that order, as most problematic. By working together, I am confident that we can mitigate against the singling out of any of our foundations for criticism as was the case with WestConn's experience. I am hopeful that our coordinated efforts can avoid further criticism and, more importantly, more draconian legislation. Thank you for your attention to this matter.

Western Connecticut State University

A Campus of the Connecticut State University

Danbury, Connecticut 06810 • 203 / 797-4201

Office of the President

90-31 12-21 File behind Reason Foundations (8)

October 17, 1990

OCT 2 1990

Rec'd CL BOT

Mr. Leo V. Donohue
and
Mr. Henry J. Becker, Jr.
Auditors of Public Accounts
State Capitol
210 Capitol Avenue
Hartford, CT 06106

Dear Mr. Donohue and Mr. Becker:

I am responding to your letter of October 1, 1990 concerning the University Foundation of Western Connecticut, Inc. I forwarded a copy of your letter to the partner in charge of the Foundation audit at KPMG Peat Marwick, which is one of the world's largest certified public accounting firms.

In their letter to me (copy attached) they summarize the types of things that were done before they issued an unqualified opinion certifying the Foundation's financial statements based on an audit performed in accordance with generally accepted auditing standards.

They also discuss their compliance report that you referred to in your letter. Their firm often issues compliance reports required by regulatory agencies or government statutes. As they state in their letter, the American Institute of Certified Public Accountants (AICPA) has issued a Statement on Auditing Standards addressing this form of compliance report. The language used by KPMG Peat Marwick in that report is often used by that firm and is consistent with the guidelines for such reports issued by the AICPA.

This information indicates that the University Foundation was following the legislative will expressed through PA 89-267.

If you wish to discuss the language of the compliance report with these auditors, they will be happy to speak with you.

Sincerely,

Stephen Feldman
President

Encl.

c: Sen. Kevin Sullivan
Sen. Adela Eads
Sen. John Atkin
Sen. Thomas Scott
Rep. Naomi Cohen
Rep. Robert Ward
Rep. William Kiner
Rep. Mae Schmidle
Dr. Norma Foreman Glasgow
Dr. Dallas Beal

KPMG Peat Marwick

Certified Public Accountants

Lee Farm Corporate Park
83 Wooster Heights
Danbury, CT 06810

Telephone 203 743 6391

Telecopier 203 798 6870

October 15, 1990

Dr. Stephen Feldman, President
Western Connecticut State University
181 White Street
Danbury, Connecticut 06810

Dear Dr. Feldman:

You have forwarded to us a letter dated October 1, 1990 from the Auditors of Public Accounts for the State of Connecticut, Leo V. Donohue and Henry J. Becker, Jr. We are writing this letter to provide you the information you requested from us in order to respond to their letter.

As you may be aware, KPMG Peat Marwick is one of the largest professional services firms in the world, providing audit and accounting, tax and management consulting services to a variety of clients including Fortune 500 companies, middle market companies as well as many not-for profit organizations.

In connection with our audit of the Foundation's financial statements as of and for the year ended December 31, 1989, we issued an unqualified independent auditors report which reads, in part, as follows:

> "We have audited the accompanying balance sheet of University Foundation of Western Connecticut, Inc. (the Foundation) as of December 31, 1989, and the related statements of revenue, expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.
>
> We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
>
> In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Foundation of Western Connecticut, Inc. at December 31, 1989, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles."

KPMG Peat Marwick

Under generally accepted auditing standards this standard form of auditor's report is described in Statement on Auditing Standards (SAS) No. 58 issued by the American Institute of Certified Public Accountants (AICPA). The report identifies the financial statements audited in the opening paragraph, describes the nature of an audit in the scope paragraph and expresses the auditor's opinion in the third paragraph.

Also, in connection with our audit of the Foundation's financial statements, we issued a "compliance report." Again, under generally accepted auditing standards, this type of report is described in SAS No. 62, issued by the AICPA, as follows:

> "Entities may be required by contractual agreements, such as certain bond indentures and loan agreements, or by regulatory agencies to furnish compliance reports by independent auditors. For example, loan agreements often impose on borrowers a variety of obligations involving matters such as payments into sinking funds, payments of interest, maintenance of current ratios, and restrictions of dividend payments. They usually also require the borrower to furnish annual financial statements that have been audited by an independent auditor. In some instances, the lenders or their trustees may request assurance from the independent auditor that the borrower has complied with certain covenants of the agreement relating to accounting matters. The independent auditor may satisfy this request by giving negative assurance relative to the applicable covenants based on the audit of the financial statements. This assurance may be given in a separate report or in one or more paragraphs of the auditor's report accompanying the financial statements.
>
> Such assurance, however, should not be given unless the auditor has audited the financial statements to which the contractual agreements or regulatory requirements relate and should not extend to covenants that relate to matters that have not been subjected to the audit procedures applied in the audit of the financial statements. In addition, such assurance should not be given if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements to which these covenants relate."

In their letter to you, Mr. Donohue and Mr. Becker referred to a paragraph in our compliance report which states that:

> "In connection with our audit, nothing came to our attention that caused us to believe that the Foundation failed to comply with the provisions of Sections one through five of Connecticut Public Act No. 89-267, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance."

KPMG Peat Marwick

This language is consistent with the guidelines in SAS No. 62 issued by the AICPA.

Should you require further information concerning the above, please contact me.

Very truly yours,
KPMG Peat Marwick

Gregory F. Hanson

Gregory F. Hanson, Partner

GFH:gss

STATE OF CONNECTICUT

Full Foundation DKB Issues to LJD

Ms Higgins ✓

OCT 2 1990

AUDITORS OF PUBLIC ACCOUNTS

LEO V. DONOHUE

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106

HENRY J. BECKER, JR.

October 1, 1990

President Stephen Feldman
Western Connecticut State University
Danbury, Connecticut 06810

Dear President Feldman:

This is in reply to your letter of September 12, 1990 with which you transmitted the audit of the University Foundation of Western Connecticut, Inc. for the year ended December 31, 1989. In your letter you state that you and the Vice President for Administrative Affairs have reviewed the audit report in accordance with Public Act 89-267.

The central issue considered by legislators that resulted in the enactment of PA 89-267 was the auditing of foundation records. The Act represents a compromise from the original bill sponsored by Senate President Pro Tempore John B. Larson, Senate Majority Leader Cornelius P. O'Leary, Deputy Speaker of the House Janet Polinsky and House Education Committee Chair Naomi K. Cohen which would have extended to the State Auditors authority to audit foundations. The essence of the compromise represented by PA 89-267 was in lieu of audits being conducted by the State Auditors:

1. Strict limitations would be imposed on the operations of foundations.

2. Independent Certified Public Accountants would conduct the audits.

An important aspect of this compromise was that such audits include "financial statements, a management letter and an opinion which address the conformance of operating procedures of the foundation (with the Act)."

The audit opinion submitted as part of the audit of University Foundation of Western Connecticut, Inc. "addresses" the Foundation's conformance with the

Act as follows:

> "In connection with our audit, nothing came to our attention that caused us to believe that the Foundation failed to comply with the provisions of Sections one through five of Connecticut Public Act No. 89-267, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance." (Emphasis added.)

Whether this opinion is or is not in accordance with generally accepted auditing standards as required by the Act is irrelevant. In our opinion, it is not in accordance with the Act itself. In fact, it undercuts the very reason for the Act. The statement of purpose carried on Substitute for House Bill 7206, which was ultimately enacted as PA 89-267, reads, "to ensure the proper use of State funds and funds donated to private foundations, associations and corporations established for the benefit of State agencies and institutions."

The primary mechanism to ensure that the stated purpose of the Act is achieved is the independent Certified Public Accountant's audit which in the audit of the University Foundation of Western Connecticut, Inc. states, "However, our audit was not directed primarily toward obtaining knowledge of (compliance with the Act)."

Certainly the members of the Education and Government Administration and Elections Committees and representatives of higher education who devoted so much time and effort to this legislation expected that the governing boards of foundations would see to it that the Act was implemented consistent with its stated purpose.

As you are probably aware, this office was not in support of the final form of this legislation. It was, however, a legislative expression of concern over irregularities disclosed at several institutions of higher education in recent years. In order that the Act be given a fair test free of the controversy and rancor of the 1989 session, we did not include a recommendation on foundations in our report to the 1990 General Assembly.

By copies of this letter, we are alerting appropriate members of the General Assembly to what appears to us to be a thwarting of the legislative will expressed through PA 89-267.

Very truly yours,

AUDITORS OF PUBLIC ACCOUNTS

LVD;HJB:lc

cc: Senator Kevin B. Sullivan
Senator Adela M. Eads
Senator John W. Atkin
Senator Thomas Scott
Rep. Naomi K. Cohen
Rep. Robert M. Ward
Rep. William A . Kiner
Rep. Mae S. Schmidle
Dr. Norma Foreman Glasgow
Dr. Dallas K. Beal