

STATE OF CONNECTICUT



*AUDITORS' REPORT
STATE BOARD OF EDUCATION AND
SERVICES FOR THE BLIND
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 and 2007*

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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October 23, 2009

**AUDITORS' REPORT
STATE BOARD OF EDUCATION AND
SERVICES FOR THE BLIND
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 and 2007**

We have examined the financial records of the State Board of Education and Services for the Blind for the fiscal years ended June 30, 2006 and 2007.

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. During the 2005-2006 fiscal year, BESB's personnel, payroll, affirmative action and business office functions were transferred to the Department of Administrative Services' Small Agency Resource Team.

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, and, Brian S. Sigman served as Executive Director.

As provided by Section 10-293 of the General Statutes, a board assisted the Executive Director in overseeing operations. Prior to January 4, 2007, the Board consisted of seven members. Since that date, there have been 13 members. Board members as of June 30, 2007, were:

Ex Officio Member:

Michael P. Starkowski, Commissioner, Department of Social Services

Appointed Members:

Eileen Akers
Christine Boisvert
William DeMaio
M. Carolyn Dodd
Carol Gillispie
Patrick J. Johnson, Jr.
Jay Kronfeld
Chris Kuell, Ph.D.
Randa Nesman
Maria Russo
Alan N. Sylvestre, Chairman
Betty Woodward

In addition to the Board members listed above, Mary R. Brunoli also served on the Board during the audited period.

RÉSUMÉ OF OPERATIONS:

Funding for Agency programs was provided mainly by State General Fund appropriations and the Federal and Other Restricted Accounts Fund.

General Fund:

Receipts:

General Fund receipts for the fiscal years ended June 30, 2006 and 2007, totaled \$14,642 and \$18,464, respectively, as compared to \$3,584 for the fiscal year ended June 30, 2005. Receipts consisted mainly of refunds of expenditures.

Expenditures:

General Fund expenditures for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
State aid grants			
Educational aid for blind and visually handicapped children	\$5,418,772	\$4,983,983	\$4,754,860
Vocational rehabilitation	628,811	592,674	413,971
Enhanced Employment	385,792	511,782	434,948
Other	<u>3,837</u>	<u>92,253</u>	<u>92,253</u>
Total State Aid Grants	6,557,263	6,200,776	5,718,225
Personal services and employee expenses	4,467,090	4,654,120	5,293,297
Purchased and contracted services	2,035,981	2,261,595	2,600,243
Equipment, other	<u>239,699</u>	<u>294,515</u>	<u>252,547</u>
Total General Fund Expenditures	<u>\$13,300,033</u>	<u>\$13,411,006</u>	<u>\$13,864,312</u>

State aid grants are provided for in Sections 10-295 through 10-310 of the General Statutes. Those Statutes provide for specialized vision-related instruction; educational programs, goods and services; and vocational rehabilitation services.

Special Revenue Funds:

The Agency utilized three special revenue funds during the audited period, the Federal and Other Restricted Accounts Fund, the Vending Facility Operators Fringe Benefits Fund, and, the Capital Equipment Purchase Fund. Expenditures from the Capital Equipment Purchase Fund totaled \$49,749 during the audited period. The other two funds are presented in more detail below.

Federal and Other Restricted Accounts Fund:

Receipts:

Federal and Other Restricted Accounts Fund receipts consisted primarily of Federal grants and vending machine commissions. Receipts for the two fiscal years examined and the prior fiscal year are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Federal grants	\$3,025,501	\$3,260,308	\$3,891,645
Vending operations	2,243,173	2,263,690	2,149,050
All other	<u>123,203</u>	<u>232,829</u>	<u>220,467</u>
Total Receipts	<u>\$5,391,877</u>	<u>\$5,756,827</u>	<u>\$6,261,162</u>

The increase in receipts in the 2006-2007 fiscal year was mainly in the Vocational Rehabilitation Federal grant receipts.

Expenditures:

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Federal	\$3,112,162	\$3,128,561	\$3,365,310
Other than Federal:			
Vending Facility program	2,838,909	2,754,580	2,187,311
All other accounts	<u>43,856</u>	<u>306,092</u>	<u>198,864</u>
Total Expenditures	<u>\$5,994,927</u>	<u>\$6,189,233</u>	<u>\$5,751,485</u>

Vending Facility Program:

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, 2007, forty-eight vending facility operator sites were in operation.

BESB used the Federal and Other Restricted Accounts Fund, and, the Vending Operators Fringe Benefits Fund to account for the vending facility program. Total program receipts were \$2,394,352 and \$2,292,578 during the fiscal years ended June 30, 2006 and 2007, respectively. Total expenditures were \$2,754,580 and \$2,187,311 during the same periods. Receipts were mainly from vending machine commissions from the Agency's statewide contract with Coca-

Cola and expenditures were primarily for program operating costs including establishing and maintaining vendor operator locations.

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.

Property Control and Reporting:

Criteria: Section 4-36 of the Connecticut General Statutes requires each State agency to keep inventory records in the form prescribed by the State Comptroller and to annually submit to the Office of the State Comptroller an annual report of its inventory balances [Form CO-59].

The State Property Control Manual prescribes the inventory records and procedures.

Beginning in the 2005-2006 fiscal year the Agency began maintaining its inventory records in the Core-CT Asset Management Module. Core-CT is now the official record for the Agency's inventory.

Condition: Our review of the CO-59 Fixed Assets/Property Inventory Report and records in Core-CT for the fiscal years ended June 30, 2006 and 2007, disclosed the following deficiencies:

BESB did not reconcile the following amounts for additions and ending balances. Without reconciliations, the accuracy of inventory records and reporting could not be determined.

	<u>2005-2006</u>	<u>2006-2007</u>
Additions:		
Core-CT Asset Mgmt	\$ 493,869	\$ 813,461
Core-CT General Ledger	\$ 603,796	\$ 540,943
CO-59 Report	\$ 530,267	\$ 475,805
Ending Balances:		
Core-CT Asset Mgmt	\$10,575,664	\$ 8,651,704
CO-59 Report	\$ 8,426,121	\$ 8,012,898

We selected a sample of 25 equipment items shown as being located in the BESB central office in Core-CT inventory records. We physically inspected 19 of those items; however, the Agency was unable to locate six of the 25 items (24 percent) at the time of our inspection. Seven months later we were informed that the Agency had determined that four of the six items were with clients, one had been disposed of in 2000, and, one was not located.

- 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. In addition, the Agency's report to the State Comptroller was unsupported.
- Cause:* The cause was not determined.
- Recommendation:* The Agency should improve its inventory recordkeeping and reporting. (See Recommendation 1.)
- Agency Response:* "The Agency partially agrees with this finding. Of the six items that were not found upon auditor inspection, the Agency has documentation reflecting the status of four of those items. Of the remaining two items, records indicate that one of the items was damaged. The Agency further notes that CO-59 reports for fiscal years 2006 and 2007 were modified and resubmitted to the Comptroller, reflecting changes in dollar values that resulted from the removal of software and equipment that had been previously incorrectly added to Core-CT as inventory, corrections for shipping costs for assets that needed to be added into Core-CT for items previously purchased, and corrections for assets that were added into Core-CT to correct prior year errors. These corrections were necessary to correct prior year's audit findings. However, by making these corrections reflecting the actual fiscal year for the item's entry or removal from inventory, records for prior year end balances changed."

Year-End Disbursements:

- Criteria:* Section 10-295, subsection (a), of the General Statutes requires that:
- All residents of this State, regardless of age, 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.
- Section 10-295, subsection (b), of the General Statutes requires that:
- BESB shall expend funds for the services made available pursuant to subsection (a) of this section from the educational aid for blind and visually handicapped children account (Account) in accordance with the provisions of this subsection. The expense 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 remaining in the Account, not expended to fund services set forth within subdivisions (2), (3) and (5) of this subsection, shall be distributed to the school districts provided the school districts submit an annual progress report for each eligible child in a format prescribed by the agency.

Condition: For the 2005-2006 fiscal year, the Agency distributed \$3,023,000 of the remaining balance in the educational aid for blind and visually handicapped children account. After the above distribution, there was a remaining balance of \$475,242 as of June 30, 2006, that was not distributed.

The amount distributed was calculated at \$6,400 per eligible child. That amount is the maximum allowed for services under Section 10-295, subsection (a), of the General Statutes. However, the General Statutes are not worded in a manner that clearly state that the \$6,400 maximum applies both to services provided for an individual client, and to the distribution of funds remaining in the account which are distributed to the school districts without the same use restrictions as for other payments from BESB.

Effect: Of the remaining balance in the educational aid for blind and visually handicapped children account as of June 30, 2006, \$475,242 was not distributed to school districts.

Cause: We were informed that the entire remaining balance was intentionally not distributed because to distribute an amount over \$6,400 per client would have violated the Statutes.

Recommendation: Because BESB has taken steps to seek a change to the statutory language to remove any possible misinterpretation of the statute, we recommend that the Agency continue to seek clarification of Section 10-295 of the General Statutes so that it clearly states any limit to the distributions of the remaining balance in the educational aid for blind and visually handicapped children account. (See Recommendation 2.)

Agency Response: “The Agency respectfully disagrees with this finding but agrees to pursue the course of action outlined in the Auditor’s recommendation. The Agency notes that Conn. Gen. Stat. Sec. 10-295 (b) establishes a \$6,400 per pupil cap on expenditures by BESB. Whereas there are explicit exceptions to this cap in several of the following subdivisions of the statute, there is no such exception in 10-295(b)(6), the subdivision in question in this finding. Therefore, the agency has applied the \$6,400 cap to expenditures made under 10-295 (b)(6) in obedience to this standard rule of statutory construction, to remain in compliance with the law. In order to avoid any future confusion on this point, however,

BESB will seek the statutory clarification recommended by the Auditors.”

Posting of Expenditures - Date of Receipt:

Criteria: The State Accounting Manual establishes guidelines for processing vendor payments. Expenditure Section 1.7 includes 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: The receipt date was recorded incorrectly on Core-CT for nine out of our sample of 30 payments to vendors (30 percent).

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

Cause: Although the Agency took action to correct the cause of our prior audit finding in this area, we were informed that further training of staff is needed on the proper dates to record for differing types of services 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. For the payment of vending commissions to Business Enterprise Managers, the Agency has been treating them as “State aid and other grants”. The receiving date used was the last date of the period they cover. This audit finds that vending commissions should be treated as “prizes, awards, claims, loans”. The recommendation is to use the date that the commission check is deposited into the Business Enterprise account, as there is no obligation to pay a commission until the original payment from the vending company has been deposited. This is new information that the Agency was previously unaware of. The Agency will fully comply.

The Business Enterprise Program [BEP] also pays insurance benefits for the BEP Managers. Those receipt dates have been the last day of the period covered. That will now be changed to the first day of the period covered to resolve this audit finding.”

Posting of Revenue:

Criteria: Section 4-32 of the General Statutes requires that an agency shall account for receipts within 24 hours of receipt.

The Office of the State Treasurer's January 6, 2006, Memorandum on Deposit Reporting Timeframes requires that agencies should complete the confirmation of bank data and journalizing steps by the end of the day that the deposit information is received by the agencies through the Core-CT accounting system. (The Department of Administrative Services (DAS) performs this function for BESB.)

Due to the way deposits are processed in the Core-CT system, it is not possible for receipts to be fully recorded within 24 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 was ready to be recorded by the agency. The Posted Date represents the date that the agency recorded the receipts on the General Ledger. Therefore, the posted date for the deposit should be no later than one day after the entered date.

Condition: We noted that nine out of 13 receipts in our sample were posted to the General Ledger by DAS between two and 12 days after the information was available to be recorded on Core-CT.

Effect: There was noncompliance with Section 4-32 of the General Statutes with regard to late accounting for receipts.

Cause: The cause was not determined.

Recommendation: Receipts should be accounted for in a timely manner. (See Recommendation 4.)

Agency Response: "The Agency agrees with the audit finding. The deposits were not always posted to Core-CT within the allowable time frame because of the volume of deposits that DAS is responsible for with the 22 different agencies that are served. To resolve this issue, DAS has requested a time extension from the Assistant Treasurer. If DAS is granted this waiver from having to post all receipts to Core-CT the following day, this audit issue should disappear from future audits."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

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

This recommendation was implemented.

- 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.

This recommendation is being modified and shown as Recommendation 1.

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

This recommendation is being repeated as Recommendation 3.

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

This recommendation is being modified and shown as Recommendation 4.

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

This recommendation was implemented.

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

This recommendation was implemented.

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

This recommendation was implemented.

Current Audit Recommendations:

1. Inventory recordkeeping and reporting should be improved.

Comment:

BESB did not reconcile the additions and ending balances between Core-CT and its annual CO-59 inventory report. Without reconciliations, the accuracy of inventory records and reporting could not be determined.

The Agency was unable to locate six of the 25 items we selected from Core-CT for physical inspection.

2. The Agency should continue to seek clarification of Section 10-295 of the General Statutes so that it clearly states any limit to the distributions of the remaining balance in the educational aid for blind and visually handicapped children account.

Comment:

For the 2005-2006 fiscal year, the Agency distributed \$3,023,000 of the remaining balance in the educational aid for blind and visually handicapped children account. After the above distribution, there was a remaining balance of \$475,242 as of June 30, 2006, that was not distributed.

The amount distributed was calculated at \$6,400 per eligible child. That amount is the maximum allowed for services under Section 10-295, subsection (a), of the General Statutes. However, the General Statutes are not worded in a manner that clearly state that the \$6,400 maximum applies both to services provided for an individual client, and to the distribution of funds remaining in the account which are distributed to the school districts without the same use restrictions as for other payments from BESB.

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

Comment:

The receipt date was recorded incorrectly on Core-CT for nine out of our sample of 30 payments to vendors (30 percent).

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

4. Receipts should be accounted for in a timely manner.

Comment:

We noted that nine out of 13 receipts in our sample were posted to the General Ledger, by DAS for BESB, between two and 12 days after the information was available to be recorded in Core-CT.

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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006 and 2007, 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Board of Education and Services for the Blind's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1 – Inventory Recordkeeping and Reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following item to be a material weakness: Recommendation 1 – Inventory Recordkeeping and Reporting.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Board of Education and Services for the Blind complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Board of Education and Services for the Blind's response to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Board of Education and Services for the Blind's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of Agency management, 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 and the Department of Administrative Services during this examination.

Elaine C. O'Reilly
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts