

STATE OF CONNECTICUT

**AUDITORS' REPORT
BOARD OF TRUSTEES OF
COMMUNITY-TECHNICAL COLLEGES
CENTRAL OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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April 9, 2002

**AUDITORS' REPORT
BOARD OF TRUSTEES OF COMMUNITY-TECHNICAL COLLEGES
CENTRAL OFFICE
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 2000**

We have examined the financial records of the Central Office of the Connecticut Community College system (Central Office) for the fiscal years ended June 30, 1999 and 2000.

Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Central Office's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Central Office's internal control structure policies and procedures established to ensure such compliance.

This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

COMMENTS

FOREWORD:

On October 18, 1999, the Board of Trustees of Community-Technical Colleges (the Board) approved a resolution changing the names of the colleges within the Community-Technical College system from Community-Technical Colleges to Community Colleges. The Board's name remained unchanged.

The Board operates primarily under the provisions of Sections 10a-71 through 10a-80 of the General Statutes. Pursuant to provisions of Section 10a-72 of the General Statutes, the Board, through the Central Office located in Hartford, administers the Connecticut Community College system, comprised of the following 12 two-year, public institutions of higher education:

Community College	Location
Asnuntuck	Enfield
Capital	Hartford
Gateway	New Haven
Housatonic	Bridgeport
Manchester	Manchester
Middlesex	Middletown
Naugatuck Valley	Waterbury
Northwestern Connecticut	Winsted
Norwalk	Norwalk
Quinebaug Valley	Danielson
Three Rivers	Norwich
Tunxis	Farmington

This audit report is intended to cover operations of the Central Office of the Community College system and to address certain issues noted in our separate audits of each of the community colleges, issues which appear to have system-wide implications. Separate audit reports are issued to cover operations of each of the community colleges. Certain information pertaining to the system as a whole is included in this report to provide background information.

Section 10a-71 of the General Statutes currently provides that the Board of Trustees of Community-Technical Colleges consist of 18 members, 16 appointed by the Governor and two elected by students. The Board, among other things, makes rules and establishes policies for the governance, development and maintenance of the educational programs and services of the community colleges. Members receive no compensation for their services, but are entitled to reimbursement for expenses.

The Board of Trustees of Community-Technical Colleges included the following members as of June 30, 2000:

Lawrence J. Zollo, Chairman	William R. Johnson
Bryan N. Anderson	Jules Lang, Esq.
Murali Atluru, Ph.D.	Raymond Rivard
Maureen Baronian	Hector Rodriguez
Louise S. Berry	Lisa Noel Ruzika (elected by students)
Dorothy K. Bowen, Ed. D.	Marie M. Spivey
Rev. David L. Cannon	Nancy B. Stolfi
C. Charles Chekas	Virginia D. Zawoy
Luis E. Guitierrez (elected by students)	

There was one vacancy on the Board at the end of the audited period.

Other Board members during the audited period included the following: Stephen Bucholtz, Kathleen Celadon, Eleanor D. Coltman, Lawrence S. Fox, Frank Reyes and Joseph Steinkirchner.

Among the duties of the Board of Trustees is the appointment of a chief executive officer of the Community College system. Bruce H. Leslie served as Chancellor of the Board of Trustees

during the audited period. He officially resigned on June 30, 1999. Andrew C. McKirdy was the Interim Chancellor. Marc Herzog was appointed Chancellor effective June 1, 2000, and served as Chancellor through the end of the audited period and subsequently.

Recent Legislation:

The following notable legislation took effect during or near the audited period:

Public Act 98-252 – Effective July 1, 1998, Section 48 of this Act amended Section 10a-8b of the General Statutes, requiring the amount the Department of Higher Education annually transfers to the individual higher education constituent units' endowment funds from the Higher Education State Matching Grant Fund to be certified based on agreed upon procedures developed by an independent certified public accountant or, upon request, by the Auditors of Public Accounts to determine statutory compliance. Further, effective July 1, 1998, Section 50 of this Act allowed the carry forward to future years of gifts eligible for State Endowment Fund matching funds not included in the total certified by the Chairman of the Board of Trustees each February 15.

Special Act 98-6 – Effective May 19, 1998, Section 1 of this Act amended Section 11 of Special Act 97-21, appropriating, for the 1998-1999 fiscal year, \$1,149,000 of State General Fund money to the Regional Community-Technical Colleges to be used to help support a tuition freeze.

Public Act 99-285 – Effective July 1, 1999, Section 7 of this Act amended Section 10a-77a of the General Statutes to allow for the administration of the Community-Technical College endowment fund by a nonprofit entity so that interest on State bonds used to set up the fund can be Federally tax free. Section 7 further required these endowment fund monies to be held in a trust fund. It also required endowment fund eligible gifts to be deposited into a permanent endowment fund in the appropriate college foundation. In addition, it required that a share of the endowment fund matching grants for the Community-Technical Colleges, and a portion of the earnings on these grants, be transferred annually to such endowment funds.

Section 11, subsection (b) of this Act, also effective July 1, 1999, amended Section 10a-151b of the General Statutes to allow constituent units of public higher education to make purchases based on competitive negotiation as well as competitive bidding. Section 11 also increased the minimum cost of purchases that must be advertised from \$25,000 to \$50,000 and requires that purchases costing \$50,000 or less, rather than \$25,000 or less, be made in the open market and be based, when possible, on at least three competitive bids. It also increased the threshold below which purchases can be made without competitive bidding or negotiation to \$10,000 or less rather than \$2,000 or less.

Special Act 99-10 – Effective July 1, 1999, Section 1 of this Act appropriated, for the 1999-2000 fiscal year, \$2,199,964 of State General Fund money to the Regional Community-Technical Colleges to be used to help support a tuition freeze.

Enrollment Statistics:

The following reflects the Connecticut Community College system enrollment of full-time and part-time students during the two audited years:

	<u>Fall 1998</u>	<u>Spring 1999</u>	<u>Fall 1999</u>	<u>Spring 2000</u>
Full-time students	9,655	8,683	10,369	9,067
Part-time students	<u>29,699</u>	<u>28,888</u>	<u>29,696</u>	<u>28,751</u>
Total enrollment	<u>39,354</u>	<u>37,571</u>	<u>40,065</u>	<u>37,818</u>

RÉSUMÉ OF OPERATIONS:

During the audited period, operations of the Central Office were primarily supported by appropriations from the State's General Fund.

General Fund:

General Fund receipts totaled \$2,664 and \$2,050 during the 1998-1999 and 1999-2000 fiscal years, respectively, and consisted primarily of refunds of expenditures of budgeted accounts.

During the audited period, General Fund expenditures consisted mostly of personal services costs and transfers of funds appropriated by the State Legislature to help support a tuition freeze at the Community Colleges. Expenditures totaled \$5,221,686 and \$7,358,945 for the fiscal years ended June 30, 1999 and 2000, respectively, compared to \$3,267,769 for the fiscal year ended June 30, 1998. Fund expenditures increased by \$1,953,917 (59.8 percent) and \$2,137,259 (40.9 percent), respectively, during the audited years, compared to the preceding years. These increases can, in large part, be attributed to the above-mentioned transfers of tuition freeze appropriation funds. During the 1998-1999 fiscal year, the Central Office, after receiving these funds, transferred them, first, to its Operating Fund account and then from the Operating Fund to each of the community colleges. In contrast, during the 1999-2000 fiscal year, the Central Office transferred its tuition freeze appropriation funds directly from its General Fund account to the community colleges. In both years, these transfers were recognized as expenditures of the Central Office's General Fund account. Salary increases approved by the Board of Trustees and the filling of new and vacant positions also contributed to the General Fund expenditure increases.

State Capital Projects:

Capital projects funds expenditures during the 1998-1999 and 1999-2000 fiscal years totaled \$5,043,963 and \$2,439,800, respectively.

These expenditures were primarily made for improvements to community college campus buildings and grounds and, to a lesser extent, for equipment purchases for various community colleges.

Operating Fund:

The Central Office's operating revenues and expenditures (excluding personal services expenditures charged to the General Fund) are accounted for within the Operating Fund. During the 1998-1999 fiscal year, the major component of fund receipts was a transfer from the General Fund of monies appropriated for the Community College system tuition freeze, funds which were, in turn, transferred from the Operating Fund to the individual community colleges. During the 1999-2000 fiscal year, fund receipts consisted in large part of a grant from the State's Department of Information and Technology to be used for year 2000 information system preparation. During the audited period, fund receipts also consisted of fees charged to State agencies for in-service training services provided by the Community College system. (The State's in-service employee training program is coordinated through the Central Office and provided statewide through the individual colleges within the Community College system.)

Receipts recorded by the State Comptroller during the audited period and the preceding fiscal year are shown below.

	Fiscal Year <u>1997-1998</u>	Fiscal Year <u>1998-1999</u>	Fiscal Year <u>1999-2000</u>
Total Receipts	<u>\$290,164</u>	<u>\$1,213,608</u>	<u>\$583,216</u>

Operating Fund receipts increased by \$923,444, or 318.2 percent, during the 1998-1999 fiscal year, compared to the previous year. The increase was primarily due to a transfer of tuition freeze appropriation money from the General Fund to the Operating Fund. Fund receipts decreased by \$630,392, or 51.9 percent, during the 1999-2000 fiscal year, compared to the previous year. The decrease was largely the result of a change in the method used by the Central Office to transfer tuition freeze appropriation funds to the colleges. In the 1998-1999 fiscal year, tuition freeze appropriation funds were first transferred from the General Fund to the Central Office's Operating Fund accounts and then transferred to the individual colleges' respective Operating Fund accounts. In the 1999-2000 fiscal year, tuition freeze appropriation funds were transferred from the Central Office's General Fund account directly to the individual colleges' respective Operating Fund accounts and were, therefore, not recognized as receipts of the Central Office's Operating Fund account.

Operating Fund expenditures, as recorded by the State Comptroller, during the audited period and the preceding fiscal year are shown below.

	Fiscal Year <u>1997-1998</u>	Fiscal Year <u>1998-1999</u>	Fiscal Year <u>1999-2000</u>
Personal Services	\$ 515	\$ 15,179	\$ 48,121
Contractual Services	1,990,677	2,032,786	2,483,719
Commodities	192,640	162,197	126,495
Revenue Refunds	587	17,892	-
Sundry Charges	74,471	121,746	520,379
Equipment	<u>181,055</u>	<u>55,759</u>	<u>199,976</u>
Total Expenditures	<u>\$2,439,945</u>	<u>\$2,405,559</u>	<u>\$3,378,690</u>

Expenditures were primarily made up of costs associated with contractual services. Such costs were mostly related to data processing services associated with maintaining and improving the Community College system's automated information system, which is administered by the Central Office's Data Center. Operating Fund expenditures decreased by \$34,386 (1.4 percent) and increased by \$973,131 (40.5 percent) during the 1998-1999 and 1999-2000 fiscal years, respectively, compared to the previous fiscal years. The increase during the 1999-2000 fiscal year was due, in part, to costs associated with additional data processing contractual service expenditures and costs attributed to year 2000 information system preparation, according to a Central Office official.

Grants – Tax-Exempt Proceeds Fund:

The Central Office accounted for certain grants, other than Federal, in the Grants – Tax-Exempt Proceeds Fund. This fund was used to record receipts and disbursements related to grant transfers from the State Department of Public Works, transfers financed by State of Connecticut tax-exempt bonds in accordance with Sections 3-24a through 3-24h of the General Statutes.

Fund receipts recorded by the State Comptroller totaled \$2,056,072 and \$1,280,287 during the 1998-1999 and 1999-2000 fiscal years, respectively. Fund expenditures, according to the State Comptroller, totaled \$3,370,039 and \$1,620,232 during the 1998-1999 and 1999-2000 fiscal years, respectively. Expenditures consisted primarily of capital outlays for Community College system buildings.

CONDITION OF RECORDS

Our review of the financial records of the Central Office revealed certain areas requiring attention, as discussed in this section of the report.

Off-site Work Arrangement:

Criteria: Sound internal controls require the establishment and dissemination of a written off-site employment policy to set guidelines for authorizing employees to work off-site. Good controls also call for written agreements to be set up for such arrangements and that such agreements be approved by appropriate officials prior to their implementation.

Condition: The Central Office set up an agreement with one of its own employees, a Database Administrator, to work at a remote location—Cincinnati, Ohio. Central Office officials told us that this arrangement began in April 2000; that it continued through the time of our review in August 2001; and that it was expected to continue through at least June 30, 2002. The initial written agreement for this arrangement covered the period April 15, 2000 through June 30, 2000. The intent of this agreement, as stated in the contract, was to “provide the continuation of DBA (Database Administration) support until said time as a replacement is hired.”

Central Office officials provided us with copies of two additional written contracts in connection with this arrangement: one covering the period July 1, 2000 through December 31, 2000, and another covering the period July 1, 2001 through June 30, 2002. All terms of these two subsequent written contracts were virtually identical to the initial contract except that both of the two later agreements were silent on the intent of the agreement, i.e., no mention of providing support “until said time as a replacement is hired.” It is also noteworthy that the latest agreement was signed on August 14, 2001, the date we began our inquiry into this matter and subsequent to the start of the contract term. Furthermore, all three of these contracts were signed by three employees: the Database Administrator, his supervisor and the department head/designee—all employees of the Central Office System Data Center. That is, no employee outside of the Data Center—including the Community Colleges’ Chancellor—signed these contracts on behalf of the Central Office. Moreover, Section 4.12.1 of the Board of Trustees of Community-Technical Colleges’ *Policy Manual* lists Central Office employees who were authorized to sign contracts and “other necessary or appropriate documents or agreements to effectuate the decisions, policies and programs of (the Board).” None of the Data Center employees who signed these contracts on behalf of the Central Office were included

among the authorized signers listed in the *Policy Manual*. Nevertheless, the Director of Finance informed us that these individuals, when signing these agreements, were acting within their authority as direct and indirect supervisors of the Database Administrator. In addition, we were provided with documentation indicating that the arrangement for the periods July 1, 2000 through December 31, 2000, and July 1, 2001 through June 30, 2002, was approved, respectively, by the then Deputy Chancellor and the Chancellor.

The Director of Finance informed us that there was no written agreement set up for the period covering January 1, 2001 through June 30, 2001.

Both the Director of Finance and the Director of Employee Relations/Counsel told us that the above case is the only such off-site employment arrangement that exists at the Central Office. They added that, initially, this arrangement was set up on a trial basis and that the trial showed that this arrangement worked well. They further stated that it was then decided not to replace this employee, that replacing him would not be as efficient as keeping him given the learning curve that a new employee would be subject to; so no search was done for his replacement.

We were told that the Central Office has no written policy addressing such off-site employment arrangements.

Effect:

Lack of written off-site employment contracts, properly approved in advance by the chief executive officer, the chief financial officer or equivalent administrators, weakened internal control.

Absent a written policy on off-site employment arrangements, disseminated to all employees of the Community College system, assurance of equal opportunity for those employees seeking such arrangements is lessened. Further, a lack of a written policy decreases the likelihood that the Community College system, including the Central Office, follows uniform standards when establishing such off-site work arrangements.

Cause:

We were told that the Human Resources Department and the Data Center characterized the lack of a written agreement for the period January 1, 2001, through June 30, 2001, as an unintentional oversight.

The Director of Finance told us that a written policy on off-site work arrangements is not necessary as this is an isolated Central Office occurrence, with only one employee involved.

Recommendation: The Central Office should develop and disseminate a written off-site employment policy to set guidelines for authorizing Community College system employees to work off-site and should take steps to ensure that written agreements are set up and approved by appropriate management employees before such arrangements take effect. (See Recommendation 1.)

Agency Response: “The System Office believes that at no time was internal control actually weakened, because this was a unique, one-time circumstance, the initial and subsequent Remote DBA Agreements clearly outlined the specific conditions and expectations between the employee and his supervisors, the employee was well known to us and had previously worked in our office physically, and close monitoring of the arrangement was on-going. In all cases, the official employee Notice of Appointment was signed by the Chancellor. While due to an oversight, there was a six month period not formally covered by an extension of the more detailed remote DBA agreement, it was the understanding of all involved that this was a continuation of an existing arrangement that was working well. However we do agree that the remote DBA agreement should have been signed in advance for all time periods covered by the arrangement. While we believe that the employee’s supervisors were authorized to sign such agreements as part of their supervisory authority, we agree that any such special arrangements in the future should be more formally signed by an individual with Board signing authority, to avoid any appearance of weakened controls. We also agree to review the issue of whether a written off-site employment policy is needed, and what such a policy should encompass. Because this will take considerable discussion and review, we are not taking a position on this at this time.”

Inventory Control:

Criteria: The State of Connecticut’s *Property Control Manual*, under authority of Section 4-36 of the General Statutes, sets forth criteria and policies over assets owned or leased by a State agency. Requirements include, among other things, that capital equipment and certain other controllable items be recorded in property control records and that an annual report reflecting the total of physical inventory as of June 30, each year, be submitted to the State Comptroller.

Condition:

1. Equipment inventory control records were not up-to-date. During our review of property control in August 2001, the latest equipment inventory control listing the Central Office provided us was dated September 6, 2000.
2. We tested 13 computer hardware items (each costing \$1,000 or more) purchased during the audited period and found that seven

were not recorded in the latest inventory control records provided to us. Two of the 13 items were actually located in places other than the locations recorded in the inventory control records. One of the 13 items tested, a computer, was incorrectly described as a printer in the inventory control records.

3. We tested the accuracy of 12 inventory control records and found that five equipment items recorded in these records were actually located in places other than the locations listed.
4. In the Central Office's annual property inventory reports submitted to the State Comptroller for the 1998-1999 and 1999-2000 fiscal years, stores and supplies balances of \$49,000 and \$63,462 as of June 30, 1999 and 2000, respectively, were reported. A Central Office official told us that these reported balances were substantially overstated but could not determine the actual figures that should have been reported.

Effect: The State of Connecticut's *Property Control Manual* was not fully complied with, weakening internal controls over property.

Cause: We were told that the Central Office was focusing on making the transition to a new inventory control record system.

Recommendation: The Central Office should improve controls over its property, especially its computer equipment, by following the property control requirements set forth by the State Comptroller. (See Recommendation 2.)

Agency Response: "We agree with the recommendation that controls and procedures related to equipment inventory should be improved in the System Office. It should be noted that employees responsible for this activity in the System Office during the audited timeframe have since retired, and the responsibilities have been reassigned to other individuals. Additionally, as part of the Connecticut Community Colleges' multi-year financial and administrative software implementation, the Banner Fixed Asset module was implemented at the beginning of FY2001, both to comply with new GAAP financial reporting and accounting requirements, and to improve control over fixed assets. In preparation for this implementation, a comprehensive fixed asset inventory and accounting policy was written, and reviewed with and approved by the State Comptroller's Office effective July 1, 2001. An outside property valuation firm was hired to take a complete physical inventory of all equipment as of July 1, 2001, both in the System Office and at all twelve of the individual community colleges. This information is currently being reviewed for entry into our fixed asset system. Procedures have been put in place to ensure that new fixed assets are appropriately inventoried and accounted for. This is a

complex undertaking which will take considerable time and follow-up to ensure success, however we are confident that the ultimate result will be improved property control and asset valuation in both the System Office and throughout the Community College system.”

Cash Receipts Records:

Criteria: Good internal controls require that cash receipts be recorded promptly in cash receipts journals. Prompt recording of cash receipts provides a trail of monies received, helping to prevent their loss or theft.

Also, Section 4-32 of the General Statutes provides that each State institution receiving revenue for the State shall, where such sums exceed \$500, deposit the amounts in bank accounts approved by the State Treasurer, within 24 hours of their receipt.

Condition: Our testing of cash receipts records and interviews with Central Office Officials showed that Central Office cash receipts accounting records did not reflect actual cash receipt dates. In fact, we tested deposits associated with ten State Treasurer’s deposit slips and found that, in all ten cases, either a portion of receipts or all of receipts deposited were recorded in the Central Office’s Banner automated cash receipts records after deposits were made.

Effect: There was an increased risk of loss or theft of cash received. Also, this condition prevented us and Central Office officials from determining how long cash was held pending deposit. We could not, therefore, determine if there was compliance with Section 4-32 of the General Statutes.

Cause: We were told that the recording of cash receipts was, at times, delayed pending determination of proper receipt coding or pending completion of other duties.

Recommendation: The Central Office should improve internal control over its cash receipts by promptly recording their receipt in its cash receipts accounting records. (See Recommendation 3.)

Agency Response: “The System Office agrees that cash receipts should be recorded in the accounting system promptly. We have already implemented procedures to ensure that receipts are recorded the same day as the deposit is made, where at all possible (or the following morning if deposit occurs late in the day.) All receipts continue to actually be deposited within the required 24 hour time frame from their receipt.”

The following weaknesses were noted at a number of Community College system institutions during the course of our separate audits of those organizations.

Time and Effort Reporting

Criteria: The Federal Office of Management and Budget Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the Federal government and educational institutions. Under this Circular, the method of distributing payroll charges must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. To accomplish this, institutional records must adequately document that payroll expenditures posted to an account were actually incurred in the course of carrying out the program accounted for in the account.

According to Circular A-21, to confirm that charges to a program represent a reasonable estimate of the work performed by the employee for the benefit of the program during the period, an acceptable method of documentation includes the use of statements signed by the employee, principal investigator, or responsible official(s), using suitable means of verification that the work was performed. For professorial and professional staff, the statements must be prepared each academic term, but no less frequently than every six months.

Condition: During the audited period, we noted that the following Community College system institutions received and administered one or more Federal grants to which payroll expenditures were charged. However, these institutions did not have a time and effort reporting system, as required by the Office of Management and Budget Circular A-21:

- Housatonic Community College
- Asnuntuck Community College
- Three Rivers Community College
- Middlesex Community College
- Norwalk Community College
- Central Office of the Community College system

In addition, we found that though Capital Community College did have a time and effort reporting system in place, it did not require time and effort reports for some employees whose salaries were charged to Federal grants.

Circular A-21 provides that where the institution uses time cards or other forms of after-the-fact payroll documents as original

documentation for payroll and payroll charges, such documents qualify as records for this purpose, provided that they meet the requirements outlined in the Circular. In the cases cited above, payroll documents did not provide a signed certification that the employee's payroll expenditures were charged to the activities/programs on which the employee actually worked.

Effect: The Central Office and the above community colleges did not fully comply with the Office of Management and Budget Circular A-21 requirements concerning the documentation of payroll distribution costs.

Cause: Generally, community college officials were unfamiliar with this requirement.

In the case of Capital Community College, Capital Community College officials informed us that the College's procedure was to require time and effort reports from full-time staff members only.

Recommendation: The Central Office should develop a written policy requiring that all Community College system institutions implement a time and effort reporting system for documenting payroll costs associated with Federal grant programs, as required by the Office of Management and Budget Circular A-21. (See Recommendation 4.)

Agency Response: "The System Office agrees with the recommendation, and will develop and communicate a written policy to be used by all community colleges and the System Office for documenting payroll costs associated with Federal grant programs, to ensure compliance with time and effort reporting or other requirements."

Student Activity Fees:

Criteria: Sound internal control procedures require that higher education student activity fees received be credited to a separate fund, the Student Activity Fund. Crediting such fees to the Student Activity Fund helps ensure that their expenditure is made for the proper purpose—for the benefit of students.

Condition: During the audited period—primarily from July 1998 through March 2000—we found that several community colleges credited student activity fees received to their respective Operating Fund accounts, depositing these monies into a State Treasurer's bank account reserved primarily for State funds accounted for centrally by both the State Comptroller and State Treasurer. Periodically, these colleges, through the State Comptroller's Office, issued checks, drawn from their respective Operating Fund accounts, transferring these fees to their respective Student Activity Fund accounts. The frequency of

transfers made ranged from once to three times each fiscal year. In all cases noted, fees initially credited to the Operating Fund were eventually transferred to the Student Activity Fund. Furthermore, in each case noted, we were told that the college did not compensate its Student Activity Fund for lost return on investment while fees were being held in the Operating Fund.

To remedy this situation, the Central Office established written procedures calling for, effective April 1, 2000, the daily deposit of student activity fees into Student Activity Fund accounts.

The schedule below shows each of the community colleges at which this condition was noted and the respective cumulative dollar amounts of student activity fees held in Operating Fund accounts during the period July 1998 through March 2000:

<u>College</u>	<u>Student Activity Fees</u>
Asnuntuck Community College	\$ 34,795
Capital Community College	88,718
Gateway Community College	115,081
Housatonic Community College	78,010
Middlesex Community College	52,815
Three Rivers Community College	<u>61,080</u>
Total	<u>\$430,499</u>

Furthermore, we learned that at one of the community colleges, Capital Community College, the above condition was continued beyond March 31, 2000, until at least the time of our review in May 2001. (Capital Community College did, however, credit and deposit some student activity fees directly to Student Activity Fund accounts in May and June 2000.)

Effect: Assurance was lessened that all student activity fees received were properly credited to the respective Student Activity Fund accounts.

Student Activity Fund accounts were not compensated for any lost return on investment while student activity fees were held in Operating Fund accounts.

Cause: We were told that the treatment of student activity fees was not among the highest priorities when the Community College system fully implemented the Banner automated receipting and accounts receivable record keeping function during the 1998-1999 fiscal year. As a result, from July 1998 through March 2000, adequate procedures were not in place to directly record and deposit student activity fees into Student Activity Fund accounts.

A Capital Community College official informed us that the College continued the initial crediting and depositing of student activity fee receipts to Operating Fund accounts beyond March 2000, as the College considered this method more efficient than making daily deposits to the Student Activity Fund as prescribed by the Central Office. The official added that the College interpreted as optional the Central Office's written procedures calling for, effective April 1, 2000, the daily deposit of student activity fees into Student Activity Fund accounts.

Recommendation: The Central Office should consider implementing procedures to monitor whether or not all colleges in the Community College system adequately account for student activity fees and should consider effecting procedures to compensate the system's Student Activity Funds for any lost return on investment while student activity fees were held in Operating Fund accounts. (See Recommendation 5.)

Agency Response: "Effective July 1, 2001, the Community Colleges implemented a new procedure, agreed to by the State Comptroller's Office, for accounting for all student activity funds within the respective college Operating Fund but identified separately in the internal Banner accounting records. As part of this new procedure, STIF interest is now being apportioned to the Student Activity accounts based on their average daily cash balances. The prior problem was a result of complex transition and accounting issues which occurred due to the implementation of our student accounts receivable system, which included student charges and payments for Student Activity Fees, and these issues have since been resolved. During the timeframe involved, SAF cash was transferred by colleges on a regular basis to their respective Student Activity Funds, and where there was any question as to the correct amount (prior to the final reconciliation), we tried to err in favor of the Student Activity Fund to ensure that student funds were not being adversely impacted. We therefore believe that the actual amount of lost return on investment is low, and does not warrant the extensive amount of additional time and resources that would be needed to research and calculate such amounts."

Auditors' Concluding Comments:

As we found during our audit of Capital Community College (see "Cause" above), procedures mandated by the Central Office of the Community College System are not always put into practice by all of the community colleges. Implementing a system by which such procedures, including the Central Office's latest procedures concerning Student Activity Funds, are centrally monitored, would help ensure that these procedures are appropriately carried out. Furthermore, as the Community College System held, and continues

to hold, a fiduciary responsibility over Student Activity Fund monies, it seems that making a reasonable effort to estimate and compensate the colleges' respective Student Activity Funds for any lost return on investment would be consistent with the System's responsibility for these fiduciary funds.

Contracts and Other Business Dealings with State Employees:

Criteria: Section 1-84, subsection (i) of the General Statutes provides that, "No public official or state employee or member of his immediate family or a business with which he is associated shall enter into any contract with the state, valued at one hundred dollars or more, other than a contract of employment as a state employee or pursuant to a court appointment, unless the contract has been awarded through an open and public process, including prior public offer and subsequent public disclosure of all proposals considered and the contract awarded."

In addition, section 9.2 of the *Community-Technical Colleges Agency Purchasing Policies* quotes the above statute and adds, "Accordingly, no state employee may be offered a Personal Service Agreement unless the contract has been awarded pursuant to an appropriate bidding process."

Condition: During our current cycle of audits of the State's community colleges, primarily covering the 1998-1999 and 1999-2000 fiscal years, we found instances in which several of the colleges, in the process of entering into contracts amounting to \$100 or more with their own employees, did not appear to meet the requirements of Section 1-84, subsection (i), of the General Statutes, as discussed below.

Asnuntuck Community College (Asnuntuck):

During the winter of 2000, Asnuntuck set up a personal service agreement with one of its own employees, an Educational Assistant, Machine Technology Program Instructor. Under the agreement, Asnuntuck was to pay the employee \$40 per hour, up to a maximum of \$3,600, to develop course curricula for courses to be taught at a State manufacturing firm during the contract period February 1, 2000 through March 31, 2000. In April 2000, Asnuntuck paid \$3,540 to the contractor for the above services.

In July 1998, Asnuntuck set up a purchase order in the amount of \$159 for the purchase of two picture frames with mats and hardware from one of its own employees, a Professor of Art. In August 1998, Asnuntuck paid this employee \$159 for these items.

Asnuntuck officials told us that no bidding was done for the above transactions.

Norwalk Community College (Norwalk):

In December 1998, Norwalk approved a personal service agreement with one its own employees, a Community College Educational Assistant (Project Scholarship Assistant). Under the agreement, the contractor was to provide a statistical report on a workshop and related trainer evaluations and data basing services during the contract period July 1, 1998 through June 30, 1999. In return, Norwalk was to pay the contractor \$20 per hour up to a maximum of \$500. In April 1999, Norwalk paid the contractor \$500. Norwalk officials told us that no bidding was done for these services.

Gateway Community College (Gateway):

In the summer of 1998, Gateway entered into a personal service agreement in the amount of \$3,840 with one its employees, a Professor of Early Childhood Education. During the contract period June 4, 1998 through July 31, 1998, the contractor was to provide in-service training in computer software to teachers. In December 1999, after a delay in receiving related paperwork from the contractor, Gateway paid the contractor \$3,840.

In December 1999, Gateway entered into a personal service agreement not to exceed \$500 with one of its own employees, a Professor of Humanities. In the agreement, during the period January 14, 2000 through January 21, 2000, the contractor was to provide training in business writing techniques to a client of Gateway's Office of Learning Enterprises, an umbrella department which oversees Gateway's Business and Industry Services Department. (The Business and Industry Services Department, a part of the Statewide Community College Business and Industry network, primarily designs and delivers credit and non-credit training programs, on a contract basis, for businesses and other organizations.) In February 2000, Gateway paid the contractor \$250.

In March 2000, Gateway approved a personal service agreement with the same employee. Under this agreement, during the period April 1, 2000 through June 30, 2000, the contractor was to provide writing training seminars for the Department of Administrative Services and for a private manufacturing firm. In return, Gateway was to pay the contractor at the rate of \$60 per hour up to a maximum of \$2,400. In June 2000, Gateway paid the contractor \$420 for related services.

In all of these cases, no bidding was done, according to a Gateway official.

Middlesex Community College (Middlesex):

During the 1999-2000 fiscal year, Middlesex set up two purchase orders in the amount of \$2,500 each to procure services from one of its own employees, a Professor of English. Though no personal service agreement or equivalent written contract was set up, Middlesex paid the employee \$5,000 (\$2,500 per semester) to edit and produce a newsletter for both the Fall 1999 and Spring 2000 semesters, respectively. Middlesex's Business Manager told us that the procurement of these services did not go out to bid.

Three Rivers Community College (Three Rivers):

Our testing revealed that Three Rivers set up personal service agreements with six of its employees, ranging in amount from \$140 to \$2,500. Services provided for four of these contracts occurred during the 1996-1997 fiscal year, while services connected with the remaining two took place during the 1998-1999 fiscal year. (Unlike the other audits mentioned above, this audit covered the 1996-1997, 1997-1998 and 1998-1999 fiscal years.) Services included laboratory support, upgrading computer courses, lectures, coordinating workshops and curriculum review, among others. During the period November 1996 through April 1999, Three Rivers processed payments for related services, as specified by the contracts. In all of these cases, a Three Rivers official informed us, the contracts were not awarded in an "open and public process."

Housatonic Community College (Housatonic):

In the summer of 1998, the College entered into a personal service agreement in the amount of \$1,000 with one of its employees. The contractor was to provide site visits to child care providers. In September 1998, Housatonic paid the contractor \$1,000. Since the College, in this instance, dealt with the individual as an independent contractor, it was obligated to follow a contract award process that met the standards set forth in Section 1-84 of the General Statutes. That is, the contract should have been awarded through an "open and public process." It was not, according to a College official.

In some of the cases noted above, it is not clear whether or not the individuals providing services to the colleges were truly independent contractors or should have, instead, been considered employees and paid through the State's normal payroll process rather than through accounts payable operations. Nevertheless, in each case, it seems that the colleges, in their payment methods, treated these individuals as independent contractors and were, therefore, obligated to follow a contract award process that met the standards set forth in Section 1-84 of the General Statutes.

- Effect:* A number colleges within the Community College system did not fully comply with Section 1-84, subsection (i) of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to \$100 or more, unless the contract has been awarded through an “open and public process.” Lack of compliance raises questions as to the propriety of such transactions.
- Cause:* Generally, though the Community College system does have a written policy addressing this issue, it appears that some community colleges were not aware of the requirements of Section 1-84 of the General Statutes concerning the award of contracts to State employees.
- Recommendation:* The Central Office should take steps to improve Community College system compliance with Section 1-84, subsection (i) of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to \$100 or more, unless the contract has been awarded through an “open and public process.” (See Recommendation 6.)
- Agency Response:* “The System Office agrees that all applicable legal requirements must be complied with, and will review ways to improve system compliance with Section 1-84.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **Improve controls and procedures related to equipment inventory.** Though we noted some improvement in the property control conditions noted in our last audit, we found that weaknesses persisted in this area. We are, therefore, repeating this recommendation. (See Recommendation 2.)
- **Close out accounting records in a timely manner in order to comply with reporting requirements of the State Comptroller.** We noted improvement in this area. Therefore, the recommendation is not being repeated.
- **Determine the policy to be used on a system-wide basis to calculate employment data for 10-month employees.** The Central Office established a written policy addressing this issue. Therefore, the recommendation is not being repeated.

Current Audit Recommendations:

1. **The Central Office should develop and disseminate a written off-site employment policy to set guidelines for authorizing Community College system employees to work off-site and should take steps to ensure that written agreements are set up and approved by appropriate management employees before such arrangements take effect.**

Comment:

The Central Office set up an agreement with one of its own employees, a Database Administrator, to work at a remote location—Cincinnati, Ohio. Central Office officials told us that this arrangement began in April 2000; that it continued through the time of our review in August 2001; and that it was expected to continue through at least June 30, 2002. However, the Central Office had no written policy addressing Community College system off-site work arrangements. Nor was there a related written agreement in place for the period January 1, 2001 through June 30, 2001. Furthermore, the related written agreement for the period July 1, 2001, through June 30, 2002, was signed on August 14, 2001, the date we began our inquiry into this matter and subsequent to the start of the contract term. Moreover, related written agreements provided to us were only signed by Data Center employees.

- 2. The Central Office should improve controls over its property, especially its computer equipment, by following the property control requirements set forth by the State Comptroller.**

Comment:

Equipment inventory control records were not up-to-date. In August 2001, the latest equipment inventory control listing the Central Office provided us was dated September 6, 2000. We tested 13 computer hardware items (each costing \$1,000 or more) purchased during the audited period and found that seven were not recorded in the latest inventory control records provided to us; two were actually located in places other than the locations recorded in the inventory control records; and one of the 13 items tested, a computer, was incorrectly described as a printer in the inventory control records. We tested the accuracy of 12 inventory control records and found that five equipment items recorded in these records were actually located in places other than the locations listed. The annual property inventory reports submitted to the State Comptroller for the 1998-1999 and 1999-2000 fiscal years, overstated stores and supplies balances as of June 30, 1999 and 2000, respectively.

- 3. The Central Office should improve internal control over its cash receipts by promptly recording their receipt in its cash receipts accounting records.**

Comment:

Cash receipts accounting records did not reflect actual cash receipt dates. We tested deposits associated with ten State Treasurer's deposit slips and found that, in all ten cases, either a portion of receipts or all of receipts deposited were recorded in the Central Office's Banner automated cash receipts records after deposits were made.

- 4. The Central Office should develop a written policy requiring that all Community College system institutions implement a time and effort reporting system for documenting payroll costs associated with Federal grant programs, as required by the Office of Management and Budget Circular A-21.**

Comment:

During the audited period, we noted that the following Community College system institutions received and administered one or more Federal grants to which payroll expenditures were charged. However, these institutions did not have a time and effort reporting system, as required by the Office of Management and Budget Circular A-21: Housatonic Community College, Asnuntuck Community College, Three Rivers Community College, Middlesex Community College, Norwalk Community College, and the Central Office of the Community College system. In addition, we found that though Capital Community College did have a time and effort reporting system in place, it did not require time and effort reports for some employees whose salaries were charged to Federal grants. In the above cases, for employees whose payroll costs were funded by Federal grant programs, payroll documents did not provide signed

certification that the employee's payroll expenditures were charged to the program(s) on which the employee actually worked.

5. **The Central Office should consider implementing procedures to monitor whether or not all colleges in the Community College system adequately account for student activity fees and should consider effecting procedures to compensate the system's Student Activity Funds for any lost return on investment while student activity fees were held in Operating Fund accounts.**

Comment:

During the audited period—primarily from July 1998 through March 2000—we found that several Community Colleges credited and deposited student activity fees received to their respective Operating Fund accounts. Periodically, these colleges, through the State Comptroller's Office, issued checks, drawn from their respective Operating Fund accounts, transferring these fees to their respective Student Activity Fund accounts. In each case noted, we were told that the college did not compensate its Student Activity Fund for lost return on investment while fees were being held in the Operating Fund.

6. **The Central Office should take steps to improve Community College system compliance with Section 1-84, subsection (i) of the General Statutes, which provides, among other things, that no State employee may enter into any contract with the State, amounting to \$100 or more, unless the contract has been awarded through an "open and public process."**

Comment:

During our current cycle of audits of the State's community colleges, primarily covering the 1998-1999 and 1999-2000 fiscal years, we found instances in which several of the colleges, in the process of entering into contracts amounting to \$100 or more with their own employees, did not appear to meet the requirements of Section 1-84, subsection (i), of the General Statutes. That is, such agreements were not awarded through an "open and public process."

INDEPENDENT AUDITOR'S CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Central Office of the Community College system for the fiscal years ended June 30, 1999 and 2000. This audit was primarily limited to performing tests of the Central Office's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Central Office's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Central Office are complied with, (2) the financial transactions of the Central Office are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Central Office are safeguarded against loss or unauthorized use. The financial statement audits of the Central Office for the fiscal years ended June 30, 1999 and 2000, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Central Office complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Central Office is the responsibility of the Central Office's management.

As part of obtaining reasonable assurance about whether the Central Office complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Central Office's financial operations for the fiscal years ended June 30, 1999 and 2000, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Central Office is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Central Office. In planning and performing our audit, we considered the Central Office's internal control over its

financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Central Office's financial operations in order to determine our auditing procedures for the purpose of evaluating the Central Office's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Central Office's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Central Office's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Central Office's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: weaknesses in controls over an off-site work arrangement; weaknesses in controls over computer equipment; and weaknesses in controls over cash receipts with respect to cash receipts accounting records.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Central Office's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Central Office's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, of the reportable conditions described above, we believe the following reportable condition to be a material or significant weakness: the Central Office's weaknesses in controls over computer equipment.

We also noted other matters involving internal control over the Central Office's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Central Office of the Community College system during the course of our examination.

Daniel F. Puklin
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts