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SPECIAL MEETING OF THE BOARD OF TRUSTEES
UNIVERSITY OF CONNECTICUT

University of Connecticut
Merlin D. Bishop Center
Storrs, Connecticut

June 1, 2005

OPEN SESSION

The meeting was called to order at 1:12 p.m. by Chairman John Rowe. Trustees present were: Louise Bailey, Philip Barry, Andrea Dennis-LaVigne, Peter Drotch, Linda Gatling, Lenworth Jacobs, Rebecca Lobo, Michael Martinez, Denis Nayden, Michael Nichols, F. Philip Prelli, Thomas Ritter, and Brenda Sisco, who represents the Governor's Office.

Trustees William Berkley and Betty Sternberg were absent from the meeting.

Trustees James Abromaitis, Stephen Kuchta, and Richard Treibick participated by telephone.

University staff present were: President Austin, Provost and Vice President for Academic Affairs Nicholls, Vice President and Chief Financial Officer Aronson, Vice President and Chief Operating Officer Flaherty-Goldsmith, Vice President for Operations Dreyfuss, Vice President for Student Affairs Saddlemire, Vice Provost for Enrollment Management Evanovich, Vice Provost for Academic Programs Singha, Athletic Director Hathaway, Associate Vice President Callahan, University Communications Director Brohinsky, Chief Audit and Compliance Officer Walker, Health Center Chief of Staff Carlson, Interim Director for Architectural and Engineering Services Kraus, Dr. Schurin, University Senate Representative Kent Holsinger, and Ms. Locke. Assistant Attorney General McCarthy was also present.

Also in attendance were Attorney John Reid and Attorney Laurann Asklof from the law firm of Gordon Muir and Foley, LLP, and Christopher Hughes representing the audit firm of PricewaterhouseCoopers.

EXECUTIVE SESSION

On a motion by Ms. Bailey, seconded by Mrs. Gatling, **THE BOARD VOTED** to go into Executive Session at 1:14 p.m. to discuss matters pertaining to personnel and litigation issues. The Chairman noted that on the advice of counsel only staff members whose presence was necessary to provide their opinion would be permitted to attend Executive Session.

Trustees present were: Bailey, Barry, Dennis-LaVigne, Drotch, Gatling, Jacobs, Lobo, Martinez, Nayden, Nichols, Prelli, Ritter, Rowe, and Brenda Sisco, who represents the Governor's Office.

Trustees Abromaitis, Kuchta, and Treibick participated by telephone.

University staff present were: President Austin, Provost and Vice President for Academic Affairs Nicholls, Vice President and Chief Financial Officer Aronson, Vice President and Chief Operating Officer Flaherty-Goldsmith, Dr. Schurin, Associate Vice President Callahan, and Chief Audit and Compliance Officer Walker. Assistant Attorney General McCarthy was also present. Attorney John Reid and Attorney Laurann Asklof represented the law firm of Gordon, Muir, and Foley. Mr. Christopher Hughes represented the audit firm of PricewaterhouseCoopers.

Executive Session ended at 2:11 p.m. The Board returned to Open Session at 2:17 p.m.

OPEN SESSION

Reconvene in Open Session.

1. Public Comment (limited to agenda item)

Chairman Rowe noted that this meeting is dedicated to one issue – a review and discussion of issues regarding contracts, construction projects, UCONN 2000, and some related issues. The usual committee reports will not be presented. The Chairman asked if there were members of the public who wished to address the Board with comments limited to this specific topic.

There were no members of the public who wished to speak.

2. Chairman's Report

Chairman Rowe welcomed to the Board Commissioner of Agriculture F. Philip Prelli, who replaces Bruce Gresczyk. He also welcomed Student Trustee-elect Salmun Kazerounian, who will replace Student Trustee Michael Nichols effective July 1.

(a) Discussion of matters pertaining to construction issues.

Chairman Rowe gave a brief review of the process that has been undertaken. Since the last Board meeting, Chief Audit and Compliance Officer Walker prepared a report on these issues. An external report was also prepared by PricewaterhouseCoopers LLP. These reports were presented to and reviewed by the Joint Audit and Compliance Committee. In addition, President Austin has developed a more broadly based report and has presented it to the Board for its review and consideration. Those reports will be presented briefly today in oral form and will be discussed by the Board. This represents an initial step in what will be an on-going, continuously robust monitoring process going forward.

At the same time as the University has engaged in these efforts, Governor Rell has appointed an independent panel to review these issues and to ensure that the University has the appropriate policies and procedures in place. Chairman Rowe has spoken to the Governor with respect to this and also to the two co-Chairs of the Governor's Commission on UConn Review and Accountability, Mr. Jonathan Pelto and Mr. Robert Bouvier. The Chairman asked Ms. Brenda Sisco, Governor Rell's representative to the Board, to provide comments and update the Board.

Ms. Sisco reported that Governor Rell's panel has been meeting regularly. She believes that they have held three or four meetings so far and have taken their roles very seriously. To date, University officials have been contacted for information. The panel has identified the scope of review, which is to ensure that the University's policies and procedures are appropriate and that checks and balances are in place. It was originally expected that recommendations would be available September 1, but summer schedules have moved the deadline date to October 1, 2005. Ms. Sisco stated that the panel is meeting today with State Auditors and at some point in the future they will meet with University officials.

Chairman Rowe said that he has assured Mr. Pelto and Mr. Bouvier, co-Chairs of the Commission on UConn Review and Accountability, that they will have the Board's and the University administration's complete cooperation. The panel has been in touch with the administration through the Governor's assistant counsel, Amy Lazzaro, and, as Ms. Sisco said, they have requested materials that have been provided by the University officials. Chairman

Rowe noted that it is important for the University to maintain communication with the panel and respond promptly to their requests.

Vice-Chair Nayden gave the report of the Joint Audit and Compliance Committee. At the request of the Board and President Austin, beginning this past Fall the University Office of Audit, Compliance and Ethics conducted a review of various aspects of construction project management as it related to specific project cost overruns, building inspections, and the timely and accurate communication of critical issues to management and to the Board. Vice-Chair Nayden stated that the discussion today will begin with a series of summary points followed by comments regarding specific management actions that have been undertaken. His comments will be summary in nature and will be followed by a report by Chief Audit and Compliance Officer Mike Walker, who will provide his findings, followed by a report by Mr. Christopher Hughes, representing PricewaterhouseCoopers LLP.

Vice-Chair Nayden began the discussion with a statement of the issues that have arisen from these thorough examinations:

1. The processes, procedures, and management oversight, specifically of the inspection and acceptance of non-threshold buildings, needed immediate attention. To that end, the University administration has placed responsibility for building inspections in the Division of Public Safety, and under a separate Fire Marshal and Building Inspection Office. Additionally, the University administration is currently developing comprehensive operating procedures within the Architectural and Engineering Services Department (AES).
2. A review of the structure of AES needed to be undertaken to ensure adequate expertise, sufficient personnel, appropriate checks and balances, and open process for communicating critical information not only to the University management team but also to the Board. To that end, a number of very significant changes have already been put into place:
    a. The creation of Chief Operating Officer (COO) role at the University in 2003.
    b. The recent separation of monitoring duties from the AES, so that there are appropriate measures to monitor the actual operating management of the process of constructing the buildings and the actual financial reporting/accounting/budgetary controls. The goal is to achieve sufficient separation of duties.
    c. Similarly, there is now a formal monthly reconciliation process where both the Chief Operating Officer and Chief Financial Officer meet with the Executive Director of Architectural and Engineering Services to specifically discuss all items and have a separate review.
    d. Policies and procedures for authorizing budgetary expenditures and cost reallocations are being revised. In the future, any budgetary change orders after construction begins will require sign-off by the Chief Financial Officer.
3. The University needed to conduct a thorough review of contract signing authority and the policies and procedures currently in place to ensure that all funds are being appropriately authorized in conjunction with the original plans. To the extent necessary, the administration should return to the Board for approval of changes. All of those policies and controls are being rewritten with a target completion date of July 1, 2005 so that the correct level of authority is attained.

4. As it relates to decision-making authority and reporting procedures relative to the strategy and management of claims and litigation issues, Vice-Chair Nayden indicated that it might be expected that over a 15-20-year program of $2 billion, there are going to be disputes and challenges with some contractors; thus there needs to be in place a regular review system between the University counsel and the Board as to the status of potential litigation, tactics employed to make sure the work being completed is appropriate, and, to the extent necessary, appropriate actions are being taken to recover monies that are due the University. Efforts to strengthen this system have been embarked upon.
5. Policies and procedures need to be modified and tightened as they relate to the use of and engagement of external auditors. External auditors have been engaged for a considerable period of time; however, the timeliness and the usability of the information provided by those outside firms has been less than satisfactory. The administration has taken strong steps to create new processes and controls in determining how potential auditors will be engaged, ensuring the utility of information received and determining how that information will be conveyed to the Board.
6. Finally, as a general communication matter, there needs to open communication regarding significant issues, regular reporting, and regular oversight to the Board through the Joint Audit and Compliance Committee. Measures to promote these goals have already been put in place.

Vice-Chair Nayden said that a host of specific process and control issues were at the heart of what was evident in the audit findings. He indicated that Chief Audit and Compliance Officer Walker and Mr. Christopher Hughes reported their specific findings to the Joint Audit and Compliance Committee in May, and that the administration's response has been directed at tightening up all those processes and controls. There will be a regular process that will be monitored and improved going forward. As Ms. Sisco mentioned earlier, this process will be conducted in conjunction with the Governor's panel.

Chief Audit and Compliance Officer Walker summarized the findings of the internal audit review. Mr. Walker stated that the internal audit was initiated in February 2005 by the administration as directed by Vice-Chair Nayden of the Joint Audit and Compliance Committee and President Austin. This was an independent review conducted this spring and it was paralleled by work initiated in Fall 2004 by PricewaterhouseCoopers. The internal review focused on six major areas: 1) building code violations; 2) contract management and cost overruns, specifically as they related to the Student Union and the President's house; 3) execution of the Firm Transportation Service Agreement with Connecticut Natural Gas (CNG); 4) HRH/Atlas litigation issues; 5) supervision of the Blum, Shapiro & Company (BlumShapiro) audit engagement; and 6) communication of key issues to senior management.

Mr. Walker provided some examples of what they found in each of the key areas.

1. Building Code Violations: The Internal Auditors determined that there was inadequate oversight of the inspection process for below-threshold buildings. The University needed to update and revise polices and procedures, and internal controls to ensure inspections of non-threshold buildings are done correctly. Building code violations existed in the design, the construction, and the post-construction phases. These issues are currently being addressed

by the administration through the creation of the Office of Fire Marshall and Building Inspector and the development of better procedures.

2. Contract Management Oversight and Cost Overruns (Student Union and President's house): The CAPSTAT financial system used for accounting for UCONN 2000 projects was inadequate for an endeavor of the scope of UCONN 2000. Actual project costs were inaccurate and inaccurate reports were presented to senior management. Other problems related to the Student Union have been well documented and include the early miscalculation of net versus gross square footage, which added to the Student Union problems. With respect to the renovations at the President's house, the original budget was estimated to be $460,000. It was known by individuals in the project management area that they had already encumbered approximately $200,000 before the beginning of the project for design and pre-construction costs. The real project cost should have been estimated to be approximately $600,000 before it began, even though it was reported to senior management that it would only be approximately $460,000. After the departure of the Executive Director of Architectural and Engineering Services, it was later reported to the Vice President for Operations and the Vice President and Chief Operating Officer that the cost of the renovations were approximately $800,000 and probably would approach $1 million. The primary issue was the lack of accurate and timely communication.

3. Execution of the Firm Transportation Service Agreement with CNG: In May 2003, there was a presentation to the Board of Trustees regarding a potential gas contract with CNG in connection with the new Co-Gen facility and it was indicated that further analysis and discussion needed to occur. Subsequent to that, without subsequent discussions with the Board of Trustees or senior management, an agreement was signed for $70,000 per month for 20 years, which equates to $16.8 million, without the Board's approval.

4. HRH/Atlas Litigation (Biophysics Building): HRH/Atlas was terminated for failure to fulfill their contract in February 2000. They subsequently sued for wrongful termination and the University counter-sued. The University's motion to dismiss HRH/Atlas' suit was denied. At the initiation of the program managers, the University then began litigation to defend against HRH/Atlas' claim. The program managers did not consult with the President, senior management, or the Board regarding this decision, or concerning objectives or strategy in the litigation.

5. Supervision of the BlumShapiro Audit Engagement: BlumShapiro was originally engaged in 1998 as part of a team of PinnacleOne & BlumShapiro. PinnacleOne was to conduct the program review and BlumShapiro was to conduct the annual audits. From an auditor's standpoint, the work products produced were generally late or incomplete. BlumShapiro did provide two management letters. The first letter was relatively on time, but the second letter was delivered to the University to an unknown individual or department. Subsequent to that latter, the University did not receive a management letter until a draft for the combined years of 2001 and 2002 was received in the Fall of 2004.

6. Communication of key issues with Senior Management: In some cases, senior leaders relied on one or two individuals—the Executive Director for Architecture and Engineering Services and the Vice President for Operations—for accurate information without appropriate checks and balances to validate that information. A closed organizational structure in AES, as Vice-Chair Nayden mentioned earlier, was problematic and many of

the reports generated within that Department remained there and were not shared with senior officials. To that end, some key leaders made assumptions based on information that was later determined to be inaccurate. Mr. Walker indicated that an important point to note is that at least some information was provided to senior officials and this Board through CAPstat reports. There is an obligation of the Board and senior staff to review those reports, and everyone shares a level of responsibility when it comes to accounting for exactly what happened. What was lacking in the overall management structure was a pro-active process that ensured rather than assumed that accurate information was being provided and was acted on in an appropriate manner.

PricewaterhouseCoopers representative Christopher Hughes provided PwC's audit report. Mr. Hughes indicated that they were retained at the request of the Board via the Joint Audit and Compliance Committee in November 2004. Their field work that was concluded in February 2005 and they presented their findings to management approximately two months ago, the Joint Audit and Compliance Committee about one month ago, and today to the Board of Trustees. With regard to most of their observations, the University currently has corrective measures in place. Other observations are part of corrective action plans that might take longer to implement. Mr. Hughes reported that they are hearing what he considers all the right biases from those that play a role in responding to some of the observations noted.

Mr. Hughes continued that the PricewaterhouseCoopers report largely speaks for itself. He touched upon things that the report does not specifically cover to provide detail in understanding the context of the report. One point to note is that the report is exception-based, which means that what it describes is opportunities for improvement, not things that have been done correctly. That adds to the conciseness of the report by indicating only the key messages that need to be conveyed, but does not provide a full picture. Mr. Hughes noted that there are many new buildings and he has met and relied on interviews with approximately 30 individuals in the process of conducting the review. It is evident that there are many dedicated and hard-working people who have been and remain committed to fulfilling the mission of UCONN 2000. Secondly, the report is historical as it is based on things that were observed between November 2004 and February 2005. Some of those processes are being revised, even in mid-stream of work, to strengthen organizational structure, processes and procedures. In defining the scope of work for PwC last Fall, Vice President Flaherty-Goldsmith asked that they focus on those organizational issues, particularly in the building inspection area, so they were beginning to review alternative organizational charts from the outset.

Mr. Hughes organized his report into nine major areas. He said that he would try to discuss them in the order of the internal report by Mr. Walker, but they won't be identical because their work was conducted independently and identical issues were not reviewed. They did, however, compare findings. In all those areas they looked at in common, their observations were similar or identical.

1. Building Inspections: Architectural plans were not as a matter of practice reviewed by code compliance experts prior to construction. There did not appear to have been, as of the date of PwC work, a documented, consistent set of procedures for how to perform necessary inspections on non-threshold buildings. The program either lacked or failed to apply adequate resources to handle the inspection process. Some of the first two observations may relate to the lack of resources; there was a balancing act between cost and efficiency.

Inspection of buildings, as a function within the program, reported up through project management. Reporting through the project management chain created an inherent potential conflict of interest. Mr. Hughes said PwC did not observe any evidence that conflict of interest potential was reflected in any inspection favors that occurred, but it is not a recommended control structure. It is important to separate those functions going forward, and he understands this is a very important focus of the Corrective Action Plan, and that the Office of fire Marshall and Building Inspector is already operational.

2. Oversight of the Contract Management Function and Cost Overrun Issues: Mr. Hughes noted that the Board heard earlier from Mr. Walker that the project management and accounting system used to account for the capital program was not appropriate. Perhaps as a consequence of that, the management reporting was very thin for the UCONN 2000 projects. He clarified that effective management reporting allows the top management of the department, the administrative management of the institution, and the governance board to have enough information to conduct their roles in this overall process. The few management-type reports that were generated may have been based on incomplete or erroneous information. The organization structure did not have the appropriate segregation of duties and checks and balances that a program of this size requires. Again, there was a cost-benefit analysis that would seem to apply. PwC did not see a segregation of duties, perhaps due to the staffing level. The cost overruns associated with the Student Union and the President's house arose sometime before management was aware of their occurrence. In the area of erroneous information that may have flowed up to management, the process of allocating costs to projects, for example utilizing Deferred Maintenance funds, may have been used, with funds transferred from project to project. This was not a well controlled process. The process was not well documented nor were there a good set of documented policies on which to base appropriate decisions so that management can perform its role.

3. Architect Qualification and Selection Process: The qualification and selection process for architectural services appeared to be industry standard, which was similar to what PwC has seen in other large construction projects of great scope. PwC has some suggestions for improvement that are not highly substantive. This is an area in which things look good.

4. Bechtel/Fusco's Performance: PricewaterhouseCoopers observed that it would seem that Bechtel/Fusco might have provided more staffing on the projects. PricewaterhouseCoopers was informed that staffing limits were the result of University budgetary considerations and Bechtel/Fusco was responding to those concerns. If it is assumed that the scope of Bechtel/Fusco was limited by the University's choice of how much to use them, then it appears that their performance was appropriate in terms of industry standards.

5. Bechtel/Fusco's Cost Recoveries and Fee Analysis: Mr. Hughes noted that the report's description of Bechtel/Fusco's compensation could have been clarified with respect to the term "50% Fee." "Fee" in this context means the profit element is based on the cost, so a 50% fee means that for every dollar of cost, there is .50 worth of fee on top of that. He explained the following in terms of why it sounded large, but in PwC's view is not outrageous under the circumstances: Originally the expectation was that Bechtel/Fusco would be performing more services of greater scope than actually were delivered, due to cost cutting measures. This contract was a cost-plus contract in regard to how the labor and overhead were charged, but the fee itself was fixed. For example, if it was originally

contemplated that there would be a $100 of cost on the contract and there was a fixed fee of $10, then it is a 10% fee, which appears appropriate. If what happens is that the institution either doesn't have $100 to spend on cost or doesn't care to spend $100 on cost and only spends $20.00 of cost, now you have $20 of cost and the fee is still $10, because it is cost-plus fixed fee contract. As an alternative, a percentage-based fee rather than a fixed fee might have been more appropriate.

6. Availability of Project Plans and Specifications: Drawings and specifications were generally available. The sets used by UConn and Bechtel/Fusco were not consistently updated to incorporate the most recent design changes. This is a common finding in reviews of this type, but it is an issue management should address.

7. Integration of Design Process: The design process generally appeared to have gone quite well. PwC has observed, and would argue, for a higher degree of engagement by the users, or those that will occupy the buildings, at earlier stages of the design process. This is difficult to achieve in a busy environment, which is another common finding in these types of reviews. It is important to encourage the users to review the plans before construction, and more could be done to encourage that activity.

8. Project Budget Process: The original budget process for setting the baseline budgets for the projects appears to have been fairly robust. What were less than robust were the processes in place to update budgets, to reflect change orders timely and appropriately, to reflect projected cost increases, and to forecast what total cost of the work effort for a given project was projected to be. In addition, there was simply a lack of documentation for changes to the budget over time. It is not clear who needed to sign off for a budgetary change and it was not apparent what the process was for executing that. Without that documentation it is not clear when it did and did not occur. The University is putting in place a 4-tier budget process that ensures regular updates requiring Board approval at certain milestones.

9. Implementation of PinnacleOne's Recommendations/Findings: PinnacleOne conducted a similar program audit in 1999, which management provided to PricewaterhouseCoopers when they were engaged. Many of PricewaterhouseCooper's recommendations are similar to observations that were made by PinnacleOne. Where the findings are the same, it did not appear to PricewaterhouseCoopers that there was implementation of a corrective action plan by program managers.

Mr. Hughes concluded by indicating that there are also some miscellaneous findings that can be found on the last pages of the PricewaterhouseCoopers report.

Chairman Rowe thanked Mr. Hughes and PricewaterhouseCoopers for their independent report.

Vice-Chair Nayden summarized the review as being in-depth, with respect both to the internal audit staff report and the PricewaterhouseCoopers' report. They both identified process and control recommendations to implement and consider for the future, many of which have already been implemented by the University. Vice-Chair Nayden summarized the actions taken to date and future considerations as covering the following issues:

1. Complete separation of duties to provide absolute checks and balances in the operating/financial operations of project building and expenditures going forward. A specific restructuring between operations and the finance organization together with on-

going, separate and joint monitoring meetings in the future. There will be added resources and staffing in conjunction with the hiring of the new director of Architectural and Engineering Services.

2. A capable operating/data management system is being researched and will be purchased very shortly. As both Mr. Walker and Mr. Hughes stated, this new system will improve the quality and timeliness of the information that will be shared both with the University staff and the Board.
3. Appropriate pursuit of legal remedies and recoveries is aggressively being undertaken.
4. As an important technical step, there will be a required standardization of documentation of the processes, specific authorities, and inspection procedures, so that there is a very clear "road map" and with clear responsibilities and accountability.
5. The Joint Audit and Compliance Committee will undertake the role of regularly auditing many aspects of this entire process, so that there is regular independent checking of the newly instituted corrective actions and this information will be reported to the Board on a regular basis.

Chairman Rowe noted that the Board had requested that President Austin provide the Board with a report that was broader in scope than the audit-focused reports and included other matters that seemed to be concurrent with the construction issues. He asked the President for his report.

President Austin noted that several months ago he provided the Board with the initial Corrective Action Plan (CAP) that outlined seven components that Vice-Chair Nayden, in part, relayed to the Board today. On April 13, 2005, President Austin, Vice President and Chief Financial Officer Aronson, and Vice President and Chief Operating Officer Flaherty-Goldsmith testified before the General Assembly Finance, Revenue and Bonding Committee, where they outlined the CAP components for the legislators. Since then, the University has refined and expanded those components. This is not a final statement, but a fluid process, as is the case in all complex, large organizations where processes and procedures change as situations change and new requirements emerge.

President Austin outlined the following corrective actions taken to date in response to the findings of the internal and external audit reports, and routine management reporting. He emphasized that the University administration accepts all of the findings and has either fully implemented responses or is in the process of so doing.

1. New University Office of Fire Marshal and Building Inspector: A new Office of Fire Marshal and Building Inspector became operational on February 1, 2005 and is expected to be fully staffed by July 1. All Certificates of Occupancy or substantial compliance letters will be issued from this Office. President Austin's preference would have been that the State Building Inspector and the State Fire Marshal conduct inspections of all buildings, threshold and non-threshold, but resource constraints precluded this and thus the University will follow State practice and will take care of the non-threshold buildings. The new office reports to the Director of Public Safety and Chief of Police Robert Hudd, and is supervised by Captain John Flaherty of the UConn Fire Department. Through a Memorandum of Understanding (MOU), there will be a State Department of Public Safety official assigned to this office. Three additional fire code inspectors and three building code inspectors will complete the staffing. In addition to overseeing this office, the existing Department of

Environmental Health and Safety, which now reports to the Vice President and Chief Operating Officer, will report in the future to Chief Hudd as a way to promote greater oversight and accountability. A search is underway for a permanent director of the Department of Architectural and Engineering Services.

2. Organizational Restructuring: The review of checks and balances in the Department of Architectural and Engineering Services has led to a change in reporting for two positions within the Department. The two positions responsible for entering financial data into the construction management system and reporting on the information will continue to be housed in the Department, but will now report to the Vice President and Chief Financial Officer rather than the Chief Operating Officer.

   With Chief Audit and Compliance Officer Walker's and PricewaterhouseCoopers' reports now complete, additional organization staffing changes will be considered. More than a year ago, the administration presented in its budget for approval a proposal for additional funding to augment staff in the Office of Audit, Compliance and Ethics. This was supported, and Mr. Walker is in the process of recruiting additional staff both in Storrs and at the Health Center.

3. Contract and Expenditure Review and Administration: President Austin noted that although discrepancies in the contractual process were not identified in past audits or in the reviews reported upon today, the administration recognizes that this is an area that merits additional scrutiny. In addition to the organizational changes that place this function closer to the Vice President and Chief Operating Officer, additional authorization requirements to be implemented include having the Accounting Department (reporting to the Storrs Vice President and Chief Financial Officer) and the Associate Vice President of Architectural and Engineering Services serve as the last project checks, and the Vice President and Chief Operating Officer exercising review and approval before a contract is executed.

4. Revised Project Budgeting and Reporting: To ensure that the Board and senior management are more directly involved systematically in decision-making, the administration has established a four-step budgeting process. The first time that administration comes to the Board with a planning budget signifies the beginning of the planning process for each new building or major renovation project. Contingencies being an issue in the past, at this stage, each budget the Board reviews will have at least a 10% contingency. The Board's approval will allow the University to proceed with the design of the facility.

   Once we are at the appropriate stage, the administration will submit a more definitive budget reflecting the architect's estimate of cost based upon design. The contingency balance will be at least 8% of the total project cost.

   When bids for the major components have been received and construction is ready to begin, the final construction budget will be presented to the Board. At this point, the contingency will be at least 5% of the total project cost.

   The administration has also developed a procedure for bringing to the Board project budget revisions, which are inevitable for most large-scale projects.

5. Strengthened Oversight, Audit, Compliance and Risk Management: President Austin noted that he described earlier the strengthened oversight for audit, compliance, and risk management, which pertains to not only to the construction activities, but to all activities in the University where there is risk.
6. Legal Recovery: President Austin noted that he, the University's retained counsel, and our Assistant Attorney General are available to answer questions or discuss issues. Legal actions are confidential at this stage.

Trustee Martinez thanked President Austin and his senior leadership for their hard work over the last several weeks in terms of keeping the Board apprised of the issues. He also thanked the Chairman, fellow Board members, and Vice-Chair Nayden for his diligence on this task.

Trustee Drotch noted that although he is new to the Board of Trustees, he is not new to the University. He has been involved with the University through the UConn Foundation for over 20 years and chaired the Foundation Board for a number of years in the late 1980s and early 1990s. He joined one of the final four accounting firms and spent his career there. He has witnessed the University's transformation, particularly in the past decade, and was pleased when he was asked to join the Board. He felt that the construction projects that we have undertaken probably exceed what any other university or college in this country is engaged in. Although the findings that were reviewed today are clearly very serious, in the context of what has gone on at the University, Mr. Drotch said he felt that we have performed admirably during this period. He is most impressed with the administration's reaction to these problems and the corrective action that has been taken, and the actions that are planned. If we present a detailed, point-by-point management response everyone would probably feel comfortable in the reaction that the President and his staff have undertaken.

Chairman Rowe summarized the following as a statement from the Board. He echoed his appreciation to President Austin, Vice Presidents Aronson and Flaherty-Goldsmith, and Chief Audit and Compliance Officer Walker for their help during this time. The Board takes these issues very seriously. There is a tendency for some to say that the job of the University is education and research and these issues, while they may create a lot of headlines, did not impair education or research at the University. On the other hand, the Board takes these construction issues very seriously and views oversight as part of the Board's responsibility, which is reflected in the thorough review that the Board has heard some of today. The Board is confident that they have received the information they need. No new issues have arisen since this undertaking in early February, which is a good sign. We have been reminded repeatedly through this review, the large-scale and complexity of this project and its accomplishments, as Mr. Hughes outlined, but there is no question that we have had a number of very significant deficiencies in our processes and in our controls, and in some cases they were identified and then they were neglected rather than rectified promptly, which is an additional concern.

3. Adjournment

Chairman Rowe announced that the next meeting will be held on Tuesday, June 21, 2005 at 1:00 p.m. at the Rome Commons Ballroom in Storrs.

There being no further business appearing, the Board meeting adjourned at 3:15 p.m.

Respectfully submitted,

Louise M. Bailey
Secretary