

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Table of Contents

| | |
|---|-----------|
| INTRODUCTION | 1 |
| COMMENTS | 1 |
| FOREWORD | 1 |
| Members of State Board of Education | 2 |
| Legislative Changes | 2 |
| RÉSUMÉ OF OPERATIONS | 3 |
| CONDITION OF RECORDS | 11 |
| Management of the Vocational Education Extension Fund | 11 |
| Student Activity Funds | 12 |
| Equipment and Real Property Management | 14 |
| Petty Cash Fund Travel Advances | 16 |
| Capitalization Procedures | 17 |
| Dual Employment | 18 |
| Use of Durational Project Managers | 19 |
| Attendance Procedures at the Regional Vocational Technical Schools | 20 |
| Teachers' Certification and Adult Education Program Fees | 21 |
| Other Matters | 23 |
| RECOMMENDATIONS | 24 |
| INDEPENDENT AUDITORS' CERTIFICATION | 29 |
| CONCLUSION | 31 |

January 13, 2004

**AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

We have made an examination of the financial records of the Department of Education for the fiscal year ended June 30, 2002. This report on our examination consists of the Comments, Recommendations and Certification which follow. Financial statements pertaining to the operations and activities of the Department of Education are presented on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Department's compliance with certain provisions of laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Education (hereafter "the Department") functions primarily under the provisions of Title 10 of the General Statutes. The Department, under the direction of the Commissioner of Education, serves as the administrative arm of the State Board of Education, established under Section 10-1 of the General Statutes. General supervision and control of the State's educational interests with respect to preschool, elementary and secondary education, special education, vocational education and adult education are included in the statutory responsibilities of the State Board. The fiscal duties of the Department of Education include the administration of State and Federal grants which are paid to local and regional educational agencies. The Department of Education also administers the State's Regional Vocational Technical School System.

Members of the State Board of Education:

Members of the Board as of June 30, 2002, were as follows:

| | <u>Term Expires February 28,</u> |
|-------------------------------------|----------------------------------|
| Craig E. Toensing, Chairperson | 2005 |
| Donald J. Coolican | 2005 |
| Patricia B. Luke | 2005 |
| Allan B. Taylor | 2005 |
| Amparo Adib-Samii | 2003 |
| Terri L Masters | 2003 |
| Janet M. Finneran, Vice-Chairperson | 2003 |
| Annika L. Warren | 2003 |
| Timothy J. McDonald | 2003 |

Non-voting members

| | |
|--|-----|
| Valerie F. Lewis, Commissioner, Department of Higher Education | (A) |
| Jennifer E. Chudy, Student member | (B) |
| Andrew Gladstein, Student member | (B) |

Note A:

Under the provisions of Section 10-1 of the General Statutes, the Commissioner of Higher Education serves as an ex-officio member without a vote.

Note B:

There are two non-voting student members. Each student's term expired on June 30, 2002.

Theodore S. Sergi served as Commissioner of Education during the audited period.

Legislative Changes:

Notable legislative changes, which took effect during the audited period, are presented below:

- **Public Act 01-170** – This act requires the education and higher education commissioners, in consultation with the Office of Workforce Competitiveness (OWC) and the constituent units of public higher education, to establish, by September 1, 2003, career ladder programs for high school students who want to pursue careers in occupations that OWC's first annual report projects will have workforce shortages in the next five years.
- **Public Act 01-173** – Section 62 of the Act extends the *minimum expenditure requirement* (MER) calculation for towns pursuant to Section 10-262j of the Connecticut General Statutes for the fiscal years 2001-2002 and 2002-2003. Section 13 increases the threshold amount from \$350,000 to \$500,000 as the amount that can be kept in the Regional Vocational Technical School (RVTS) industrial account before the excess reverts to the State's General Fund.

Section 58 requires the Department of Education to conduct a study of, and report to the General Assembly on, the relationship between student admissions scores and performance in the RVTS system. Section 30 of the Act requires the education and public health commissioners to convene a task force to study the relationship between illness and children's school performance. The task force must consider policies and programs that would help sick children improve their school performance. The commissioners must report to the Education and Public Health committees by February 1, 2002 on their recommendations for statutory changes to implement the policies and programs.

- **Public Act 01-1 (June Special Session)** - Sections 1 to 4, inclusive, amends the education cost sharing (ECS) formula as follows: Each town whose ECS grant is capped under the ECS formula will receive a proportional share of \$25,000,000 for fiscal year 2001-2002 and of \$50,000,000 in fiscal year 2002-2003. Each town's share is based on the difference between its capped grant and its "target aid" (the amount its grant, excluding any density supplements, would be without the cap). For fiscal year 2001-2002, all towns must receive a minimum ECS grant increase of 1.68 percent over their fiscal year 2000-2001. The current ECS foundation of \$5,891 remains at that level through 2002-2003.

RÉSUMÉ OF OPERATIONS:

General Fund receipts of the Department of Education totaled \$306,308,045 for the 2001-2002 fiscal year. A summary of General Fund receipts by category, as compared to the 2000-2001 fiscal year, follows:

| | Fiscal Year | |
|---------------------------------------|-----------------------------|-----------------------------|
| | <u>2001-2002</u> | <u>2000-2001</u> |
| Federal grants | \$294,926,606 | \$275,920,082 |
| Other-than-Federal grants | 3,693,208 | 12,885,211 |
| Teachers' Certification fees | 2,090,044 | 1,564,857 |
| Regional Vocational Technical Schools | | |
| - Cafeteria collections | 1,992,198 | 2,272,758 |
| Examination fees | 10,998 | 10,047 |
| Refunds of expenditures | 3,565,469 | 4,807,153 |
| Miscellaneous | <u>29,522</u> | <u>11,880</u> |
| Total General Fund Receipts | <u>\$306,308,045</u> | <u>\$297,471,988</u> |

As presented in the summary, the increase in revenues was primarily attributable to increases in Federal grants. Refunds of expenditures resulted primarily from the return of grant funds from educational agencies.

Auditor of Public Accounts

General Fund expenditures charged to Department of Education appropriations for the fiscal year ended June 30, 2002, as compared to the fiscal year ended June 30, 2001, are summarized below:

| | Fiscal Year | |
|--|--------------------------------|--------------------------------|
| | <u>2001-2002</u> | <u>2000-2001</u> |
| Budgeted Appropriations: | \$ | \$ |
| Personal services | 111,959,685 | 102,906,412 |
| Other expenses | 13,208,369 | 13,116,301 |
| Equipment | 141,000 | - |
| Grants to education agencies and Various other payments | <u>1,870,236,079</u> | <u>2,053,739,369</u> |
| Total Expenditures from Budgeted Appropriations | 1,995,545,133 | 2,169,762,082 |
| Restricted Contributions: | | |
| Other than Federal | 16,041,409 | 5,058,822 |
| Federal | <u>295,208,190</u> | <u>272,445,408</u> |
| Total Expenditures | <u>\$ 2,306,794,732</u> | <u>\$ 2,447,266,312</u> |

Federal restricted contributions were audited on a Statewide basis. The results of that review are presented as part of our Statewide Single Audit for each respective fiscal year.

According to Agency expenditure records, the majority of personal services expenditures from budgeted accounts were related to the operation of the Regional Vocational Technical School System, amounting to \$85,492,837 and \$94,095,178 for the fiscal years ended June 30, 2001 and 2002, respectively.

The large decrease in grants to education agencies during the 2001-2002 fiscal year was primarily due to a change in the way School Construction Grants have been funded. In the 2000-2001 fiscal year, the Department expended \$292,713,001 in General Fund appropriations for School Construction Grants to fund school construction projects. Those funds were made available to the Department from the prior fiscal year's State budget surplus. The use of the surplus General Fund appropriations had the beneficial effect of directly offsetting the use of bonding for school construction projects.

For fiscal year 2001-2002, the surplus General Fund appropriations for School Construction Grants made available to the Department was only \$75,000,000 over the 2001-2003 biennium. That appropriation was further reduced to \$50,000,000 by Special Act 01-1, Section 1, of the November Special Session of the General Assembly. While the composition of funding streams for School Construction Grants has fluctuated with the availability of surplus funds, the overall level of funding for such projects has remained fairly constant over the last three fiscal years.

A summary of grants to educational agencies and other payments made from budgeted appropriations is as follows:

| | <u>2001-2002</u> | <u>2000-2001</u> |
|--|--------------------------------|--------------------------------|
| Payments to Educational Agencies and Others: | \$ | \$ |
| Education equalization grants | 1,453,330,473 | 1,384,627,280 |
| Priority school districts | 80,345,856 | 20,057,500 |
| Excess cost – student based | 66,819,641 | 58,398,566 |
| School construction grants | 48,075,961 | 292,713,001 |
| Transportation of school children | 47,947,795 | 45,939,134 |
| Magnet schools | 32,568,168 | 29,891,217 |
| Adult education | 16,853,083 | 15,344,655 |
| Charter schools | 14,166,799 | 13,725,000 |
| Interdistrict cooperation | 13,037,560 | 17,766,944 |
| Supplemental education aid | 9,000,000 | 0 |
| Excess cost – equity | 8,500,000 | 11,500,000 |
| American School for the Deaf | 7,456,295 | 7,276,295 |
| OPEN Choice program | 6,899,200 | 6,651,400 |
| Development of mastery exams | 6,271,930 | 5,479,269 |
| Family resource centers | 6,132,000 | 6,050,000 |
| Nonpublic school transportation | 4,639,132 | 4,537,489 |
| Health and welfare services | 4,030,116 | 3,174,743 |
| Teachers’ standards implementation program | 3,345,303 | 3,519,067 |
| Regional educational services | 3,132,515 | 3,297,384 |
| Head Start services | 2,970,750 | 3,100,000 |
| Early childhood program | 2,600,730 | 38,051,323 |
| Early reading success | 2,031,990 | 20,571,876 |
| School accountability | 940,885 | 7,650,000 |
| School wiring | 0 | 9,888,491 |
| ECS Hartford supplemental school aid | 0 | 5,700,000 |
| Library book grants to schools | 0 | 3,115,530 |
| Extended school hours support programs | 0 | 3,108,185 |
| Interest subsidy debt avoidance grants | 0 | 1,906,888 |
| Miscellaneous program payments | <u>29,139,897</u> | <u>30,698,132</u> |
| Total Grants to Educational Agencies and Other Payments | <u>\$ 1,870,236,079</u> | <u>\$ 2,053,739,369</u> |

In addition to the grants and payments from General Fund budgeted accounts presented in the above summary, there were grants for school building construction financed from a capital projects fund, which are discussed further in the report section entitled "School Construction Grants".

Descriptions of the significant State grant programs follow:

Education Equalization Grants to Towns:

Sections 10-261a to 10-262i of the General Statutes provide for education equalization aid to towns. This grant program provides aid to each town maintaining public schools. Aid distributed to a town under this grant program is to be expended for educational purposes only, upon the authorization of the local or regional board of education.

Priority School Districts:

This grant program, established under the provisions of Sections 10-266p through 10-266r of the General Statutes, is designed to provide assistance to improve student achievement and enhance educational opportunities in certain school districts. During the audited period, the eight towns in the State with the largest populations were Priority School Districts. The law also provides that a number of towns with the highest count and/or the highest percentage of children in families participating in the Temporary Family Assistance Program, adjusted by certain factors from the town's Mastery Test results, also be designated as Priority School Districts. The apparent significant increase in expenditures over the prior period was actually due to the transfer of funds for School Readiness, Extended School Hours, Early Reading Success and School Accountability to the Priority School District Grant. The transferred funds continued to be distributed by their current formulas.

School districts receiving Priority School District funding during the 2001-2002 fiscal year included Bloomfield, Bridgeport, Bristol, Danbury, East Hartford, Hartford, Meriden, Middletown, New Britain, New Haven, New London, Norwalk, Putnam, Stamford, Waterbury, West Haven and Windham.

Excess Cost – Student Based:

Under the provisions of Sections 10-76d, 10-76g, and 10-253 subsection (b), of the General Statutes, the Department will reimburse local school districts for the cost of special education services that exceed certain spending levels. Depending on the type of special education services, local school districts are expected to pay for special education services costing from one and one half times to five times the average per pupil costs of education before receiving reimbursement. Section 10-76d of the General Statutes allows State reimbursements for special education placements in private institutions if the public arrangements are more costly than the private arrangements, provided the private institution offers a suitable educational program.

School Construction Grants:

Grants for public school building projects were governed primarily by the provisions contained in Chapter 173 of Title 10 of the General Statutes. Various statutory rates were used in the grant computations.

In general, grants are provided for construction of new schools (including site acquisition) and expansion or major alteration of existing facilities. Aid is also provided for regional vocational agriculture centers, occupational training centers, administrative or service facilities, and special education facilities. In addition, bond interest subsidy payments and special hardship grants are made.

Funding for the school construction program is provided by General Fund appropriations and by the School Building Capital Projects Fund, established under the provisions of Sections 10-287a through 10-287i of the General Statutes to account for the proceeds of State bonds issued for school construction. A summary of cash receipts and disbursements of the School Building Capital Projects Fund for the year under audit, is presented below:

| | Fiscal Year |
|--|-----------------------------|
| | <u>2001-2002</u> |
| Beginning Cash | \$ (1,237,178) |
| Receipts - Sale of Bonds | <u>447,904,167</u> |
| Total Available | 446,666,989 |
| Disbursements - School construction grants | <u>372,007,933</u> |
| Ending Cash | \$ <u>74,659,056</u> |

Public Act 01-7, Sections 4 and 17, increased the total bond authorization for school construction grants from \$2,709,460,000 to \$2,829,460,000 for the 2001-2002 fiscal year. An additional \$82,610,000 was authorized for Magnet School construction projects and educational technology grants by various Special Acts. This resulted in total authorizations for school construction of \$2,912,070,000 in the School Building Capital Projects Fund, at June 30, 2002. State assistance for Magnet Schools is also available in the form of grants to local governments, from sources other than the School Building Capital Projects Fund.

A summary of State payments for school building programs, by type of grant and by source of funding, for the fiscal years ended June 30, 2002 and 2001, respectively, is as follows:

| | <u>2001-2002</u> | <u>2000-2001</u> |
|----------------------------------|------------------------------|------------------------------|
| Type of Grant: | | |
| School Construction Grants | \$ 48,075,961 | \$ 292,713,001 |
| Principal Installment | 371,898,765 | 97,137,359 |
| Interest Subsidy | - | <u>1,887,782</u> |
| Total Grants | <u>\$ 419,974,726</u> | <u>\$ 391,738,142</u> |
| Source of Funding: | | |
| General Fund | \$ 48,075,961 | \$ 294,619,889 |
| School Building Capital Projects | <u>371,898,765</u> | <u>97,118,253</u> |
| Total Grants | <u>\$ 419,974,726</u> | <u>\$ 391,738,142</u> |

The State's liability for installment grant obligations under Sections 10-287 and 10-287h amounted to approximately \$876,200,000 as of June 30, 2002. The liability for bond interest subsidy grants amounted to approximately \$285,900,000 as of that same date. These amounts represent only those projects which have gone forward and for which grants have been calculated. They do not include estimated amounts for projects authorized by the Legislature prior to 1997, which have not moved forward and have not had a grant calculated. As explained below, the Department no longer provides financial support for construction projects as "installment grant obligations." The amounts of these outstanding grant obligations have peaked and will continue to decrease gradually over future periods.

In accordance with Public Act 97-265, codified as Section 10-287 of the General Statutes, the

State no longer participates in the payment of debt service on municipal bonds for school construction projects. The State incurs its share of construction project costs on a progress-payment basis during the construction period. Progress-payment indebtedness increased from approximately \$2,201,000,000 for the fiscal year ended June 30, 2001, to approximately \$2,800,000,000 for the current year under review.

Transportation Grants:

Transportation grants were administered under the provisions of Sections 10-54, 10-66ee, 10-97, 10-158a, 10-266m, 10-273a, 10-277, and 10-281 of the General Statutes.

Under the provisions of Section 10-266m of the General Statutes, boards of education are reimbursed for their eligible transportation costs under a sliding-scale percentage method. During the audited period, the percentage range for reimbursement was from zero to 60 percent, with all towns receiving a minimum grant of \$1,000. The rate of reimbursement is based on town wealth, with wealthier communities receiving minimal support and needier towns receiving higher rates.

Magnet Schools:

In accordance with Sections 10-264h through 10-264l of the General Statutes, there exists an Interdistrict Magnet School grant program designed to support racial, ethnic and economic diversity through a high-quality curriculum. This program also provides transportation to interdistrict students who reside outside of the district in which the school is located. Eligibility is dependent upon a cooperative arrangement involving two or more local districts and approval of the operations plan by the Department.

Adult Education:

Sections 10-69 to 10-73c of the General Statutes provide for State grants to local and regional education agencies based on a percentage of eligible adult education costs. Instructional and administrative services related to programs in U.S. citizenship; limited English proficiency; elementary/secondary school completion, and any other subject provided by the elementary and secondary schools of a school district are all eligible costs. The reimbursement percentage range for the audited period was zero to 65 percent.

Charter Schools:

Section 2 of Public Act 96-214 authorizes the creation of charter schools. Section 10-66aa of the General Statutes defines Charter Schools as public, nonsectarian schools that operate independently of any local or regional board of education in accordance with a State or local charter. The goal of charter schools is to serve as centers for innovation and educational leadership to improve student performance, to provide a choice to parents and students within the public school system, and to be a possible vehicle to reduce racial, ethnic and economic isolation. They are assessed annually to determine if they are meeting the goals of the legislation and their charters. For students enrolled in a local charter school, the local board of education of the school district in which the student resides pays annually an amount specified in its charter.

Grants for Interdistrict Cooperative Programs:

In accordance with Section 10-74d of the General Statutes, the Department shall maintain a competitive grant program for the purpose of assisting local and regional boards of education and regional education service centers with the establishment and operation of interdistrict cooperative education programs.

Excess Cost – Equity:

Section 10-76g of the General Statutes establishes criteria for towns to receive supplemental special education grants. Town eligibility is based on the ratio of the town's net costs of special education to the product of the town's total need students and the average regular program expenditures per need student. Towns with ratios that exceed the Statewide average for all such ratios are eligible to receive a grant.

Early Childhood Program:

In accordance with Sections 10-16o through 10-16r of the General Statutes, welfare reform initiatives were addressed with the funding of school readiness programs. The apparent significant decrease in expenditures during the audited period was actually due to the transfer of most of the program funding to the Priority School District Grant. The transferred funds will continue to be distributed based upon their current formulas. The funds remaining in the Early Childhood Program were distributed as competitive grants.

Early Reading Success:

In accordance with Section 10-265f of the General Statutes, an early reading success program to implement plans of local school districts was established to improve the reading skills of students in kindergarten through grade three. Funds are used to establish full-day kindergartens, reduce class sizes in kindergarten through grade three to not more than eighteen students, and establish early intervention reading programs for at-risk students. As discussed under the preceding caption, the apparent significant decrease in expenditures was actually due to the transfer of most of the program funding to the Priority School District Grant. The transferred funds will continue to be distributed based upon their current formulas. The funds remaining in the Early Reading Success Program were distributed as competitive grants.

The Department of Education also administered an enterprise fund, during the audited period. A brief description of its operation follows.

Vocational Education Extension Fund:

The Vocational Education Extension Fund, an enterprise fund, operates under the provisions of Section 10-95e of the General Statutes. The Fund was used during the audited period to account for the revenues and expenses of adult educational programs and includes an Industrial Account for production activities conducted at the Regional Vocational Technical Schools. Public Act 01-173, Section 13, amended Section 10-99 of the General Statutes to enable the Vocational Education Extension Fund to retain up to a \$500,000 balance in the Industrial Account.

Amounts in excess of the \$500,000 allowed balance must be transferred to the General Fund within ten months of the close of a fiscal year. For the fiscal year ended June 30, 2002, no transfers

were required.

Vocational Education Extension Fund cash receipts and disbursements for the fiscal year ended June 30, 2002, as compared to the fiscal year ended June 30, 2001, are presented below:

| | <u>2001-2002</u> <u>Fiscal Year</u> | <u>2000-2001</u> <u>Fiscal Year</u> |
|----------------------------|--|--|
| Beginning Cash | <u>\$ 664,809</u> | <u>\$ 816,757</u> |
| Receipts: | | |
| Tuition fees | 2,063,119 | 1,861,552 |
| Customer charges | <u>586,154</u> | <u>558,625</u> |
| Total Receipts | <u>2,649,273</u> | <u>2,420,177</u> |
| Total | <u>\$ 3,314,082</u> | <u>\$ 3,236,934</u> |
| Disbursements: | | |
| Extension school | 1,790,381 | 1,945,065 |
| Industrial account | <u>548,205</u> | <u>627,060</u> |
| Total Disbursements | <u>2,338,586</u> | <u>2,572,125</u> |
| Ending Cash | <u>\$ 975,496</u> | <u>\$ 664,809</u> |

We comment on the operation of the fund in the “Condition of Records” and “Recommendations” sections of this report.

CONDITION OF RECORDS

Our examination of the records of the Department of Education disclosed matters of concern requiring disclosure and Agency attention.

Management of the Vocational Education Extension Fund:

Background: The Vocational Education Extension Fund is an enterprise fund designed to account for the revenues and related costs of the Regional Vocational Technical Schools' adult educational programs and the production activities of the Schools' shops.

Criteria: Enterprise funds are designed to account for the specific revenues and costs of certain activities, with the objective of being able to make periodic determinations of the need for adjustments to specific costs or associated revenues. Section 10-95e of the General Statutes authorizes the Fund.

According to Generally Accepted Accounting Principles (GAAP), the use of an enterprise fund is mandated when legal requirements or management policy require that the full cost of providing services be recovered through fees and charges. GAAP also permits the use of an enterprise fund "to report any activity for which a fee is charged to external users for goods or services," regardless of whether the government intends to fully recover the cost of the goods or services provided.

GAAP also provides that for business-type activities, there is frequently a direct relationship between the charge for the service and the service itself. This exchange relationship causes users of financial information to focus on the costs of providing the service, the revenues obtained from the service, and the difference between the two.

Condition: As a matter of public policy the user charges associated with Vocational Education Extension Fund activity have not covered the total costs of operations. Substantial General Fund appropriations have been used to directly support the activities of the Vocational Education Extension Fund. However, those General Fund subsidies have not been reflected in the financial statements of the Vocational Education Extension Fund.

The Department estimated that approximately \$4,500,000 in payroll costs directly associated with the operations of the Extension Fund were paid for from General Fund appropriations for the fiscal year ended June 30, 2002.

Those costs and other direct and indirect costs (i.e. payroll fringe

benefits, etc.) have not been accounted for as part of the Vocational Education Extension Fund.

Effect: The Vocational Education Extension Fund financial statements do not provide a complete picture of the total cost of providing adult educational programs and the production activities at the Regional Vocational Technical Schools. The total cost of providing those services to the government's citizens cannot be determined by the users of the financial statements (i.e. citizenry, legislators, investors and creditors). Users are unable to properly evaluate the efficiency and effectiveness of the operations of the Vocational Education Extension Fund. Incomplete financial information may effect legislative funding decisions.

Cause: Significant payroll expenditures directly related to the operations of the Vocational Education Extension Fund are charged to the General Fund. Those General Fund subsidies have not been reflected in the financial statements of the Vocational Education Extension Fund. There may be other unidentified direct and indirect General Fund expenditures that should be accounted for in the Vocational Education Extension Fund.

Recommendation: The Department should take the necessary steps to ensure that the Vocational Education Extension Fund financial statements include the total costs of providing services, the revenues obtained from the services, and the difference between the two in accordance with Generally Accepted Accounting Principles. (See Recommendation 1.)

Agency Response: "We agree. The department will record and reflect all direct and indirect costs associated with the operation of the extension fund on the financial statements..."

Student Activity Funds:

Background: Separate Student Activity Funds are maintained at each of the Regional Vocational Technical Schools.

Criteria: The Department has issued formalized procedures for the Regional Vocational Technical Schools to follow relative to the maintenance of Student Activity Fund operations. Each year the Department conducts its own internal reviews of the operations of each Regional Vocational Technical School within its system. Those reviews include consideration of the operation of the Activity Funds at the various Regional Vocational Technical Schools.

Condition: Our examination of two Regional Vocational Technical Schools

noted certain deficiencies concerning the record keeping and administration of Student Activity Funds. We present the following:

- At both of the schools reviewed, we noted that, as a general practice, Student Activity meeting minutes are not attached to the approved voucher authorizing the disbursement of Student Activity funds.
- For one of the schools reviewed, four of nine sampled expenditures did not have supporting documentation.
- Both Student Activity Funds had “old” class account balances totaling approximately \$16,848 that had not been closed within a reasonable period of time after the graduation of the respective classes.

The Department’s own internal reviews of its Activity Funds at the various Regional Vocational Technical Schools for the fiscal year ended June 30, 2002, disclosed the following common internal control and operating weaknesses:

- Insurance coverage for transportation of students was not always updated on a regular basis.
- Quotes were not always obtained and retained for purchases over \$1,000 prior to the processing of the purchase orders.
- Record keeping was not adequate to identify payments for services to a trade or business that were \$600 or more. The required Internal Revenue Service Forms were not always issued to those parties providing services valued at \$600 or more.
- Generally, the Activity Fund accounts were not always reconciled by someone independent of the Fund’s operations.

Effect:

Prior and current reviews, performed by our Office and the Department, of the Activity Funds at the various Regional Vocational Technical Schools have identified a number of common and persistent reportable conditions. Those reportable conditions, such as are noted above, reflect Activity Fund internal control deficiencies that affect the Department’s ability to properly record, process and report financial data, safeguard assets, and comply with established procedures.

Cause:

While the Department’s internal monitoring procedures have been effective in identifying the types of conditions noted above, that identification has not been effectively translated into timely corrective action.

The Department has not established the necessary accounting and

administrative controls required to prevent the occurrence and reoccurrence of the types of exceptions noted above and in previous audit reports.

Recommendation: The Department should establish the necessary accounting and administrative controls to ensure that the Regional Vocational Technical Schools' Student Activity Funds are operated in accordance with established procedures. All identified deficiencies in controls should be corrected in a timely manner. (See Recommendation 2.)

Agency Response: "We agree. The Regional Vocational Technical Schools will take the steps to correct deficiencies and weaknesses in the operation of the Student Activity Fund."

Equipment and Real Property Management:

Background: The Department reported approximately \$235,000,000 in inventory at June 30, 2002, a majority of which represents buildings and improvements (\$185,395,000).

Criteria: Federal Regulation 34 CFR 80.20(b) requires that grantees maintain records which accurately identify the source and application of funds provided for grant activities and provide for complete disclosure of the financial results of financially assisted activities.

Section 4-36 of the General Statutes provides that each State agency shall establish and keep an inventory account in the form prescribed by the State Comptroller. Standards and procedures for recording and maintaining inventory records are set forth in the State of Connecticut's Property Control Manual, issued by the State Comptroller. State procedures require the maintenance of perpetual records of capital assets and the identification of the funding source of those assets purchased with Federal grant funds.

Condition: Our prior examination disclosed that the Department of Education's CO-59 Fixed Assets/Property Inventory Reports for the fiscal years ended June 30, 2000 and 2001, were inaccurate because of errors in determining the value of its capital inventory reported for the two fiscal years.

Our current review has disclosed that the Department did not make

the recommended audit adjustment of approximately \$11,200,000 for an overstatement to the inventory value for one construction project identified as a result of our review of the CO-59 report for fiscal year ended June 30, 2000.

In addition, our current review disclosed that approximately \$7,800,000 in completed projects at the Vocational Technical Schools were not included in the amount of real property reported for the fiscal year ended June 30, 2002.

In general, the Department's detailed expenditure records and inventory listings do not support the amounts reported on the CO-59 report submitted to the Comptroller. Further, the Department's records are not adequate to substantiate the additions and deletions reported on the CO-59. However, our examination of the amounts reported for additions determined that the amount reported for additions to the category of "stores and supplies" was understated by \$551,745.

The findings over the last three fiscal years indicate a continuing inadequacy in the controls over equipment purchased with State and Federal funds.

Effect: The values reported for both buildings and equipment on the CO-59 Fixed Assets/Property Inventory Report were not accurate and were not supported by the Department's inventory records.

Cause: The Department has not implemented the prior audit recommended corrective action to adjust the reported value of its real property inventory for the amounts that were also capitalized in the records of the DPW. The Department does not maintain its inventory records for real and personal property in compliance with the requirements of the State of Connecticut's Property Control Manual.

Recommendation: The Department should take steps to improve controls over its real and personal property to ensure that both the inventory records are maintained and the annual CO-59 Fixed Assets/Property Inventory Report is prepared in accordance with the requirements of the State of Connecticut's Property Control Manual. (See Recommendation 3.)

Agency Response: "We agree. The Department will take corrective action to maintain its inventory records for real and personal property in compliance with the State of Connecticut's Property Control Manual."

Petty Cash Fund Travel Advances:

- Criteria:* The Comptroller’s State Accounting Manual provides guidance to agencies regarding the administration of petty cash funds, including the requirement for timely return of employee travel advances.
- The Department of Education’s travel procedures require the employee or designee to, “Forward all related [travel] documents to the Travel Unit within five working days.”
- Condition:* Our examination disclosed that the required paperwork for travel advances was not received from employees within the five working day period established by the Comptroller.
- Approximately 100 of 180, or 56 percent, of petty cash check advances were returned one or more days in excess of five working days. The average number of working days in excess of the standard was seven and one-half days. For five petty cash travel advances, the documentation was returned over 30 working days past the allowed standard.
- Effect:* The Department is not in compliance with the Comptroller’s petty cash fund guidelines or its own travel procedures.
- Cause:* The Department’s Bureau of Fiscal Services has established a database to track the status of petty cash travel advances. That unit contacts those employees that do not return their documentation within the prescribed limit. The established controls allow the Department to detect but not prevent exceptions to the five working day standard. Also, the Bureau of Fiscal Services does not have the authority to enforce employee compliance with the standard across the Department’s widely distributed network of Divisions and Bureaus.
- Recommendation:* The Department should improve its administration over the petty cash fund to ensure that employees comply with both the Comptroller’s and the Department’s policies for the timely submission of required documentation for travel advances. (See Recommendation 4.)
- Agency Response:* “We agree. The Department will reissue the agency’s and Comptroller’s travel policies to staff and strongly emphasize the necessity to comply with the timeliness regarding travel advances. The Bureau of Fiscal Services will report to management monthly those staff members not complying with the policies.”

Capitalization Procedures:

Background: The Department receives infrastructure funding that is primarily used for renovations and repair projects in its Vocational Technical Schools. The Department uses a project completion form to describe the project, date completed and whether the project should be added to the building's value. Check boxes are used to indicate whether the project related expenditures should be capitalized. The Chief of Engineering Services signs the form to certify that the project has been completed.

Criteria: The State of Connecticut Property Control Manual states that, "the main criteria for capitalization of building improvements are that the expenditures significantly extend the useful life or enhance the value of the individual building." In addition, the manual states that, "Building Fixed Equipment-Includes fixtures which are permanently attached to and made part of a building and which cannot be removed without damaging walls, ceilings or floors or without impairing the building in some manner."

Generally Accepted Accounting Principles provide guidance concerning the treatment of expenditures made for additions, repairs and improvements to property, plant and equipment.

Condition: Our review noted several sample projects that appeared to meet the accounting definition for the capitalization of the improvements. However, the project completion forms indicated by a check mark that those projects were not to be added to the value of the building. There was no other supporting narrative on the forms to support those determinations.

The project completion form does not include any type of accounting rationale to support the determination to capitalize or not capitalize infrastructure expenditures. Such a rationale should include the type of expenditure made (i.e. additions, repairs, replacements, reinstallations) and the characteristics of those expenditures. For instance, if the type of infrastructure expenditure was an addition, it would be characterized as an extension, enlargement or expansion made to an existing asset.

Further, the decision to capitalize or not capitalize expenditures is as much an accounting decision as it is an engineering decision. While the Chief of Engineering Services certifies that the project was properly completed, the final determination on the capitalization of project expenditures should be performed by the Bureau of Fiscal Services. As noted above, the rationale for such decisions should be included on the form.

Effect: Costs subsequent to the acquisition of property, plant and equipment may not be properly classified as capital in nature, resulting in the under reporting of Department assets.

- Cause:* The form used by Department's Vocational Technical School System does not include an accounting rationale for determining whether project expenditures should be capitalized.
- Recommendation:* The Department should develop and utilize an accounting rationale for determining whether project expenditures should be capitalized. The final determination on the capitalization of project expenditures based upon the accounting rationale should be performed by the Bureau of Fiscal Services. (See Recommendation 5.)
- Agency Response:* "We agree. The department will modify the project completion form to include accounting rationale for determining whether project expenditures should be capitalized in accordance with the State of Connecticut Property Control Manual."

Dual Employment:

- Criteria:* According to Section 5-208a of the Connecticut General Statutes, no State employee who holds multiple job assignments should be compensated for services rendered to the same or more than one agency unless the duties performed do not conflict with the employee's primary position working hours. Per the Department of Administrative Services' (DAS) General Letter No. 204, the appointing authority of each agency or his/her designee must certify that the duties performed by an employee, who is compensated for rendering services to more than one agency, do not conflict with the employee's primary position working hours.
- Condition:* Our review of a sample of 15 dual employment employees disclosed that the required dual employment forms for eight, or approximately 53 percent, of the employees were not on file.
- Effect:* The Department is not in compliance with the Section 5-208a of the General Statutes and the dual employment procedures set forth in DAS General Letter No. 204.
- Cause:* Lack of administrative oversight appears to be the reason for the identified condition.
- Recommendation:* The Department should comply with the requirements of Section 5-208a of the General Statutes and General Letter No. 204, to ensure that dual employment forms are obtained and properly completed for

all employees who have multiple job assignments either within the Department or between the Department and other State agencies. (See Recommendation 6.)

Agency Response: “We agree. The Bureau of Human Resources will improve its controls over obtaining the proper dual employment forms and maintaining them on file.”

Use of Durational Project Managers:

Criteria: The Durational Project Manager designation was created as a personnel position in the unclassified service pursuant to Section 5-198, subsection (n), of the General Statutes. This statute allows for the use of unclassified service designations for “Persons employed to make or conduct a special inquiry, investigation, examination, or installation.”

The Department of Administrative Services established a job description for Durational Project Managers in accordance with Section 198, subsection (n), of the General Statutes.

“Positions in this class will be durational and will be established for a period of up to two years. Positions may be extended as warranted, but the total duration of the position may not exceed three years unless a formal request documenting the need for an additional position extension is approved by the Commissioner of Administrative Services (DAS).”

Further, Section 5-14 of the General Statutes states in part that “no new position shall be created and no vacancies shall be filled in the classified service until the Secretary of the Office of Policy and Management (OPM) has certified to the appointing authority that the position is necessary for carrying on the work of the State in an efficient and business-like manner and any necessary appropriation therefore has been made.”

Condition: Our sample review of ten durational positions at the Department of Education found that:

- Two of the ten sampled positions were made permanent without the approval from OPM.
- Six of the ten sampled positions were extended beyond their established end dates without the approval of DAS.

Effect: There is increased risk that durational employees could remain in their positions beyond the intended expiration dates and/or be reclassified into permanent positions without the requisite approvals.

- Cause:* Lack of administrative oversight appears to be the reason for the conditions described above.
- Recommendation:* The Department should monitor durational positions to ensure that appropriate approvals are obtained prior to the establishment, extension and/or reclassification of such positions. (See Recommendation 7.)
- Agency Response:* “We agree. The Bureau of Human Resources will improve controls over obtaining proper approvals from OPM and DAS for durational position actions.”

Attendance Procedures at the Regional Vocational Technical Schools:

- Criteria:* The establishment and maintenance of uniform attendance policies and procedures is central to an effective time and attendance system. Effective attendance controls require adequately trained personnel who are supervised and periodically monitored.

While there are no formal policies and procedures with respect to attendance, the Regional Vocational Technical Schools have established certain common record keeping practices that vary to some extent from facility to facility.

- Condition:* The Regional Vocational Technical School System does not have formal policies and procedures for time and attendance control. Further, the Department’s own internal reviews have noted continued inadequacies and inconsistencies within and between the Regional Vocational Technical Schools.

We sampled four employees over eleven payroll periods at one Regional Vocational Technical School. During that period, those employees had twenty instances of leave recorded on their primary attendance record. However, for 13 of those instances, there were no corresponding entries in the School’s Sign-Out Log.

In addition, we found few instances of usage of the Late Sign-In Log for the period tested and no instances for the sample tested. Our physical observations of morning arrivals noted two instances from our sample where neither the primary attendance record nor the Late Sign-In Log had entries denoting normal and/or late arrival to the School.

In one instance, an employee was allowed to sign the primary attendance record later in the day contrary to established practice. Further, there was no evidence that the applicable supervisor had

been notified of the employee's failure to properly sign-in or that a supervisor had verified that the employee had in fact arrived at the School in accordance with his or her established schedule.

Effect: Employees may be paid for hours not worked and/or not charged for sick or vacation time taken but not reported. Management may have inadequate information to evaluate employee performance and staffing requirements on a daily basis.

Cause: Attendance controls are inconsistently applied within and among Regional Vocational Technical Schools. Deficiencies found and reported by the Department's own internal reviews are not always resolved in a timely manner.

Recommendation: Uniform attendance procedures should be established and maintained by the Regional Vocational Technical Schools. The Department's Regional Vocational Technical School personnel should be adequately trained in the application of those policies and procedures and their efforts should be supervised and periodically monitored. (See Recommendation 8.)

Agency Response: "We agree. Prior to the start of the school year 2004, VT Central Office will issue an attendance policy and procedures to all of the VT Schools and the Administrative Review Team will follow up on training at the next site visit."

Teachers' Certification and Adult Education Program Fees:

Background: As specified within Section 10-145(b), subsection (p), of the General Statutes, the Department is charged with collecting teacher certification fees.

The Vocational Education Extension Fund is an enterprise fund designed to account for the revenues and related costs for the Regional Vocational Technical Schools' adult educational programs and the production activities of the Schools' shops.

The Teachers' Certification Unit within the Department of Education received fees of approximately \$2,090,000 during the 2001-2002 fiscal year.

Tuition fees from the Department's adult educational programs at the Regional Vocational Technical Schools were approximately \$1,862,000 for the fiscal year ended June 30, 2002.

| | |
|-------------------------|--|
| <i>Criteria:</i> | In accordance with the State of Connecticut's State Accounting Manual, receipts should be safeguarded by recording such receipts in a receipts journal. Additionally, accountability reports should be periodically prepared to compare the receipts that were actually recorded with the funds that should have been accounted for. |
| <i>Condition:</i> | <p>We noted that reconciliations between fees received and deposited with the number of certifications processed or pending were not routinely prepared.</p> <p>The Department does not reconcile its Adult Education Solstar Accountability Reports for attendance and tuition to the Comptroller's revenue reports for the same activity.</p> |
| <i>Effect:</i> | The failure to produce accountability reports prevents the comparison of revenue that should have been received with amounts actually deposited. |
| <i>Cause:</i> | The Department has not fully developed and implemented the necessary administrative and accounting controls to ensure the accountability of revenues received to revenues generated by operations. |
| <i>Recommendation:</i> | Internal controls over receipt of Teachers' Certification and Adult Education fees should be improved to include the preparation of accountability reports. (See Recommendation 9.) |
| <i>Agency Response:</i> | "We agree. The Department has made several attempts in the past to electronically reconcile revenues received to Certificates issued. The Department will again review and take the actions necessary to generate accountability reports on a routine schedule. Further, the Department will research the issue of reconciling its Adult Education attendance and tuition information with the Comptroller's reports." |

Other Matters:

As part of the deficit mitigation plan for fiscal year 2003, the General Assembly enacted and the Governor subsequently ratified Public Act No. 03-02 - An Early Retirement Incentive Program

(henceforth ERIP). The applicability of the Early Retirement Incentive Program was broadened by Special Act 03-02 to include state employees who are members of the Teachers' Retirement System.

This is a significant event that directly effects the Department of Education and its related operations and controls. Significant events subsequent to the conclusion of our fieldwork but prior to our report date require disclosure under auditing standards.

The Department of Education and its Regional Vocational Technical School system will be significantly impacted by the ERIP. As of June 30, 2003 around 241 of the approximately 1,100 Regional Vocational Technical School employees accepted the offered retirement package. Of that number, approximately 165 were for teacher retirements. Because of their critical importance to the functioning of the Regional Vocational Technical School system, nearly all of the vacated positions due to teacher retirements were refilled. In addition, approximately nine to ten percent of the 400 to 450 central office staff also elected to retire under the incentive program.

Public Act 03-2, Section 6(b), limits the number and type of refills that an agency can make: "For the fiscal years ended June 30, 2004 and June 30, 2005, up to eighty percent of positions vacated in any employer unit as a result of the ERIP may be refilled, provided, of the positions refilled, at least seventy percent must be positions classified as essential positions and not more than thirty percent may be positions classified as non-essential positions."

The permanent loss and/or delayed replacement of administrators, business managers, maintainers and other support staff at the Regional Vocational Technical Schools could have an immediate and deleterious effect on the system of internal controls.

Our prior Section 2-90 audit reports have included comments on a number of conditions that already existed at the Department prior to the implementation of ERIP: Management of the Vocational Education Extension Fund, Student Activity Funds, Equipment and Real Property Management, Dual Employment, Meal Counts and Attendance. The loss of so many key personnel over a short period of time will not improve the Department's ability to address deficiencies or maintain existing controls. In addition, there are a number of other functions performed at the Regional Vocational Technical Schools that may be impacted by the reduction in staff (i.e. accounting for cash, maintenance and repairs, Federal and State reporting requirements, etc).

RECOMMENDATIONS

Our prior report contained 11 recommendations. There has been satisfactory resolution of six of these recommendations. The five remaining recommendations have been repeated or restated to reflect current conditions. Four additional recommendations are being presented as a result of our

current examination. One of these additional recommendations is due to our Statewide Single Audit review.

Prior Audit Recommendations:

- 1. The Department should take the necessary steps to ensure that the Vocational Education Extension Fund achieves self-sufficiency with the goal of matching all revenues with all costs allocable to the fund. In the event that such self-sufficiency cannot be achieved, the Department should pursue the dissolution of the Vocational Education Extension Fund and the creation of a budgeted General Fund appropriation account to fund the cost of services currently provided through the Extension Fund.**

This recommendation was substantially restated to emphasize that the Extension Fund should include the total cost of providing services including support “received” from other sources or funds. (See Recommendation 1.)

- 2. The Department should ensure that the Vocational Technical Schools’ Student Activity Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Student Activity Fund operations should be modified to ensure a proper segregation of duties.**

Current period reviews of Activity Funds by both our Office and the Department have disclosed the continued existence of a number of widespread and persistent internal control deficiencies. This recommendation will be repeated in modified form. (See Recommendation 2.)

- 3. The Department should obtain an opinion from the Attorney General to support its position that Parent-Faculty Organizations should not be considered “foundations” with respect to requirements specified within Sections 4-37f through 4-37j of the General Statutes.**

The Auditors of Public Accounts will consider directly seeking an opinion from the Attorney General regarding the applicability of Sections 4-37f through 4-37j to Parent Faculty Organizations. We conclude that a repetition of this finding will not lead to a different result. This recommendation, therefore, will not be repeated.

- 4. The Department should take steps to improve controls over its real and personal property to ensure that both the inventory records are maintained and the annual CO-59 Fixed Assets/Property Inventory Report is prepared in accordance with the requirements of the State of Connecticut’s Property Control Manual.**

Property control records and internal controls continue to be deficient. We are repeating our recommendation in a modified form. (See Recommendation 3.)

5. **The Department should improve its administration over the petty cash fund to ensure that employees comply with the Comptroller's policies for the timely submission of required documentation for travel advances.**

Our review found that the Department is not in compliance with the Comptroller's policies with respect to the timely submission of required documentation for travel advances. This recommendation will be repeated. (See Recommendation 4.)

6. **The Department should take the necessary steps to ensure that it complies with the State of Connecticut's State Accounting Manual requirements for payment processing.**

Our review found no reoccurrence of the conditions found in the previous review. Therefore, this recommendation will not be repeated.

7. **The Department should implement procedures to ensure that all required financial information is identified and that its GAAP forms are prepared in accordance with the State Comptroller's instructions.**

The Department has substantially addressed the recommendation. The recommendation will not be repeated.

8. **The Department should implement the internal control procedures necessary to ensure compliance with the Department of Administrative Services' Management Personnel Policy No. 80-1, Section 2 criteria relative to compensatory time. The Department should take the necessary steps to recover the costs associated with all excess or unearned compensatory time charged by its employees.**

Our review found that the Department has followed established procedures with respect to the authorization, earning and use of compensatory time. The Department has substantially recovered the unearned compensatory time as reported on in our previous audit report. The prior audit recommendation will not be repeated.

9. **The Department should comply with the requirements of Section 5-208a of the General Statutes and General Letter No. 204, to ensure that dual employment forms are obtained and properly completed for all employees who have multiple job assignments either within the Department or between the Department and other State agencies.**

The Department has not taken the necessary corrective action to address this recommendation. (See Recommendation 6.)

10. **The Regional Vocational Technical Schools should establish verification procedures for meal counts posted to the data collection system and management should periodically test check that the verification procedures are being applied.**

The Department has expanded its Vocational Technical School site review procedures to include testing of meal counting and claiming records. As a result, this recommendation will not be repeated.

11. **The Department should implement procedures to ensure compliance with all applicable Federal cash management regulations.**

We noted that action has been taken to address this concern. We are not repeating this recommendation.

Current Audit Recommendations:

1. **The Department should take the necessary steps to ensure that the Vocational Education Extension Fund financial statements include the total costs of providing services, the revenues obtained from the services, and the difference between the two in accordance with Generally Accepted Accounting Principles.**

Comment:

Substantial General Fund appropriations have been used to directly support the activities of the Extension Fund. However, those General Fund subsidies have not been reflected in the financial statements of the Extension Fund.

2. **The Department should establish the necessary accounting and administrative controls to ensure that the Regional Vocational Technical Schools' Student Activity Funds are operated in accordance with established procedures. All identified deficiencies in controls should be corrected in a timely manner.**

Comment:

Prior and current reviews performed by our Office and the Department of the Activity Funds at the various Vocational Technical Schools have identified a number of common and persistent reportable conditions.

Those reportable conditions (such as noted above) reflect Activity Fund internal control deficiencies that affect the Department's ability to properly record, process and report financial data, safeguard assets, and comply with established procedures.

3. **The Department should take steps to improve controls over its real and**

personal property to ensure that both the inventory records are maintained and the annual CO-59 Fixed Assets/Property Inventory Report is prepared in accordance with the requirements of the State of Connecticut's Property Control Manual.

Comment:

The values reported for both buildings and equipment on the CO-59 Fixed Assets/Property Inventory Report were not accurate and were not supported by the Department's inventory records.

- 4. The Department should improve its administration over the petty cash fund to ensure that employees comply with both the Comptroller's and the Department's policies for the timely submission of required documentation for travel advances.**

Comment:

Our examination revealed numerous instances in which the paperwork for a petty cash fund travel advance was not received by the Department within the five working days after the employee's return to work, as required by the Comptroller's State Accounting Manual.

- 5. The Department should develop and utilize an accounting rationale for determining whether project expenditures should be capitalized. The final determination on the capitalization of project expenditures based upon the accounting rationale should be performed by the Bureau of Fiscal Services.**

Comment:

The project completion form does not include any type of accounting rationale to support the determination to capitalize or not capitalize infrastructure expenditures. Such a rationale should include the type of expenditure made (i.e. additions, repairs, replacements, reinstallations) and the characteristics of those expenditures.

- 6. The Department should comply with the requirements of Section 5-208a of the General Statutes and General Letter No. 204, to ensure that dual employment forms are obtained and properly completed for all employees who have multiple job assignments either within the Department or between the Department and other State agencies.**

Comment:

Dual employment forms were not found or not properly completed for eight out of fifteen total sample cases. By law, no State employee who holds multiple positions should be compensated for services rendered to the same or more than one agency

unless the duties performed do not conflict with the employee's primary position working hours.

7. **The Department should monitor durational positions to ensure that appropriate approvals are obtained prior to the establishment, extension and/or reclassification of such positions.**

Comment:

Our review of a sample of durational positions found that the Department did not always obtain OPM approvals prior to extending and/or reclassifying those positions.

8. **Uniform attendance procedures should be established and maintained by the Regional Vocational Technical Schools. The Department's Regional Vocational Technical School personnel should be adequately trained in the application of those policies and procedures and their efforts should be supervised and periodically monitored.**

Comment:

Attendance controls are inconsistently applied within and among RVT Schools. Deficiencies found and reported by the Department's own internal reviews are not always resolved in a timely manner.

9. **Internal controls over receipt of Teachers' Certification and Adult Education fees should be improved to include the preparation of accountability reports.**

Comment:

The Department has not fully developed and implemented the necessary administrative and accounting controls to ensure the accountability of revenues received to revenues generated by operations.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Education for the fiscal year ended June 30, 2002. 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 audit of the Department of Education for the fiscal year ended June 30, 2002, is included as a part of our Statewide Single Audit of the State of Connecticut for that fiscal year.

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 Department of Education 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 Department of Education is the responsibility of the Department of Education'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 year ended June 30, 2002, 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 Department of Education 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 Department of Education'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: the lack of satisfactory internal controls and records related to property control, the lack of adequate capitalization procedures, the lack of compliance with policies and procedures governing dual employment, the lack of controls over durational project managers, the lack of adequate attendance procedures at the RVT Schools and the lack of accountability reports for certain fees.

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, we believe that none of the reportable conditions described above are considered to be a material or significant weakness.

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

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the central office of the Department of Education and of the various divisions, bureaus, schools, and other units during the course of our examination.

Michael R. Adelson
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

rgk/70010-01