

STATE OF CONNECTICUT



*AUDITORS' REPORT
BOARD OF REGENTS FOR HIGHER EDUCATION
CHARTER OAK STATE COLLEGE
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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July 15, 2015

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We have audited certain operations of Charter Oak State College 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, 2013 and 2014. The objectives of our audit were to:

1. Evaluate the college's internal controls over significant management and financial functions;
2. Evaluate the college's compliance with policies and procedures internal to the system 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 system; 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 compliance with the standards applicable to performance audits 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 college management and was not subject to the procedures applied in our audit of the college. 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 Charter Oak State College.

COMMENTS

FOREWORD

Charter Oak State College, a constituent unit of the state system of higher education, operates under the provisions of Chapter 185b, Part IV, of the Connecticut General Statutes. Part of the mission of the Board of Regents for Higher Education, which oversees Charter Oak State College and the Connecticut Distance Learning Consortium (CTDLC), is to provide diverse and alternative means for adults to pursue higher education. Accordingly, the board, through the college and the consortium, offers college credit via examinations, assessment of experiential and extra collegiate learning, and electronically administered courses, among other things. In accordance with Section 10a-143 of the General Statutes, the board grants college credits and awards associate's and bachelor's degrees through Charter Oak State College.

The board appoints the president of Charter Oak State College. Edward Klonoski served as president during the audited period.

The Board of Regents for Higher Education consisted of the following members as of June 30, 2014:

Ex-Officio:

Stephen Adair, Chair of the Faculty Advisory Committee
Dr. Jewel Mullen, Commissioner of the Department of Public Health
Sharon Palmer, Commissioner of the Department of Labor
Stefan Pryor, Commissioner of the Department of Education
Catherine Smith, Commissioner of the Department of Economic and Community Development

Appointed Members:

Nicholas M. Donofrio, Chairperson	Matt Fleury
Yvette Melendez, Vice Chairperson	Sarah E. Greco
Richard J. Balducci	Merle W. Harris
Eugene L. Bell	Craig S. Lappen
Naomi K. Cohen	JoAnn H. Price
Lawrence J. DeNardis	Elese Wright

Michael Fraser, Gary F. Holloway, Rene Lerer, Dennis C. Murphy, Michael E. Pollard, Lewis J. Robinson, Alex Tettey, Jr., and Zac Zeitlin also served on the board during the audited period. There were three vacancies on the board as of June 30, 2014.

Recent Legislation

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

Public Act 12-97

This act makes it easier for the college to purchase a technology product or process or spend money related to its development by specifying conditions under which the president may act without competitive bidding or negotiation.

Public Act 13-126

This act allows adjunct faculty members of the college to irrevocably waive participation in a state employee retirement plan within 60 days after beginning employment. The waiver remains irrevocable if the adjunct faculty member accepts subsequent part-time employment with any public higher education institution in Connecticut.

Enrollment Statistics

Enrollment statistics compiled by Charter Oak State College indicated that average annual student enrollment totaled 3,393 and 3,330 for the fiscal years ended June 30, 2013 and 2014, respectively. Degrees awarded during the above fiscal years totaled 495 and 484, respectively, of which 835 were bachelor's degrees and 144 were associate's degrees.

RÉSUMÉ OF OPERATIONS

Section 10a-143 of the General Statutes established the college's Operating Fund Account as a restricted account. It accounts for most of the receipts and expenditures of the college.

During the audited period, Operating Fund Account activity was recorded in a special revenue fund titled Federal and Other Restricted Accounts. Further comments on this fund are presented below in the section of this report titled Special Revenue Fund – Federal and Other Restricted Accounts.

General Fund

There were no General Fund receipts during the fiscal years ended June 30, 2013 and 2014, which is consistent with the fiscal year ended June 30, 2012.

General Fund expenditures during the fiscal years ended June 30, 2013 and 2014, totaled \$2,325,745 and \$2,367,543, respectively, compared to \$2,465,944 during the fiscal year ended June 30, 2012. These amounts consisted entirely of transfers of General Fund appropriations to the board's Federal and Other Restricted Accounts Fund. The subsequent expenditure of these appropriations was charged to the Federal and Other Restricted Accounts Fund.

Special Revenue Fund – Federal and Other Restricted Accounts

As previously explained, during the audited years, Operating Fund Account activity was recorded by the Comptroller in a Special Revenue Fund titled Federal and Other Restricted Accounts. The Operating Fund Account is primarily funded by internal fund transfers of appropriations, coupled with fees collected by Charter Oak and the Connecticut Distance Learning Consortium. Operating Fund Account receipts, as recorded in the state's accounting records, totaled \$20,529,284 and \$21,414,490 for the fiscal years ended June 30, 2013 and 2014, respectively, compared to \$19,237,392 for the fiscal year ended June 30, 2012. These totals represented an increase of \$1,291,892, or seven percent, and an increase of \$885,206, or four percent, during the respective audited years. Included in these amounts were transfers of General Fund appropriations, internal transfers between Charter Oak and the Connecticut Distance Learning Consortium internal transfers of student financial aid funds, among other things, all of which had the effect of greatly inflating actual operating fund receipts. In contrast, the college's unaudited financial statements reported receipts, excluding General Fund appropriations and certain internal transfers, totaling \$11,446,122 and \$12,269,100 for the fiscal years ended June 30, 2013 and 2014, respectively.

The increase in receipts in the fiscal year ended June 30, 2013, can be attributed primarily to an increase in Charter Oak State College tuition revenues. The increase in receipts in the fiscal year ended June 30, 2014, was mostly due to an increase in CTDLC receipts.

Expenditures charged to this fund totaled \$20,441,418 and \$22,986,223 during the fiscal years ended June 30, 2013 and 2014, respectively, according to the state's accounting records. These totals included transfers between accounts and disbursements of student financial aid funds received, both of which had the effect of overstating actual expenditures. In contrast, the college's unaudited financial statements, which excluded such transfers, reported expenditures totaling \$10,691,832 and \$12,500,306, during the fiscal years ended June 30, 2013 and 2014, respectively. A summary of account expenditures for the fiscal years examined and the prior fiscal year is presented below:

	<u>2011 - 2012</u>	<u>2012 - 2013</u>	<u>2013 - 2014</u>
Personal Services	\$ 8,585,873	\$ 8,376,468	\$ 9,257,444
Contractual Services	2,435,068	1,795,753	2,406,761
Commodities	179,101	235,664	249,304
Sundry Charges	9,323,962	9,822,140	10,560,120
Equipment and Other	192,883	211,393	512,594
Total Expenditures	<u>\$ 20,716,887</u>	<u>\$ 20,441,418</u>	<u>\$ 22,986,223</u>

As presented above, Operating Fund Account expenditures totaled \$20,441,418 and \$22,986,223 for the fiscal years ended June 30, 2013 and 2014, respectively, compared to \$20,716,887 during the fiscal year ended June 30, 2012. These totals represent a decrease of \$275,469, or one percent, and an increase of \$2,544,805, or 12 percent, respectively, during the audited years. Expenditures consisted primarily of costs for personal services, contractual services, and sundry charges. Contractual services were comprised primarily of electronic data processing costs. Sundry charges were comprised primarily of student financial aid disbursements.

The decrease in expenditures in the fiscal year ended June 30, 2013, was due primarily to lower electronic data processing charges. The increase in expenditures in the fiscal year ended June 30, 2014, can be attributed to increased retirement payouts and software purchases.

Special Revenue Fund – Capital Equipment Purchase Fund

Capital Equipment Purchase Fund expenditures totaled \$193,833 and \$478,043 during the fiscal years ended June 30, 2013 and 2014, respectively. These expenditures consisted of electronic data processing hardware.

Student Trustee Account

Established and operated under the provisions of Sections 4-52 through 4-55 of the General Statutes, the Student Trustee Account is used for the benefit of the student body. Management of

the account has been vested in Charter Oak State College's Student Council related to the oversight of expenditures. However, accountability of the account is the ultimate responsibility of the Charter Oak administration.

Receipts, as presented in financial records prepared by Charter Oak, totaled \$13,124 and \$6,185 for the fiscal years ended June 30, 2013 and 2014, respectively. Major sources of receipts included student activity fees and funds raised from various student functions and activities.

Disbursements, according to financial records prepared by Charter Oak, totaled \$7,850 and \$6,692 for the fiscal years ended June 30, 2013 and 2014, respectively. These expenditures consisted primarily of payments for student activities and scholarships.

Charter Oak State College Foundation, Inc.

The Charter Oak State College Foundation, Inc. is a private non-stock corporation established to secure contributions from private sources for the purposes of promoting interest in and support of open learning and credentialing in higher education. The foundation supports activities of Charter Oak State College and furnishes assistance to enrollees in the external degree program.

Sections 4-37e through 4-37k of the General Statutes define and set requirements for such state 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.

An audit of the foundation, consistent with requirements of Section 4-37f subsection (8) of the General Statutes, was performed by our office for each of the fiscal years ended June 30, 2013 and June 30, 2014. These audits concluded that the foundation complied in all material respects with Sections 4-37e through 4-37i of the General Statutes. However, both audits disclosed several immaterial exceptions that are discussed in the Management Letter section of those reports.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Timeliness of Bank Deposits

- Criteria:* Section 4-32 of the Connecticut General Statutes requires that a state agency deposit funds of more than \$500 in a State Treasurer's bank account within 24 hours of receipt.
- Condition:* We tested 25 receipt batches from the fiscal years ended June 30, 2013 and 2014. From this sample, we noted five instances in which there was no documentation of the date the funds were received. As a result, we could not determine whether these receipts were processed and deposited in a timely manner.
- Effect:* There is decreased assurance that the college is processing and depositing cash receipts in a timely manner.
- Cause:* Per discussions with the college, these funds were received from third party payers. These receipts often come in with no supporting documentation and are processed when received but are not always stamped with a receipt date.
- Recommendation:* Charter Oak State College should ensure that receipts are properly documented and deposited into the bank in a timely manner.
- Agency Response:* "The college accepts the findings and will ensure that receipt documentation is stamped with a date. Where no supporting documentation is provided with the check, the check stub will be stamped with the receipt date. It is also to be noted that the college uses the Receipt Entry feature of the Jenzabar A/R module to receipt all funds coming to the agency. This system is used daily and records the date and time of the specific receipt thus also providing an electronic receipt log."

Purchasing Card (P-Card) Transactions

- Criteria:* Charter Oak State College's *BORAA Purchasing Card Procedures Manual* states that each cardholder will print an expense sheet and card statement, sign the expense sheet (purchase log), attach all relevant backup (receipts and packing slips), then submit the completed package to a supervisor.
- Proper internal controls require that correct information be entered on the expense reports (purchase logs).

Charter Oak State College's *BORAA Purchasing Card Procedures Manual* states that the cardholder records the Core-CT coding for the purchase and maintains all back-up documentation relative to the order, including invoice, packing slip, receiver, and internet order confirmation.

The state's *Purchasing Card Cardholder's Work Rules Manual* states that cardholders are responsible for maintaining adequate transaction documentation. Supporting documentation should include the following items:

- Copy of an order form or application when available
- Packing slip (for goods received)
- Original cashier receipt or vendor invoice

Condition: During our audit, we tested five monthly purchasing card statements, which contained the activity of individual purchasing card holders. Our testing disclosed the following:

1. One instance in which the cardholder did not sign and date their P-Card log.
2. One instance in which supporting vendor receipts were not kept on file.
3. One instance in which all supporting documentation for the cardholder purchases was missing from the file.

Effect: With respect to the cases in which purchasing card information was not recorded in an accurate manner, assurance was lessened that the purchases made complied with the college's policies prior to the issuance of payment.

In all cases, the college was not in full compliance with its own or the state's purchasing card policies.

Cause: It appears that the college, at times, might have overlooked the various policies set forth in its *Purchasing Card Procedures Manual*.

Recommendation: Charter Oak State College should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its own *BORAA Purchasing Card Procedures Manual* and the State of Connecticut purchasing card policies.

Agency Response: "The college agrees with the findings. A new review process has been instituted as the result of the findings. Every month when the P Card payment is about to be paid, the CFAO and the associate that administers the P Card Program will review all submissions to assure that forms are

signed and all documentation is included in the information submitted by each P Card user.”

Disposal of Equipment

Criteria: Section 4a-4 subsection (c) of the General Statutes requires the authorization of the president of the college or a designee to dispose of unused equipment.

Condition: We tested ten equipment disposals that occurred during the audited period. The college was unable to provide evidence of approval by either the president or a designee for nine of these disposals.

Effect: The failure to document the authorization of the disposal of capital equipment weakened the college’s controls, making assets more vulnerable to the risk of loss or theft.

Cause: The cause is unknown.

Recommendation: Charter Oak State College should improve internal controls over the documentation and authorization of equipment disposals.

Agency Response: “The college is aware of the importance of authorization to dispose of surplus capital equipment. The college had in place that the CFAO would sign off to authorize disposal of equipment. Unfortunately, the sign off was on a paper copy that was kept by an employee in the office. That employee left the college prior to the audit and the signed copies of authorization for disposal could not be located.

As a result of this situation, all authorizations are now done electronically by email. This assures a record of the authorization regardless of employee tenure with the organization. This approach is expected to eliminate the lack of a record during an audit.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- *Charter Oak State College should ensure that all future expenses incurred by the foundation are paid by the foundation.* Our current review noted that one employee previously paid by the college is now being paid through the Charter Oak State College Foundation; the other employee who was previously paid by the college is no longer performing foundation-related duties. This recommendation is not being repeated.
- *Charter Oak State College should take steps to ensure compliance with Section 4-32 of the General Statutes.* Testing in our current audit disclosed weaknesses in this area. The recommendation is being restated and repeated. (See Recommendation 1.)
- *Charter Oak State College should comply with the requirements of Section 3-7 of the General Statutes.* The college has updated its write-off policy and is now in compliance with state requirements. The recommendation is not being repeated.
- *Charter Oak State College should improve internal controls over the documentation and authorization of equipment disposals.* Similar conditions were noted, and the finding is being repeated. (See Recommendation 3.)
- *Charter Oak State College should comply with the requirements of 2 CFR, Part 220, by implementing adequate after-the-fact certification to support the payroll charges of online faculty members to federal programs.* In our testing, we noted that the college is in compliance with requirements, and the recommendation is not being repeated.
- *Charter Oak State College should comply with established controls and procedures related to the administration of its telecommuting agreements.* Improvement was noted in our current review, and the recommendation is not being repeated.
- *Charter Oak State College should improve controls related to the administration of p-cards.* Testing in our current audit disclosed weaknesses in this area. The recommendation is being restated and repeated. (See Recommendation 2.)
- *Charter Oak State College should ensure that certifications and affidavits are obtained in compliance with Section 4-252 subsections (b) and (c) and Section 4a-81 of the General Statutes.* We did not note any exceptions in this area in our current audit. The recommendation is not being repeated.
- *Charter Oak State College should ensure that contracts and written personal service agreements are signed by all relevant parties prior to the commencement of services.* No reoccurrences were noted in the current audit, and the recommendation is not being repeated.

- *Charter Oak State College should review employee access to Core-CT. The college should also implement compensating controls to mitigate internal control weaknesses in this area.* The college has implemented a compensating control over this process, so the recommendation is not being repeated.
- *Charter Oak State College should improve internal controls related to dual employment.* Testing in our current audit disclosed significant improvement, and the recommendation is not being repeated.

Current Audit Recommendations:

- 1. Charter Oak State College should ensure that receipts are properly documented and deposited into the bank in a timely manner.**

Comment:

We noted instances in which the college did not document the date that funds were received. As a result, we could not determine whether these receipts were processed and deposited in a timely manner.

- 2. Charter Oak State College should take steps to strengthen controls over purchasing card transactions by ensuring compliance with its *BORAA Purchasing Card Procedures Manual* and the State of Connecticut purchasing card policies.**

Comment:

Our testing disclosed instances in which a cardholder did not sign and date the P-Card log, an instance in which supporting vendor receipts were not kept on file, and an instance in which all supporting documentation for cardholder purchases was missing from the file.

- 3. Charter Oak State College should improve internal controls over the documentation and authorization of equipment disposals.**

Comment:

From a sample of ten equipment disposals, the college was unable to provide evidence of approval by either the president or a designee for nine of these disposals.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Charter Oak State College during the course of our examination.



Timothy M. LePore
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts