

STATE OF CONNECTICUT

**AUDITORS' REPORT
STATE BOARD OF EDUCATION AND
SERVICES FOR THE BLIND
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

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

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September 18, 2006

**AUDITORS' REPORT
STATE BOARD OF EDUCATION AND
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FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005**

We have examined the financial records of the State Board of Education and Services for the Blind for the fiscal years ended June 30, 2004 and 2005.

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

COMMENTS

FOREWORD:

The Board of Education and Services for the Blind (hereinafter referred to as "BESB") operates primarily under the provisions of Title 10, Chapter 174, of the General Statutes. BESB provides services to the blind that assist them to overcome the handicap of blindness or impaired vision with the goal of attaining as high a degree of self-sufficiency as is possible. The services provided include education, training, consultation, rehabilitation, employment, medical care and relief. During the audited period, BESB was organized into the following five divisions:

The Division of Administration – includes finance and business operations, human resources, and electronic data processing functions.

The Division of Children Services – provides special education from birth through high school (or age 21).

The Division of Adult Services – provides information, counseling, referral services and individualized instruction in techniques and skills used in activities of daily living.

The Division of Vocational Rehabilitation – provides diagnostic evaluations, vocational training and placement services to enhance employment opportunities.

The Business Enterprise Program Division – provides financial and technical training and support to individuals who own or want to own their own business.

During the audited period, BESB was within the Department of Social Services for administrative purposes only. Donna L. Balaski served as Executive Director until her resignation on February 19, 2004. Brian Sigman was appointed Executive Director on February 20, 2004, and continues to serve in that capacity.

As provided by Section 10-293 of the General Statutes, a seven-member board assisted the Executive Director in overseeing operations. As of June 30, 2005, the following were members:

Ex Officio Member:

Patricia A. Wilson-Coker, Commissioner, Department of Social Services

Appointed Members:

Eileen Akers
Christine Boisvert
Mary R. Brunoli
M. Carolyn Dodd
Alan N. Sylvestre, Chairman
Betty Woodward

In addition to the Board members listed above, Kenneth Olson also served on the Board during the audit period.

Significant Legislation:

Notable legislative changes are presented below:

Public Act 03-217, effective July 9, 2003, establishes a fourteen-member monitoring council, which in consultation with BESB, must establish benchmarks concerning the agency's management, operations and services. The Act requires the council to issue a report on BESB's progress in meeting these benchmarks to the Human Services, Appropriations, and Education committees. The Act requires that the report include legislative proposals and recommendations for proposed changes in BESB's organizational structure. Failure to meet specific benchmarks may result in transfer of the agency's deficient programs and related funding to another State agency. The Act requires the council to monitor:

- the quality, efficiency, and equity of BESB's provision of educational services for children, home and daily living skills services, vocational rehabilitation, and outreach efforts to identify and provide information to blind elderly;

- how it provides employment training and experience in a competitive work environment and the availability of the broadest employment and entrepreneurial opportunities for blind individuals;
- its strategic planning development and implementation;
- its fiscal accountability, including preparing detailed program budget and expenditure reports; and
- its implementation of the administrative recommendations contained in the December 2002 Legislative Program Review and Investigations report on BESB vending operations.

The Act requires the council to issue a report on BESB's progress in meeting these benchmarks by February 1, 2004. The Act also requires that the first meeting be held not later than July 1, 2003, and that the council meet at least monthly thereafter until February 1, 2004, and shall terminate not later than July 1, 2004.

Public Act 03-219, effective July 1, 2003, establishes a priority system for BESB to use when it provides and pays for educational services to blind or visually impaired children. It requires BESB to use funds from its Educational Aid for Blind and Visually Handicapped Children Account (the educational aid account) in the following order: (1) to pay for goods and services, such as specialized books; (2) to pay for teaching services that school districts request directly from BESB; and (3) to reimburse towns that purchase these services on their own. The Act requires any funds remaining in the account, after paying for goods, services and teaching services, be distributed to the school districts on a pro rata formula basis with a two-to-one credit ratio for Braille-learning students to non-Braille-learning students based upon annual child count data.

Public Act 04-90, effective May 10, 2004, repealed Section 3 of Public Act 03-217, added two members to the monitoring council, extended the deadline for the council to meet and report to the legislature on BESB's progress from February 1, 2004 to February 1, 2005, and extended the council's sunset date from July 1, 2004 to July 1, 2005.

Public Act 05-5, effective April 1, 2005, repealed Section 3 of Public Act 03-217, as amended by Section 2 of Public Act 04-90, and extended the sunset date for the monitoring council from July 1, 2005 until January 1, 2006. It also required the council to meet at least monthly until then, and submit a progress report to the Human Services committees by September 1, 2005, instead of February 1, 2005.

Section 60(c) of Public Act 05-251, effective July 1, 2005, provides that the Commissioner of Administrative Services, in consultation with the Secretary of the Office of Policy and Management, shall develop a plan for the Department of Administrative Services to provide personnel, payroll, affirmative action and business office functions of State agencies. All executive branch State agencies may be considered in the development of this plan, but the specific agencies to be included shall be determined by the Commissioner of Administrative Services in consultation with the Secretary of the Office of Policy and Management. The personnel, payroll, affirmative action and business office functions of such agencies shall be merged and consolidated within the Department of Administrative Services (DAS). Such functions of BESB were merged and consolidated with DAS subsequent to the audit period.

RÉSUMÉ OF OPERATIONS:

Funding for Agency programs was provided by State General Fund appropriations, the Federal and Other Restricted Accounts Fund, and the Vending Facilities Operators' Fringe Benefit Program Fund.

Public Act 04-2 (May Special Session) authorized the establishment of new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants."

General Fund:

Receipts:

General Fund receipts totaled \$7,378,836, \$5,276 and \$3,584 for the fiscal years June 30, 2003, 2004, and 2005, respectively. General Fund receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Federal grants	\$2,683,883	\$0	\$0
Industries' workshop sales	2,068,254	0	0
Vending operations	2,344,901	0	0
All other	<u>281,798</u>	<u>5,276</u>	<u>3,584</u>
Total General Fund Receipts	<u>\$7,378,836</u>	<u>\$5,276</u>	<u>\$3,584</u>

The decrease in receipts is due primarily to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained, above, receipts formerly credited to the General Fund were credited to a newly established special revenue fund.

Expenditures:

Expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Budgeted Accounts:			
Personal services	\$4,530,814	\$3,668,471	\$4,222,613
Contractual services	2,324,347	1,627,306	1,395,674
Commodities	698,675	735,860	735,187
Sundry charges	850,003	136,823	269,648
State aid grants	5,175,842	7,479,225	6,437,211
All other	<u>330,517</u>	<u>239,538</u>	<u>239,700</u>
Total Budgeted Accounts	<u>13,910,198</u>	<u>13,887,223</u>	<u>13,300,033</u>

Restricted Accounts:

Federal	2,525,917	0	0
Other than Federal:			
Sales and Services	2,489,285	0	0
Vending Facility program	1,499,413	0	0
All other accounts	<u>183,753</u>	<u>0</u>	<u>0</u>
Total Restricted Accounts	<u>6,698,368</u>	<u>0</u>	<u>0</u>
 Total Expenditures	 <u>\$20,608,566</u>	 <u>\$13,887,223</u>	 <u>\$13,300,033</u>

Personal services decreased by \$862,343 during the 2003-2004 fiscal year due to the closing of the Agency’s Industries Division in January 2003 and due to the retirement of several individuals. Personal services increased by \$554,142 during the 2004-2005 fiscal year due to the hiring of staff to fill vacant approved positions.

The decrease in expenditures from restricted accounts was due to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, expenditures formerly charged to the General Fund were charged to a newly established special revenue fund.

State Aid Grants:

General Fund budgeted account expenditures for State aid grants totaled \$7,479,225 and \$6,437,211 during the fiscal years ended June 30, 2004 and 2005, respectively. These expenditures were made from various budgeted appropriation accounts for programs administered by BESB. A discussion of the larger grant programs follows.

Section 10-295 of the General Statutes, as amended by Public Act 03-219, provides that all residents of this State, who because of blindness or impaired vision, require specialized vision-related educational programs, goods and services, on the signed recommendation of the director of the Board of Education and Services for the Blind, shall be entitled to receive such instruction, programs, goods and services for such length of time as is deemed expedient by said director. The expenses of such services shall be paid by the State in an amount not to exceed \$6,400 in any one fiscal year for each child who is blind or visually impaired. Funds may be used for goods and services without regard to the per child statutory maximum.

Sections 10-306 through 10-310 of the General Statutes provide for vocational rehabilitation services with no specific limits on expenditures for rehabilitation services. Expenditures from the State Vocational Rehabilitation budgeted appropriation account were used to fulfill State cash matching requirements of several Federal grants.

The following schedule summarizes State aid grant expenditures made from budgeted appropriation accounts during the audited period:

	<u>2003-2004</u>	<u>2004-2005</u>
Educational aid for blind and visually handicapped children (SID 12060)	\$6,780,025	\$5,418,772
Vocational rehabilitation (SID 16054)	694,105	628,811
Enhanced Employment (SID 12301)	0	385,792
Other State aid grants	<u>5,095</u>	<u>3,837</u>
Total	<u>\$7,479,225</u>	<u>\$6,437,212</u>

Expenditures decreased during the 2004-2005 fiscal year because Section 43(c) of Public Act 03-1 (June Special Session) permitted the unexpended balance of funds appropriated for the 2002-2003 fiscal year for Educational Aid for Blind and Visually Handicapped Children to continue to be available for expenditure during the fiscal year ending June 30, 2004.

Sections 64 and 65 of Public Act 03-3 (June Special Session) established the enhanced employment account that is used for the purpose of funding competitive and sheltered employment of blind and visually impaired adults.

Special Revenue Funds:

Public Act 04-2 (May Special Session) authorized the establishment of new special revenue funds relative to grants and restricted accounts. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund as "Federal and Other Grants."

Federal and Other Restricted Accounts Fund:

Receipts:

Federal and Other Restricted Accounts Fund receipts consisted primarily of Federal grants, Industries' workshop sales, and vending operations that included machine commission receipts and vending site sales. Receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Federal grants	\$0	\$2,632,018	\$3,025,501
Industries' workshop sales	0	426,253	212
Vending operations	0	2,296,940	2,243,173
All other	<u>0</u>	<u>131,784</u>	<u>122,991</u>
Total Receipts	<u>\$0</u>	<u>\$5,486,995</u>	<u>\$5,391,877</u>

The increase in receipts during the 2004 fiscal year is due to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, receipts formerly charged to the General Fund were charged to this newly established

special revenue fund. Although the Agency's Industries Division was eliminated in January 2003, the Agency continued to collect outstanding receivables during the 2003-2004 fiscal year.

Expenditures:

Expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Federal	\$0	\$2,408,522	\$3,112,162
Other than Federal:			
Vending Facility program	0	2,660,584	2,838,909
All other accounts	0	32,581	43,856
Total Expenditures	<u>\$0</u>	<u>\$5,101,687</u>	<u>\$5,994,927</u>

The increase in expenditures during the 2004 fiscal year is due to a change in accounting procedures resulting from the implementation of a new State accounting system. As explained above, expenditures formerly charged to the General Fund were charged to this newly established special revenue fund. The increase in expenditures during the 2004-2005 fiscal year was due primarily to the hiring of staff charged to the Vocational Rehabilitation Program.

Vending Facilities Operators' Fringe Benefit Program Fund:

Under Section 10-303 of the General Statutes, authority is granted to BESB to operate food service facilities, vending stands and vending machines on property owned or leased by the State or any municipality. The primary purpose of this program is to provide entrepreneurial opportunities to blind individuals by providing vending facility sites for their use under BESB's Business Enterprise Program. As of June 30, 2005, forty-five vending facility operator sites were in operation.

BESB uses the Vending Facilities Operators' Fringe Benefit Program Fund (12015) and Federal and Other Restricted Accounts Fund (12060) with a private restricted contribution account (SID 35149) to account for vending facility operations. Vending machine commissions earned at Federal locations were deposited to Fund 12015 and were restricted primarily for the payment of vendor operators' fringe benefit costs. SID 35149 was used to account for all other vending machine commissions. Expenditures from this account were primarily for program operating costs including establishing and maintaining vendor operator locations. Although BESB has continued to expand and increase its vending machine operations under its statewide contract with Coca-Cola, receipts decreased during the 2004-2005 fiscal year due to a decrease in sales in the industry as a whole. A summary of cash transactions for both vending operating accounts follows:

	<u>2003-2004</u>		<u>2004-2005</u>	
	<u>12015</u>	<u>SID 35149</u>	<u>12015</u>	<u>SID 35149</u>
Beginning cash balance	\$ 23,933	\$ 3,537,326	\$ 41,412	\$ 3,173,682
Receipts	18,484	2,296,940	18,809	2,243,173
Expenditures	(1,005)	(2,660,584)	(36,692)	(2,838,909)
Ending cash balance	<u>\$ 41,412</u>	<u>\$ 3,173,682</u>	<u>\$ 23,529</u>	<u>\$ 2,577,946</u>

CONDITION OF RECORDS

Our review of the records of the Board of Education and Services for the Blind revealed the following areas that warrant comment.

Time and Attendance Records:

Criteria: Paid leave should be accrued and used in accordance with State Personnel Regulations and applicable bargaining unit contracts. Sound business practices require that time and attendance information be recorded accurately and that adjustments be properly documented.

Condition: Our review of time and attendance records for thirty employees disclosed errors in the accrued leave balances of seventeen employees. The errors noted include the following:

- incorrect accrual rates;
- errors in posting time used;
- use of leave time that was not available;
- inaccurate or unsupported balance adjustments;
- accrual of time in excess of the maximum allowed.

Effect: Employees' accumulated leave balances were incorrect.

Cause: It appears that data entry errors were made and employees have not been properly trained in the use of Core-CT Human Resource Management System.

Recommendation: The Agency should institute procedures to ensure that accrued leave balances are accurately maintained. (See Recommendation 1.)

Agency Response: "The Agency agrees with this finding. The payroll function for BESB now resides within the Department of Administrative Services (DAS) pursuant to Sections 60 (c) and (d) of Public Act 05-251. The data entry errors identified within the audit review have been forwarded to the Payroll Unit at DAS for corrective action."

Property Control and Reporting:

Criteria: Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory account in the form prescribed by the State Comptroller. The State Property Control Manual requires that all State agencies have policies and procedures in place to ensure that the State's property, plant and equipment are properly managed. The Property Control Manual specifies requirements and standards that State agencies' property control systems must comply with including the taking of annual

physical inventories, the reporting of surplus property to the State and Federal Property Distribution Center, and the preparation of Form CO-853, Report of Loss or Damage to Real and Personal Property (Other than Motor Vehicles), to report losses/damages to property other than vehicles pertaining to theft, vandalism, criminal malicious damage, missing property (cause unknown) or damages caused by wind, fire or lightening.

The Agency is required to transmit annually, on or before October first, to the Comptroller a detailed inventory, as of June thirtieth, of all property, real or personal, owned by the State and in custody of such department.

In July 2005 most State Agencies began using the Core-CT Asset Management module to track inventory.

Condition:

Our review of twenty-five inventory items randomly sampled from the Agency's inventory listing and thirty-three items identified by a random inspection of the Agency premises disclosed that one item could not be physically located, five items were not found in the location specified on the fixed inventory listing, and nine items lacked inventory tags. Our review also disclosed that the Agency's inventory records have not been updated to include the results of the physical inventory inspection performed in September 2005. In addition, we noted ninety-three fixed inventory items totaling \$201,638 that have not been entered into the Core-CT Asset Management module.

Our review of the CO-59 Fixed Assets/Property Inventory Report for the fiscal years ended June 30, 2004 and 2005, disclosed the following:

- Deletions totaling \$571,879 for furnishings and equipment for the fiscal year ended June 30, 2004, were unsupported.
- One hundred fifty items totaling \$287,824, which had been reported as surplus property to the State and Federal Distribution Center, were not included in the deletions reported for furnishings and equipment for the fiscal year ended June 30, 2005. In addition, three items totaling \$4,532 were incorrectly included in the deletions figure reported.
- Of the \$10,278,617 reported for furnishings and equipment for the fiscal year ended June 30, 2005, \$155,553 was unsupported.

Effect:

Deficiencies in the control over the equipment inventory result in a decreased ability to properly safeguard State assets. The Agency is not in compliance with the requirements of the State Property Control Manual and the Agency's report of inventory to the State Comptroller was unsupported.

Cause:

We were informed that due to lack of staff, the Agency has not entered the results of the physical inventory inspection into Core-CT and has not

entered the remaining inventory items into Core-CT. We were unable to determine the cause of the discrepancies in the supporting documentation for the CO-59 Fixed Assets Property Inventory Report.

Recommendation: The Agency should improve property control, should institute procedures to ensure that all inventory items are reported on Core-CT, and should institute procedures to ensure that the inventory reported to the State Comptroller is properly supported. (See Recommendation 2.)

Agency Response: “The Agency agrees with the finding. The continued lack of business office staffing at the Agency over the past year directly impacted on the capacity to fully document the Agency inventory, which exceeds 15,000 items. The Agency did submit a request to establish a full time storekeeper position for the 2006 budget year, with the intent to utilize this position for the reconciliation of the inventory. However, due to the transfer of Agency business office functions to the Department of Administrative Services under Public Act 05-251, all business office positions were held vacant until a determination was made as to which functions were to be transferred and which functions were to remain at the Agency. In October, the Agency was informed that inventory functions would remain at BESB for the present, and permission to proceed with the recruitment for a full time storekeeper dedicated exclusively to the reconciliation of the inventory was subsequently granted. The Agency is in the process of filling this position. The Agency is also updating the inventory/asset management control procedures to address these audit findings.”

Expenditure Payments:

Background: The state-wide Core-CT accounting system requires that Agencies record the date of receipt of goods or services on the expenditure voucher. During the 2004 fiscal year agencies were instructed to record the receipt date in the “Accounting Date” field of the voucher. During the 2005 fiscal year agencies were instructed to record the receipt date in the “Receipt Date” field of the voucher.

Criteria: The State Accounting Manual establishes guidelines for processing vendor payments. The guidelines include criteria for determining the correct receipt date to be used in the processing of state invoices. Proper completion of receipt dates is important because receipt dates are used to calculate vendor accounts payable for inclusion in year-end GAAP Reporting.

Condition: Our review of sixty-five expenditure transactions disclosed that in thirty-three transactions the accounting date or receipt date was recorded incorrectly on the voucher.

Effect: Incorrect accounting and receipt dates could result in the improper reporting of year-end vendor payables and a lack of compliance with Generally Accepted Accounting Principles.

Cause: It appears that the Agency was reporting the date that the transaction was approved by a supervisor or counselor as the receipt date rather than the date that actual goods or services were received.

Recommendation: The Agency should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT. (See Recommendation 3.)

Agency Response: “The Agency agrees with this finding and has notified the Department of Administrative Services, where this function presently resides. Corrective action has been implemented.”

Revenue:

Criteria: Section 4-32 of the General Statutes requires that an agency shall account for receipts within twenty-four hours and if the total receipts are \$500 or more, deposit the same within twenty-four hours of receipt. Total daily receipts of less than \$500 may be held until the receipts total \$500, but not for a period of more than seven calendar days. The Comptroller’s State Accounting Manual requires agencies to keep a receipts journal that indicates the date of receipt.

Due to the way deposits are processed in the state-wide Core-CT accounting system, it is not possible for checks or cash to be recorded within twenty-four hours of receipt. On a daily basis, the bank deposit information is entered into Core-CT through an interface between the bank and State. The “Entered Date” recorded on Core-CT represents the date the deposit information was loaded into the system and is ready to be recorded by direct journal. During the audit period, the “Journal Posting Date” was the date the posting process was run and the journal actually appeared in the General Ledger.

Condition: During the 2003-2004 fiscal year, the Agency did not maintain a complete cash receipts journal that indicated the date of receipt. In addition, because supporting documentation was not consistently date stamped, we were unable to determine the initial receipt date of receipts. We did note that a cash receipts log was maintained during the 2004-2005 fiscal year.

We noted that eleven receipts totaling \$6,207 were posted to the General Ledger between seven and thirteen days after the information was available to be recorded on Core-CT.

- Effect:* Without a cash receipts log, it is unknown whether Agency receipts were deposited in a timely manner as required by Section 4-32 of the General Statutes and incomplete receipts records are in violation of the State Comptroller's requirements. There was non-compliance with Section 4-32 of the General Statutes with regard to late accounting.
- Cause:* We were informed that the Agency believed that the maintenance of a receipt log or date stamp was not necessary with the implementation of the Core-CT system. We were informed that receipts were not accounted for in a timely manner due to lack of staff and because Agency personnel believed that they had until month end to post transactions based on the Core-CT month end closing instructions.
- Recommendation:* The Agency should institute procedures to ensure that receipts are accounted for in a timely manner. (See Recommendation 4.)
- Agency Response:* "The Agency agrees. The Agency had the misunderstanding that a receipt log was no longer necessary with the switching to the Core-CT accounting system. This was corrected in fiscal year 2005 and is current practice. The accounts receivable section of the BESB business office was transferred to DAS under Public Act 05-251. Both BESB and DAS have procedures in place to address the proper logging in and depositing of payments received."

Revenue Reconciliations:

- Background:* Under Section 10-303 of the General Statutes, authority is granted to BESB to operate food service facilities, vending stands and vending machines on property owned or leased by the State or any municipality. Effective July 1, 1999, BESB entered into a contract with one vendor to service all vending machine sites under its authority. Vending commissions are remitted to BESB on a monthly basis based on the number of items stocked in the vending machines.
- Criteria:* Sound business practice requires the reconciliation of receipts to supporting commission reports in a timely manner.
- Condition:* The Agency does not appear to be reconciling on a monthly basis the vending commissions received from its Statewide vending contractor to the monthly sales reports received. We did note that the Agency contracts with an Independent Public Accountant to review the commissions received on an annual basis.
- Effect:* The Agency may not receive all revenue it is entitled to receive in a timely manner.
- Cause:* Due to changes in Agency personnel, this procedure was not performed.

Recommendation: The Agency should institute procedures to ensure that all vending commissions received are reconciled to monthly sales reports in a timely manner. (See Recommendation 5.)

Agency Response: “The Agency agrees with this finding. As noted in the auditor’s summary, the agency does utilize an external, approved state vendor to audit the Business Enterprise Program to ensure that all commissions due to the agency are paid. However, the Agency does recognize the auditor’s conclusion that reconciliation should also be done on a monthly basis and corrective action has been implemented.”

State Aid Grants:

Criteria: Section 10-295 of the General Statutes requires that BESB expend funds from the educational aid for blind and visually impaired children account using the following priority system:

- (1) Funds must be used first to pay for goods and services such as specialized books;
- (2) Remaining funds may be used to pay for teaching services that school districts request directly from BESB;
- (3) Remaining funds shall then be used to cover on a pro rata basis, the actual cost with benefits of retaining a teacher of the visually impaired, directly hired or contracted by the school districts which opt to not seek such services from BESB. Reimbursement shall occur at the completion of the school year, using a caseload formula with twenty-five points allowed for the maximum reimbursable amount as established by the agency annually;
- (4) Remaining funds in such account, not expended to fund the services set forth above, shall be distributed to the school districts on a pro rata formula basis with a two-to-one credit ratio for Braille-learning students to non-Braille-learning students in the school district based upon the annual child count data.

The Department’s Children’s Services Policy Manual states that school districts that choose to make their own arrangements for the provision of a certified teacher of the visually impaired may seek reimbursement for the cost of the teacher with benefits, based on the following conditions:

- The teacher, whether contracted, or hired directly by the School District, must hold a valid certification as a teacher of the partially sighted or teacher of the blind, issued through the Department of Education, State of Connecticut;
- The School District must submit written certification of the salary or contractual rate paid to the teacher, and calculate the fringe benefit costs associated with the actual salary of the teacher or contractor;

- The School District must submit written certification regarding the number of Braille learning and non-Braille learning students that are directly served by each certified teacher of the visually impaired hired or contracted by the School District.
- Only students directly served by the certified teacher of the visually impaired on an assigned caseload, under an Individualized Education Program or Individualized Service Plan, will be included in the formula reimbursement process.
- BESB will distribute forms to each School District that has opted for direct hiring or contracting of a certified teacher of the visually impaired by no later than December 1st of each year, with a due date of December 31st. The maximum reimbursement cost for a certified teacher of the visually impaired shall not exceed the actual cost of a BESB hired Education Consultant 2 at the maximum pay step, plus the cost of the full fringe benefit rate associated with this salary level.
- BESB shall calculate the level of reimbursement on a pro rata formula basis, with twenty-five points representing full reimbursement for one full time certified teacher of the visually impaired, up to the maximum agency reimbursement for the year. Points shall be assigned based upon six points for each Braille learning student on the teacher's caseload and one point for each non-Braille learning student on the teacher's caseload, as noted in the Individualized Education Program or Individualized Service Plan of each student. For school districts that employ or contract for a teacher of the visually impaired at less than full time status, a pro rata credit shall be used to first determine the adjusted caseload points that would be associated with the part time status of the teacher before applying the reimbursement formula. Reimbursement in these part time situations shall be on a pro rata basis using the percentage of full time equivalent status that the certified teacher of the visually impaired works directly for or is contracted for by the school district.

The Department's Children's Services Policy Manual Requires that year-end disbursements shall be distributed to the school districts based upon the annual child count data provided to the State Department of Education on or about December 1st of the current school year. BESB shall request of school districts in April of each year a listing of all eligible children who are legally blind or visually impaired as reported to the State Department of Education in the annual child count report. In submitting this data, each school district will identify those students who are learning Braille as noted in their Individualized Service Plan or Individualized Education Program. The current Individualized Service Plan or Individualized Education Program for each student will be submitted to BESB along with the child count data. In addition, in order to be eligible for funding disbursements for each student, the following information must be submitted, where applicable on forms provided by BESB:

- An annual summary on the education progress and placement of each student, on an agency-supplied form;
- Copies of the summary of the Planning and Placement Team;
- An annual Learning Media Assessment is required for any legally blind or visually impaired child who is not receiving instruction in Braille, regardless of age or presence of additional disabilities;
- A narrative summary of transition school to work activities offered to the student (or explanation of why no services were offered if applicable), including a summary of those activities and the outcomes achieved;
- A narrative summary of the expanded core curricula and extracurricular activities provided to the student (or explanation of why no services were offered if applicable);
- An annual reading rate assessment for each child.

Condition:

Our review of sixteen teacher reimbursements totaling \$652,351 for the fiscal years ended June 30, 2004 and 2005, disclosed the following:

- For three payments, the local school districts were reimbursed for the full amount requested. The Agency did not pro-rate the reimbursements based on the teachers' caseloads and number of hours worked.
- For one payment, the Agency miscalculated the amount due to the local school district by \$13,982.
- For one payment, a local school district received an additional \$36,386 that was due to another school district. The other school district was not paid by BESB.
- For one payment, an Individualized Education Plan was not on hand for one child.
- For one payment, a school district was reimbursed for the costs associated with teaching one child who did not attend the school district and attended private school. In addition, there was no Individualized Education Plan on hand for this child.

We reviewed the Agency's year-end distribution of the funds remaining in the children's services account. We reviewed the supporting documentation used by the Agency to determine the number of points associated with each school district to allocate funds on a pro-rata basis. Our review of 142 expenditures totaling \$2,875,223 and 140 expenditures totaling \$3,333,217 for the fiscal years ended June 30, 2004 and 2005, respectively, disclosed the following:

- \$75,241 and \$339,741 for the 2003-2004 and 2004-2005 fiscal years, respectively, remained in the children's services account at the end of the year and was not distributed to eligible school districts.

- The Agency did not maintain a listing, as of December 1st, of all eligible children who are legally blind or visually impaired, as provided by each school district, to support the year-end disbursement calculations for the 2003-2004 fiscal year. The Agency did not maintain a similar listing to support year end disbursements made to 111 towns for the 2004-2005 fiscal year.
- Our review disclosed unexplained variances between the points paid and the supporting documentation for thirty-four and forty-three school districts for the 2003-2004 and 2004-2005 fiscal years, respectively.
- In six instances, no payments were made to local school districts although there were students listed on the Agency's supporting worksheets and there was no documentation on hand to explain why payments were not made. The points associated with three of the school districts were considered in the Agency's calculations of the total points for all school districts.
- In two instances, the Agency considered the points of two school districts that were ineligible for payments in the total points used to calculate the amount to disburse to each school district. It appears that payments were not made to these two school districts.
- For two payments, the dollar amount paid did not agree with the dollar amount per the Agency's supporting disbursements worksheet and there was no documentation to explain the reason for the variances.
- One school district received an additional \$50,704 that was due to another school district. The other school district was not paid by BESB.
- Our review of the case files of ten children disclosed that Individual Education Plan and Planning Placement Team Minutes were not on hand for two children.

Effect:

There was non-compliance with the General Statutes and the Agency's Children's Services Policy Manual. Payments for teacher reimbursements totaling \$50,368 were overpaid, \$36,386 was underpaid, and \$73,838 were unsupported. Since documentation was not available to determine the amount of overpayments associated with the three towns paid for the entire teacher reimbursement request, we are considering the entire amounts to be unsupported.

Since the entire year-end balance in the children's services account was not spent, eligible school districts did not receive all of the money to which they were entitled.

Regarding the year end disbursements, since the amount paid to each town is based, in part, on the total number of eligible children in the State, the amounts paid to the school districts may have been incorrect. We did not find enough evidence to positively determine what the correct payments

should have been. In addition, we are concerned that it appears that only one individual, who is no longer employed, was aware of how the payments were determined.

Cause: The Agency did not follow the procedures in its Children’s Services Policy Manual and there appears to be a lack of supervisory oversight. It appears that the entire balance in the children’s services account was not spent because the Agency subtracted outstanding purchase orders from the amount available to disburse and some purchase orders were not paid until the following year. In addition, payments for year-end disbursements for two towns for the 2004 fiscal year were not paid until the 2005 fiscal year. In the two instances in which school districts received additional payments that were due to other school districts, we were informed that the payments were combined at the requests of the school districts.

Recommendation: The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments. (See Recommendation 6.)

Agency Response: “The Agency agrees with this finding. The transition from the prior town bill process to the new process has been difficult for the Agency to implement with existing staffing levels. Only one part-time retiree resource was available for this assignment, and that individual was also assigned to the inventory project. The Agency did request and ultimately received approval for a clerk typist position that has been filled recently. This position is dedicated to the process of gathering and documenting all required materials. Detailed records will be maintained for audit inspection in all future years. As the teacher reimbursement and town disbursement process has now transferred to the Department of Administrative Services under Public Act 05-251, BESB staff shall work closely with DAS staffing to ensure that cross-checking for accuracy of data and payment processing occurs. In addition, based upon documentation provided by the Auditors, the Agency is pursuing the recouping of overpayments that were noted.”

Electronic Data Processing – Disaster Recovery Plan:

Criteria: Sound business practices include provisions that organizations have comprehensive disaster recovery plans in place to enable critical operations to resume activity within a reasonable period after a disaster.

Condition: Although the Agency has a disaster recovery plan in place that includes the off-site storage of back-up tapes and its master client configuration data, formal arrangements establishing an alternative processing site have not been finalized.

Effect: In the event of a disaster, the Agency’s ability to operate satisfactorily and serve its clients is diminished without a comprehensive formal disaster recovery plan.

Cause: We were informed that the Agency is waiting for assistance from the Department of Information Technology.

Recommendation: The Agency should develop a comprehensive disaster recovery plan that includes formal arrangements establishing an alternative processing site. (See Recommendation 7.)

Agency Response: “The Agency agrees with this finding. In the past year, the Agency was successful in the implementation of off-site data tape storage and also successfully tested the recovery process. The Agency has been working with the Department of Information Technology to finalize the off-site disaster recovery location requirements. Meetings have been ongoing with testing and implementation anticipated in the coming months.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Agency should develop a current comprehensive disaster recovery plan. This recommendation is being repeated. (See Recommendation 7.)
- The Agency should improve property control, should perform annual physical inventories, and should institute procedures to ensure that the inventory reported to the State Comptroller is submitted in a timely manner and is properly supported. This recommendation is repeated to reflect current conditions. (See Recommendation 2.)
- The Department should follow established procedures to ensure that expenditures are processed in accordance with the State Accounting and Purchasing Manuals. The Agency has complied with this recommendation.
- The Department should institute procedures to ensure that payments are in compliance with the General Statutes. The Agency has complied with this recommendation.
- The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments. This recommendation is repeated to reflect current conditions. (See Recommendation 6.)
- The Agency should institute procedures to ensure that all records can be located and are retained in accordance with the State records retention requirements. The Agency has complied with this recommendation.
- BESB should maintain adequate accounts receivable records and pursue all amounts owed by outside parties. This recommendation is being repeated in part. (See Recommendation 5.)
- The Agency should institute procedures to ensure that all reports required by Statute are prepared and submitted in a timely manner or should seek legislation to have the General Statutes amended. The Agency has complied with this recommendation.

Current Audit Recommendations:

- 1. The Agency should institute procedures to ensure that accrued leave balances are accurately maintained.**

Comment:

Our review of time and attendance records for thirty employees disclosed errors in the accrued leave balances of seventeen employees.

- 2. The Agency should improve property control, should institute procedures to ensure that all inventory items are reported on Core-CT, and should institute procedures to ensure that the inventory reported to the State Comptroller is properly supported.**

Comment:

Our review of twenty-five inventory items randomly sampled from the Agency's inventory listing and thirty-three items identified by a random inspection of the Agency premises disclosed that one item could not be physically located, five items were not found in the location specified on the fixed inventory listing, and nine items lacked inventory tags. Our review also disclosed that the Agency's inventory records have not been updated to include the results of the physical inventory inspection performed in September 2005. In addition, we noted ninety-three fixed inventory items totaling \$201,638 that have not been entered into the Core-CT Asset Management module. Our review also disclosed that several amounts reported on the CO-59 Fixed Assets/Property Inventory report were unsupported.

- 3. The Agency should institute procedures to ensure that the proper receipt date is recorded on vouchers processed through Core-CT.**

Comment:

Our review of sixty-five expenditure transactions disclosed that in thirty-three transactions the accounting date or receipt date was recorded incorrectly on the voucher.

- 4. The Agency should institute procedures to ensure that receipts are accounted for in a timely manner.**

Comment:

During the 2003-2004 fiscal year, the Agency did not maintain a complete cash receipts journal that indicated the date of receipt. In addition, because supporting documentation was not consistently date stamped, we were unable to determine the initial receipt date of receipts. We did note that a cash receipts log was maintained during the 2004-2005 fiscal year. We noted that eleven receipts totaling \$6,207 were posted to the General Ledger between seven and thirteen days after the information was available to be recorded on Core-CT.

- 5. The Agency should institute procedures to ensure that all vending commissions received are reconciled to monthly sales reports in a timely manner**

Comment:

The Agency does not appear to be reconciling on a monthly basis the vending commissions received from its Statewide vending contractor to the monthly sales reports received. We did note that the Agency contracts with an Independent Public Accountant to review the commissions received on an annual basis.

- 6. The Board of Education and Services for the Blind should review and strengthen internal controls over Children Services Grant payments.**

Comment:

Our review of Children Services Grant payments disclosed amounts that were overpaid or unsupported.

- 7. The Agency should develop a comprehensive disaster recovery plan that includes formal arrangements establishing an alternative processing site.**

Comment:

Although the Agency has a disaster recovery plan in place that includes the off-site storage of back-up tapes and its master client configuration data, formal arrangements establishing an alternative processing site have not been finalized.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Board of Education and Services for the Blind for the fiscal years ended June 30, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Board of Education and Services for the Blind for the fiscal years ended June 30, 2004 and 2005, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial 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 Board of Education and Services for the Blind 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 Board of Education and Services for the Blind is the responsibility of the Board of Education and Services for the Blind's management.

As part of obtaining reasonable assurance about whether the Agency 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 Agency's financial operations for the fiscal years ended June 30, 2004 and 2005, 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 Board of Education and Services for the Blind 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 Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Board of Education and Services for the Blind'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 Agency'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 Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency'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: errors in time and attendance records; inadequate property control and reporting; unsupported and overpaid Children Services Grant payments; and the lack of a disaster recovery plan.

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 Agency'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 Agency'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 to be a material or significant weakness: unsupported and overpaid Children Services Grant payments.

We also noted other matters involving internal control over the Agency'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 cooperation and courtesies extended to our representatives by the personnel of the Board of Education and Services for the Blind during this examination.

Lisa G. Daly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts