

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 and 2004**

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

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May 17, 2006

**AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 and 2004**

We have made an examination of the financial records of the Department of Education for the fiscal years ended June 30, 2003 and 2004. 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 Connecticut Technical High School System.

Members of the State Board of Education:

Members of the Board as of June 30, 2004, were as follows:

	<u>Term Expires February 28,</u>
Craig E. Toensing, Chairperson	2005
Donald J. Coolican	2009
Patricia B. Luke	2009
Allan B. Taylor	2009
Terri L Masters	2007
Janet M. Finneran, Vice-Chairperson	2007
Annika L. Warren	2007
Timothy J. McDonald	2007

Non-voting members

Valerie F. Lewis, Commissioner, Department of Higher Education	(A)
Daniel Martinez, Student member	(B)
Yi-Mei Truxes, 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, 2004.

Theodore S. Sergi resigned as Commissioner of Education on June 1, 2003. The State Board of Education appointed Mark A. Stapleton as Acting Commissioner of Education, effective September 19, 2003. He served in that capacity until November 7, 2003, when Betty J. Sternberg was appointed Commissioner of Education.

Legislative Changes:

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

- **Public Act 02-2 (May Special Session)** – Section 12 of the Act allowed the State Board of Education to establish a three-year pilot program that authorizes up to two school construction projects per year to use a design-build contract and requires the State Board to report to the General Assembly on or before January 15, 2006, on the efficiency and efficacy of using the design-build approach to school construction projects. Section 35 of the Act allows a board of education in a town that is a distressed municipality, with a population greater than 90,000, to be eligible to submit a consolidated school construction grant application for multiple school projects and be eligible for a single grant for the State share of all the projects. If the Office of Policy and Management finds that such a city cannot reasonably issue debt to cover its share of the project costs, the Act allows discretionary Federal block grant funds to be considered the local share despite restrictions limiting use of these funds to specific schools.

- Public Act 03-168** – This Act aligns State law with the testing requirements of the Federal “No Child Left Behind (NCLB) Act” by establishing additional statewide mastery tests for public school students in grades 3, 5 and 7, starting in 2005-06. It also changes when students take State mastery tests in grades 4, 6, and 8. The Act requires the Education Committee to evaluate State and local costs for implementing the NCLB compared to the Federal funds received for that purpose, and requires costs for conforming the State’s mastery tests with NCLB requirements to be paid exclusively from Federal funds the State and school districts receive under that law. The “Other Matters” section of this audit report contains a disclosure with respect to a potential lawsuit prepared by the Connecticut Attorney General against the U.S. Department of Education.

RÉSUMÉ OF OPERATIONS:

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of the “Grants and Restricted Accounts Fund” to account for certain Federal and other revenues that are restricted from general use. In previous years those Federal and other restricted revenues were accounted for in the General Fund as “Federal and Other Grants.” Thus, starting in the fiscal year ended June 30, 2004, Federal grants and other restricted funds that were formerly accounted for in the General Fund have been reclassified into the “Grants and Restricted Accounts Fund.” The change in fund structure resulted from the implementation of a new State accounting system.

General Fund receipts, as recorded by the State Comptroller, for the Department of Education totaled \$355,572,676 for the 2002-2003 fiscal year. For comparison purposes, the combined 2003-2004 fiscal year receipts for the General Fund (Teachers’ Certification fees, Refunds of Expenditures and Miscellaneous) and Grants and Restricted Accounts Fund (Federal grants, Other than Federal grants) as recorded by the State Comptroller for the Department of Education totaled \$388,837,043.

A summary of those receipts by category, as compared to the 2001-2002 fiscal year, follows:

	Fiscal Year		
	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
Federal grants	\$382,563,075	\$346,052,302	\$294,926,606
Other than Federal grants	3,728,380	4,114,544	5,685,406
Teachers' Certification fees	2,015,820	2,110,089	2,090,044
Refunds of expenditures	526,750	3,243,706	3,565,424
Miscellaneous	<u>3,018</u>	<u>52,035</u>	<u>40,520</u>
Total General Fund Receipts		<u><u>\$355,572,676</u></u>	<u><u>\$306,308,000</u></u>
Total General Fund and Grants and Restricted Accounts Fund Receipts	<u>\$388,837,043</u>		

Auditor of Public Accounts

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 local governments.

The reduction in the amount of refunds in fiscal year 2003-2004, as compared to the previous two years, primarily reflects the change in accounting procedures resulting from the implementation of the new State accounting system, as explained above. The new State accounting system, which began operations in fiscal year 2003-2004, codes certain refunds as an offset to expenditure accounts rather than as a revenue as had been done in prior fiscal years.

General Fund expenditures charged to Department of Education appropriations for the fiscal years ended June 30, 2002 and 2003 totaled \$2,306,794,732 and \$2,354,716,220, respectively. For comparison purposes, the combined 2003-2004 fiscal year expenditures for the General Fund (Budgeted Appropriations) and Grants and Restricted Accounts Fund (Federal grants, Other than Federal grants), as recorded by the State Comptroller for the Department of Education, totaled \$2,371,647,370.

A summary of those expenditures by category, as compared to the fiscal year ended June 30, 2002, follows:

	<u>2003-2004</u>	<u>Fiscal Year</u> <u>2002-2003</u>	<u>2001-2002</u>
Budgeted Appropriations:			
Personal services	\$ 111,439,408	\$ 117,136,581	\$ 111,959,685
Other expenses	13,367,102	13,462,110	13,208,369
Equipment	57,475	54,292	141,000
Grants to local governments and Various other payments	<u>1,874,749,506</u>	<u>1,858,878,085</u>	<u>1,870,236,079</u>
 Total Expenditures from Budgeted Appropriations	 1,999,613,491	 1,989,531,068	 1,995,545,133
Restricted Contributions:			
Other than Federal	3,747,029	4,837,567	16,041,409
Federal	<u>368,286,850</u>	<u>360,347,585</u>	<u>295,208,190</u>
 Total General Fund Expenditures		<u>\$2,354,716,220</u>	<u>\$2,306,794,732</u>
Total General Fund and Grants and Restricted Accounts Fund Expenditures	<u>\$2,371,647,370</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. The increase in Federal restricted expenditures from 2001-2002 was primarily attributable to corresponding increases in the funding allocations for Federal Assistance programs made by the United States Congress.

Two of the largest Federal Assistance programs with significant increases in expenditures from 2001-2002 to the end of the audited period were “Title I Grants to Local Educational Agencies,” which increased by approximately \$25,000,000, and “Special Education – Grants to States” which increased by approximately \$24,000,000.

In addition, a new Federal Assistance program entitled, “Improving Teacher Quality State Grants”, became operational in 2002-2003 with expenditures of approximately \$20,300,000 during that period and approximately \$24,100,000 for 2003-2004 period.

The increase in personal services expenditures in 2002-2003 was primarily the result of the additional costs associated with a statewide Early Retirement Incentive Program. As part of a 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.

According to expenditure records, approximately 81-84 percent of the personal services expenditures from budgeted accounts were related to the operation of the Connecticut Technical High School System.

The decrease in “Other than Federal” expenditures from the 2001-2002 fiscal year was primarily due to a non-reoccurring appropriation and expenditure of \$10,000,000 in that year for grants to non-State agencies for infrastructure improvements (i.e. school wiring).

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appropriations is as follows:

	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
Payments to Local Governments and Others:	\$	\$	\$
Education equalization grants	1,522,564,466	1,514,903,268	1,453,330,473
Priority school districts	82,155,617	78,384,401	80,345,856
Excess cost – student based	61,520,173	62,700,000	66,819,641
School construction grants	593,581	3,485,292	48,075,961
Transportation of school children	43,139,500	43,139,500	47,947,795
Magnet schools	54,353,101	43,719,216	32,568,168
Adult education	16,064,500	16,064,500	16,853,083
Charter schools	16,971,000	15,526,000	14,166,799
Interdistrict cooperation	14,041,224	12,830,803	13,037,560
Supplemental education aid	0	0	9,000,000
Excess cost – equity	0	0	8,500,000
American School for the Deaf	7,552,977	7,296,751	7,456,295
OPEN Choice program	7,972,178	6,981,700	6,899,200
Development of mastery exams	3,604,720	6,433,679	6,271,930
Family resource centers	4,756,461	5,256,431	6,132,000
Nonpublic school transportation	3,250,300	4,250,300	4,639,132
Health and welfare services	3,800,000	3,800,000	4,030,116
Teachers’ standards implementation program	3,021,346	3,016,050	3,345,303
Omnibus grants State supported schools	2,943,004	3,010,117	0
Regional educational services	1,600,000	2,630,818	3,132,515
Miscellaneous program payments	<u>24,845,358</u>	<u>25,449,259</u>	<u>37,684,252</u>
Total Grants to Educational Agencies and Other Payments	<u>\$1,874,749,506</u>	<u>\$1,858,878,085</u>	<u>\$ 1,870,236,079</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 Local Governments:

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.

School districts receiving Priority School District funding during the 2003-2004 fiscal year included Ansonia, Bloomfield, Bridgeport, Bristol, Danbury, East Hartford, Hartford, Meriden, 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:

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	<u>2003-2004</u>	<u>2002-2003</u>
Beginning Cash	\$ 49,169,980	\$ 74,659,056
Receipts - Sale of Bonds	<u>416,220,000</u>	<u>445,021,704</u>
Total Available	465,389,980	519,680,760
Disbursements - School construction grants	<u>453,631,348</u>	<u>470,510,780</u>
Ending Cash	\$ <u>11,758,632</u>	\$ <u>49,169,980</u>

Public Act 02-5, Section 9, increased the total bond authorization for school construction grants from \$2,829,460,000 to \$3,229,340,000 for the 2002-2003 fiscal year. Public Act 03-2, Section 20, increased the total bond authorization for school construction grants for the 2003-2004 fiscal year to \$3,259,460,000. Various Public and Special Acts authorized additional funding for Magnet School construction projects and other educational grants. This resulted in total authorizations for school construction in the School Building Capital Projects Fund of \$3,340,770,000 and \$3,825,770,000 as of June 30, 2003 and June 30, 2004, respectively. 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, 2004, 2003 and 2002, respectively, is as follows:

	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
Type of Grant:			
School Construction Grants	\$ 593,581	\$ 3,485,292	\$ 48,075,961
Principal Installment	453,631,348	469,944,076	371,898,765
Interest Subsidy	-	-	-
Total Grants	<u>\$ 454,224,929</u>	<u>\$ 473,429,368</u>	<u>\$ 419,974,726</u>
Source of Funding:			
General Fund	\$ 593,581	\$ 3,485,292	\$ 48,075,961
School Building Capital Projects	<u>453,631,348</u>	<u>469,944,076</u>	<u>371,898,765</u>
Total Grants	<u>\$ 454,224,929</u>	<u>\$ 473,429,368</u>	<u>\$ 419,974,726</u>

The State's liability for installment grant obligations under Sections 10-287 and 10-287h amounted to approximately \$792,000,000 and 700,000,000 as of June 30, 2003 and 2004, respectively. The liability for bond interest subsidy grants amounted to approximately \$235,000,000 and \$190,000,000 as of those same dates. 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 amounted to approximately \$2,480,000,000 and \$2,900,000,000 for the fiscal years ended June 30, 2003 and 2004, respectively.

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. The significant increase in operating grant expenditures corresponds with a similar increase in the number of magnet schools in operation. There were approximately 31 interdistrict magnet schools and programs operating in 2002-2003. As of September 2004 that number increased to approximately 45 magnet schools in operation.

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.

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 Connecticut Technical High 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 years ended June 30, 2003 and 2004, the balance in the Industrial Account did not exceed \$500,000.

Vocational Education Extension Fund cash receipts and disbursements for the fiscal years ended June 30, 2003 and 2004, as compared to the fiscal year ended June 30, 2002, are presented below:

	<u>2003-2004</u> <u>Fiscal Year</u>	<u>2002-2003</u> <u>Fiscal Year</u>	<u>2001-2002</u> <u>Fiscal Year</u>
Beginning Cash	\$ 1,230,912	\$ 975,446	\$ 664,809
Receipts:			
Tuition fees	2,056,340	2,066,900	2,063,069
Customer charges	<u>538,941</u>	<u>588,609</u>	<u>586,154</u>
Total Receipts	<u>2,595,281</u>	<u>2,655,509</u>	<u>2,649,223</u>
Total	\$ <u>3,826,193</u>	\$ <u>3,630,955</u>	\$ <u>3,314,032</u>
Disbursements:			
Extension school	1,389,530	1,868,986	1,790,381
Industrial account	<u>501,979</u>	<u>531,057</u>	<u>548,205</u>
Total Disbursements	<u>1,891,509</u>	<u>2,400,043</u>	<u>2,338,586</u>
Ending Cash	\$ <u>1,934,684</u>	\$ <u>1,230,912</u>	\$ <u>975,446</u>

OTHER MATTERS:

Lawsuit – State of Connecticut vs. U.S. Secretary of Education:

The following disclosure represents an event subsequent to the end of the audited period that may have a significant affect on the future operations and/or Federal funding of the State Department of Education.

As noted in the Foreword section of this report, Public Act 03-168 was passed to align State law with the testing requirements of the No Child Left Behind Act (NCLB, P.L. 107-110). It also requires that any costs incurred by the State to conform with those requirements be paid “exclusively” from the NCLB funds received by the State and local school districts. The State Board of Education had been concerned that the “proposed annual testing requirement will impose a significant cost on Connecticut education for no benefit.” The State responded to those concerns by passing Public Act 04-254 requiring the Office of Policy and Management and the Commissioner of Education to analyze and report the costs associated with compliance with the NCLB.

Cost estimates at the State level and selected local levels were completed toward the end of the June 30, 2005 fiscal year. Those studies found that the estimated State costs for the additional testing requirements under NCLB will exceed Federal funding by a substantial amount.

The Department of Education requested that the U.S. Department of Education grant certain amendments to the NCLB; the central request was to use “formative” tests in grade 3, 5 and 7 rather than add statewide, standardized accountability tests in those grades. That request was not granted to the Department.

On August 22, 2005, Connecticut’s Attorney General filed a lawsuit in the United States District Court against the U.S. Secretary of Education for failing to provide adequate funding under the No Child Left Behind Act of 2001(NCLB).

Subsequent Event - Student Activity Fund Transaction:

Our subsequent period audit procedures performed at the Department for the 2005 Comprehensive Annual Financial Report (CAFR) identified a Student Activity Fund transaction at one of the Department’s Connecticut Technical High Schools that was questionable in nature. The Department’s Office of Internal Audit agreed to review the matter.

Their review resulted in the issuance of an Advisory Memorandum, “Student Activity Funds (SAF) – Failure to Comply with Operating Procedures and Controls” dated December 29, 2005. That memorandum detailed their findings and recommendations concerning the transaction.

While the transaction in question was made subsequent to our audit period, it is included in this report as it directly relates to other recommendations concerning the Plan of Organization, Monitoring at the Department’s Connecticut Technical High School System and the Student Activity Fund described in the following section. The Office of Internal Audit’s findings and recommendations are detailed in our Recommendation 8.

Subsequent Event - Unauthorized Release of Confidential Information:

In March 2006, the Commissioner of Education disclosed that approximately 1,250 social security numbers belonging to employees of the Connecticut Technical High School System were inadvertently sent to assistant superintendents, principals and assistant principals of that system. While the Department took immediate steps to secure the data and to mitigate any misuse of the personal information, there remains a risk that the personal data could be misused by unauthorized parties. Any such misuse could result in legal action against the State and monetary loss in the form of court costs and attorney's fees.

This subsequent event is illustrative of our concern over the Department's lack of personal data protection controls as detailed prior to this event in our Recommendation 3, "Personal Data Protection Policy and Procedures."

CONDITION OF RECORDS

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

General Organizational and System-wide Controls:

Plan of Organization at the Department's Connecticut Technical High School System:

Background: In July 2003, the Department's Office of Internal Audit completed a "Performance Audit of the Central Office Operations of the Connecticut Technical High School System (CTHSS)." That review resulted in a number of significant organizational, communication and internal control recommendations. One organizational recommendation stated that, "[CTHSS] management should assess the current central office structure supporting budgeting, accounting, grants, contracts and other business management functions and consider establishing a formal operating unit(s) with defined lines of authority and responsibility. Management of [CTHSS] and DFAS (the Department's Division of Finance and Administrative Services) should further define the nature of their continuing collaborative effort involving [CTHSS] fiscal activities. Additional personnel resources, as practical, should be considered in this structural framework."

Criteria: Internal control comprises the plan of an organization and all coordinate methods and measures adopted within an entity to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. An important characteristic of internal control is the plan of organization, which provides appropriate segregation of duties.

Condition: In coordination with the Department's Office of Internal Audit, we performed site reviews at three Connecticut Technical High Schools. Those reviews found the following:

- As a matter of organizational policy, the business managers at the individual Connecticut Technical High Schools report directly to the directors of those schools. The business managers are also evaluated by the directors of those schools. While there is a collaborative effort involving the fiscal activities at the individual CTHS with the DFAS, those activities are supportive in nature and do not represent established lines of authority and responsibility.

- Current and prior audits of the Department’s Connecticut Technical High School System conducted by both the Department and the Auditors of Public Accounts have found a number of significant internal control deficiencies, many of which are persistent and repetitive in nature.

Effect: The reporting structure, as reflected by fiscal personnel reporting administratively to operational personnel, does not provide for the maximum potential segregation of duties or countervailing controls. The Department’s Office of Internal Audit in its Performance Audit referenced above noted that, “Without proper alignment of staff and authority in the fiscal-related functional areas, management controls that assure program accountability and effectiveness are reduced.”

Cause: The internal control structure for the CTHSS has not succeeded in reducing the number, type and/or repetitive nature of the internal control deficiencies found by external and internal audits and reviews. One significant component of that structure involves the plan of organization for the CTHSS. Fiscal and operational functions have been merged in the reporting structure resulting in a loss of countervailing controls.

Recommendation: The Department should consider revising its plan of organization and methods of assigning authority and responsibility to address those internal control deficiencies that remain persistent and repetitive throughout the Connecticut Technical High School System. (See Recommendation 1.)

Agency Response: “We agree with this recommendation. The Superintendent of the CTHSS has established clear lines of authority and responsibility within the CTHSS Central Office Fiscal Unit. However, on occasion, the day-to-day demands placed on the Fiscal Unit and the school business offices have left them unable to exercise and oversee the internal controls necessary to adequately segregate duties through the alignment of personnel. Consequently, plans have been made to hire additional personnel for the CTHSS Central Office Fiscal Unit to assist with certain accounts payable and accounting tasks. This will enable management and existing line staff to take a more direct approach towards establishing lines of authority and responsibility between CTHSS Central Office and the Division of Finance and Internal Operations..”

Monitoring at the Department's Connecticut Technical High School System:

Background: The Department has established an Office of Internal Audit. The Office is responsible for conducting audits as outlined in an annual audit plan approved by the State Board of Education. Those audit plans have included various reviews (see previous recommendation) of the Department's Connecticut Technical High School System.

The Department's Central Office Operations of the Connecticut Technical High School System has established a self-assessment unit. That self-assessment function has conducted annual site reviews of each of the Connecticut Technical High Schools.

Criteria: The monitoring function is integral to any internal control system. Monitoring is the assessment of internal control performance over time. It is accomplished by separate evaluations of internal control such as self-assessments and internal audits. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective.

Condition: With the exception of the coordinated site visits noted in the previous recommendation, the Department's Office of Internal Audit did not conduct any site reviews of the Connecticut Technical High Schools during the audited period.

The self-assessment unit stopped conducting site reviews of the Connecticut Technical High Schools in December 2003. Our analysis of those reviews that were performed for the audited period noted internal control deficiencies in such operational areas as: Educational Production Work; National School Breakfast and Lunch Program; Revenue Accounting; Student Activity Funds; Payroll and Personnel; Inventory; Petty Cash.

Previous reviews performed by our Office and the Department have reported on internal control deficiencies in many of these same operational areas. Internal control deficiencies associated with many of the operational areas listed above are described in greater detail in the recommendations that follow.

Effect: The reportable conditions that are associated with the operational areas, such as are noted above, reflect 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: The Department's Office of Internal Audit designs its annual audit

plan to address those areas of prioritized risk to the extent of available audit resources. Those resources were not sufficient to cover site reviews of the Connecticut Technical High School System.

The work of the self-assessment unit was discontinued due to similar resource pressures caused by reorganizations, retirements and employee turnover.

We also noted a growing backlog of Statewide School Construction project reviews that the Office of Internal Audit is responsible for performing that indicate that audit resources are not sufficient to address the workload.

Recommendation: The Department should take the necessary steps to ensure that monitoring activities at the Connecticut Technical High Schools are sufficient to determine whether internal controls are adequately designed, properly executed, and effective. In addition, the Department should develop the necessary procedures to ensure that all identified deficiencies in internal controls are corrected in a timely manner. (See Recommendation 2.)

Agency Response: “We agree with this recommendation. Unfortunately, the Early Retirement Incentive Plan (ERIP), combined with the Department’s reorganization activities and the implementation of CORE-CT has severely handicapped efforts to continually provide site reviews and monitor school business activities. However, the Superintendent will reengage the Administrative and Fiscal Review Team to provide a self-assessment for each of the seventeen (17) schools and three satellite operations. Reports resulting from the site visit will be submitted to agency management to address any internal or procedural deficiencies found.”

Personal Data Protection Policy and Procedures:

Background: The protection of personal data requires the establishment of a sound program that identifies the existence of all such data by responsible staff and by point of entry, its relevancy to the operations of the Department, and justification for its transfer or disclosure to other parties. As such the concept of personal data protection extends beyond the physical safeguarding of the data.

Criteria: Section 4-190(9) of the Connecticut General Statutes states that, “personal data means any information about a person’s education, finances, medical or emotional condition or history, employment or business history, family or personal relationships, reputation or character, which because of name, identifying number, mark or description can be readily associated with a particular person.”

In addition, Section 4-193(c) requires each agency to, “keep a complete record, concerning each person, of every individual, agency or organization who has obtained access to or to whom disclosure has been made of personal data kept by the agency.” Further, Section 4-193(e) states that each agency shall, “maintain only that information about a person which is relevant and necessary to accomplish the lawful purposes of the agency.”

Finally, Section 4-197 indicates that, “any agency which violates any provision of this chapter shall be subject to an action by any aggrieved person for injunction, declaratory judgment, mandamus or a civil action for damages.”

Condition: The Department has not formalized nor implemented a personal data protection policy that is responsive to Sections 4-190 to 4-197 of the Connecticut General Statutes. Some of the key elements missing from the Department’s internal controls that typically address such a policy include but are not limited to:

- The appointment of a Personal Data Protection Coordinator with sufficient positional authority to develop and enforce the Department’s compliance procedures;
- A formal and periodic survey to identify all of the personal data entry and exit points at the Department (electronically or otherwise);
- A comprehensive assessment of the relevancy of personal data to the operations of the Department;
- A periodic sampling of the justifications used by the Department for the transfer or disclosure of personal data.

Effect: In the absence of internal control procedures such as those described above, the Department has an increased risk that personal data may be received, maintained or disseminated in violation of State law. Any such violations could result in legal action against the State and monetary loss in the form of court costs and attorney’s fees.

- Cause:* The Department has had in development for several years a “Personal Data Protection and Privacy Policy” that is comprehensive in nature. However, due to competing priorities and a change in upper management, the draft has never been formally considered for approval and implementation.
- Recommendation:* The Department should take the necessary steps to ensure that it is in compliance with Sections 4-190 through 4-197 of the Connecticut General Statutes concerning personal data. Those steps should include the appointment of a Personal Data Protection Coordinator and the formal consideration of the proposed, “Personal Data Protection and Privacy Policy” and/or the implementation of such procedures as to fully address the requirements of State laws with respect to personal data. (See Recommendation 3.)
- Agency Response:* “We agree with this recommendation. The Department will take the necessary actions to formalize and institute an agency Personal Data and Privacy policy that complies with C.G.S. 4-190 through 4-197.”

Payroll and Personnel Controls:

Attendance Procedures at the Connecticut Technical High School System:

- 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 Connecticut Technical High Schools have established certain common record keeping practices that vary to some extent from facility to facility.
- Condition:* Many of the Connecticut Technical High Schools have adopted the practice of having the Director of the school sign a cover sheet authorizing all of the period’s payroll transactions in one batch as follows:
- FYE 2003: Nine of 15 timesheets from the various schools reviewed had a cover sheet sign-off by the Director. Two of the 15 timesheets had no supervisory signature;
 - FYE 2004: Eight of 10 timesheets from the various schools reviewed had a cover sheet sign-off by the Director.

The Directors are too far removed from the work activities of the employees to be the responsible official to certify those activities. Our Audit Report for the period ending June 30, 2002 included a recommendation to that effect and was agreed to by the Department.

Further, the attendance recordkeeping system upon which the Directors have based their payroll authorizations cannot be relied upon. In coordination with the Department's Office of Internal Audit, we conducted site reviews at three Connecticut Technical High Schools. For one of the three schools we found the following:

- Four instances were directly observed where the controls over the attendance log-in process were not followed by management and staff despite the presence of the auditors who were clearly visible to the arriving personnel;
- The Electronic Leave Request system was not effectively monitored throughout the system nor reconciled in a timely manner to the payroll system for the subject school. Fourteen instances were found in which an employee took leave time as indicated on the Electronic Leave Request system but the payroll system did not record the proper time.
- Employees were not required to review their timesheets at the end of the pay period. They could sign them at any time during the two-week pay period. The timesheets were not signed-off by their immediate supervisor.

The Connecticut Technical High 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 Connecticut Technical High Schools.

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.

Without timely reconciliation of leave time recorded on the Electronic Leave Request with leave time recorded in the payroll records, errors in staff leave records can occur and not be identified.

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

System-wide weaknesses in the Electronic Leave Request system contributed to the errors noted above.

Recommendation: Uniform attendance procedures should be established and maintained for the Connecticut Technical High School System. The Department's Connecticut Technical High 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 4.)

Agency Response: "We agree with this recommendation. The Connecticut Technical High School System will work collaboratively with the Bureau of Human Resources to develop uniform attendance procedures and provide training to appropriate staff. In addition, the Administrative and Fiscal Review Team will be reviewing and reporting to agency management the condition of the payroll/attendance activities of the Connecticut Technical High Schools during their visits."

Review of Personnel Action Records:

Background: Personnel actions such as pay rate changes, promotions, transfers, and reclassifications are all made through a Position or Employee action form. The forms are processed by the Human Resource unit by use of an E-mail system. The approved Position or Employee action forms are entered into the Core-CT Personnel system by the Payroll Unit.

The State of Connecticut's Core-CT system produces the Personnel Actions History Report that details all personnel actions.

Criteria: Supervisory authorization and approval is a key part of ensuring the propriety of personnel records. A supervisor or other authorized official should review and authorize any adjustments or changes to an employees' personnel record.

Condition: The Department has not developed a formal and documented process for the verification of personnel actions on the Personnel Actions History Report (or similar report) after they are entered in the Core-CT by the Payroll Unit. The Department has not assigned the task of reviewing all such entered personnel changes by someone independent of the authorization and entry functions.

The Department places reliance on the monitoring function performed by a special unit at the Department of Administrative Services. However, that special unit is limited by staffing and workload and can't be expected to monitor, identify and follow-up on all personnel errors. The Department retains the final responsibility for the verification of changes to the personnel records.

Effect: Unauthorized and/or inaccurate personnel changes may be made to the Core-CT system and go undetected by the Department.

Cause: The Department has not implemented a formal and documented process for reviewing and verifying personnel changes by someone independent of the approval and input functions.

Recommendation: The Department should implement a formal and documented process for reviewing and verifying personnel actions on the Personnel Actions History Report (or similar report) by someone independent of the approval and input functions. (See Recommendation 5.)

Agency Response: "We agree with this recommendation. Personnel actions involving pay rate changes, promotions, transfers and reclassifications are not entered into the payroll system without written confirmation from Bureau of Human Resources staff that the action is approved. A procedure is currently being implemented whereby the Personnel Actions History Report will be used to ensure that the desired changes to individual personnel records are reviewed and verified by a manager who is not the approver or involved in the initial entry of the personnel action."

Overtime and Compensatory Time Procedures and Records:

Criteria: When the need for overtime and compensatory time is considered necessary for the operational requirements of the Department, requests for authorization should be made as far in advance as possible to the appropriate manager. In an emergency situation when management personnel are not available to authorize overtime, an employee may attend to the emergency situation and advise management the following day.

Condition: Our review of the Department's use of overtime and compensatory time found:

- Ten overtime samples were tested with the result that 4 samples were found to have been approved after the fact and 5 samples lacked sufficient supporting documentation for approval.

- Ten compensatory time samples were tested with the result that 1 sample was found to have been approved after the fact and 1 lacked sufficient supporting documentation for approval.

Effect: The Department was not in compliance with standard guidelines relative to compensatory time and overtime. In addition, without proper oversight, the Department has less assurance that the services it has compensated its employees for have actually been received.

Cause: The Department did not exercise the necessary administrative oversight to ensure that overtime and compensatory time were approved in advance and that sufficient documentation was retained in support of those approvals.

Recommendation: The Department should implement the necessary controls to ensure that the authorization of overtime and compensatory time is made in advance of the work performed and that sufficient documentation is retained in support of those approvals. (See Recommendation 6.)

Agency Response: “We agree with this recommendation. The Bureau of Human Resources (BHR) will take the necessary actions to enforce the requirement for requesting and authorizing overtime and compensatory time in advance of the work being performed. Further, BHR will reinforce the requirement to ensure that appropriate documentation is available and retained.”

**Specific Program and Fund Controls:
Student Activity Funds:**

Background: Separate Student Activity Funds are maintained at the Connecticut Technical High Schools.

Criteria: The Department has issued formalized procedures for the Connecticut Technical High Schools to follow relative to the maintenance of Student Activity Fund operations.

Until December 2003, the Department conducted its own internal reviews of the operations of each Connecticut Technical High School within its system (see Recommendation 2). Those reviews included consideration of the operation of the Activity Funds at the various Connecticut Technical High Schools.

Condition: In coordination with the Department’s Office of Internal Audit, we performed site reviews at three Connecticut Technical High Schools. Those reviews found the following:

- Three instances (one instance at each school) were found where goods or services were purchased without evidence of competitive bidding by a minimum of three vendors, as required by the Student Activity Fund Manual.
- Two student activity field trips at one school were not supported by the approving club minutes or documentation concerning the bidding and payments made for the two activities.
- The Department's own internal reviews of its Student Activity Funds at the various Connecticut Technical High Schools disclosed a number of other internal control matters, many of which were repeated from prior reviews.

As part of a separate review of revenue, we found that twelve of eighteen of the Department's Student Activity Fund checking accounts retained balances in excess of \$10,000. That threshold has been nominally accepted as the maximum reasonable amount of cash to be maintained in a Student Activity Fund checking account. The remainder should be transferred to the State's short-term investment account to earn a return on the asset. As of June 30, 2004, the twelve Student Activity Fund checking accounts in excess of the threshold ranged from \$5,482 to \$87,081 and totaled \$344,625.

Effect:

Prior and current reviews, performed by our Office and the Department, of the Student Activity Funds at the various Connecticut Technical High Schools have identified a number of common and persistent reportable conditions. Those reportable conditions, such as are noted above, reflect Student 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 Connecticut Technical High Schools' Student Activity Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Further, those controls should ensure that excess Student Activity Fund checking account balances are invested in the State of Connecticut's short-term investment account. (See Recommendation 7.)

Agency Response: "We agree with this recommendation. The Bureau of Fiscal Services will seek advice from the Office of the Comptroller to further safeguard Student Activity Fund bank accounts and implement the policy accordingly. The Administrative and Fiscal Review Team shall review and report to agency management for corrective action, any internal deficiency found in the operation of the Student Activity Fund at each school. The new Student Activity Fund Coordinator has convened a committee to update the Connecticut Technical High School System Student Activity Fund manual and train appropriate staff in the proper methods of exercising controls over the recording, and processing of Student Activity Fund transactions."

Student Activity Funds – Donation to Parent Faculty Organization:

Criteria: The Department has issued formalized procedures for the Connecticut Technical High Schools to follow relative to the maintenance of Student Activity Fund operations. Those procedures include:

- "The Superintendent will approve SAF donations of over \$1,000."
- "All contracts for supplies, equipment, goods, or services over \$1,000 or current state minimum, should be awarded on the basis of competitive bidding by a minimum of three vendors."
- "Purchases by the Student Activity Fund are exempted from Sales and Use Tax."
- "The items donated, if equipment, should be set up on the inventory at fair market value."

Condition: According to the Advisory Memorandum issued by the Department's Office of Internal Audit, "on October 13, 2004, a check was issued from the student activity fund to a Parent Faculty Organization (PFO) in the amount of \$12,895.73." "The purpose of the donation to the PFO was to obtain fitness equipment and other equipment items for the school." Their review found the following:

“The principal who is also a member of the PFO, did not obtain the approval of the Superintendent of Schools for a donation from the school’s student activity fund in excess of \$1,000. The PFO operates independently from the school. As such, the purchase of equipment required “no approvals of the Superintendent, State vendors did not have to be used and no bidding was required.”

The Office of Internal Audit verified that the equipment was at the school, although inventory tags were not on the equipment in most cases. Their review found, “other items that had previously been donated by the PFO, but were not tagged.” “Sales tax was charged on some items and that rebates and gift certificates for future purchases were issued by some vendors. The Office of Internal Audit could not confirm the status of these items.”

Invoices for equipment totaling \$11,107.22 were physically verified. “The remaining funds amounting to \$1,788.51 apparently remain with the PFO. The PFO has refused to provide the Office of Internal Audit with copies of bank statements and cancelled checks for the 2004/05 year.” As a result, the status of the remaining funds could not be confirmed.

Effect: Expediency was exchanged for accountability by transferring funds from the Department’s control to the PFO for the apparent purpose of bypassing its own control procedures.

Cause: The Department’s administrative and accounting controls and monitoring activity were not sufficient to prevent or detect the lack of compliance with its operating procedures and controls.

Recommendation: The Department should establish a policy that clearly defines those limited instances where a donation to a Parent Faculty Organization is necessary to accomplish a task or goal that could not otherwise be accomplished through the resources and controls of the Department. The Department should refrain from making donations to Parent Faculty Organizations that are in effect transfers for the purpose of avoiding their own operating procedures and controls in order to expedite purchases. (See Recommendation 8.)

Agency Response: “We agree with this recommendation. Approval from the Superintendent for Student Activity Fund donations in excess of \$1,000 shall be obtained. Any equipment items purchased by the Parent Faculty Organization and donated to the school shall be tagged and recorded on the equipment inventory system. Receipts for all transactions shall be made available and adherence to proper purchasing procedures shall be followed.”

Background: Separate Production Funds are maintained at the Connecticut Technical High Schools. The Production Fund accounts for the financial activities in each school's trade areas.

Criteria: The Department has issued formalized procedures for the Connecticut Technical High Schools to follow relative to the production activities of its trade areas. As noted above, until December 2003, the Department conducted its own internal reviews of the operations of each Connecticut Technical High School within its system (see Recommendation 2). Those reviews included consideration of the operation of the Production Funds at the various Connecticut Technical High Schools.

Condition: In coordination with the Department's Office of Internal Audit, we performed site reviews at three Connecticut Technical High Schools. Those reviews found the following:

- Twenty of twenty-five PF-3 Production Order Forms (i.e. customer name, date, description of work, materials, labor, approvals, etc.) reviewed at the three Technical High Schools did not include the estimated job and labor costs.
- One instructor used an unauthorized "Car Maintenance Report" as a substitute for the required PF-3 Production Order Form. The use of the unauthorized form was neither detected nor prevented by school or Department management.
- A department head in one school did not use any PF-3 Production Order Forms during the audited period.
- The Department's own internal reviews of its Production Funds at the various Connecticut Technical High Schools disclosed a number of similar and other internal control matters, many of which were repeated from prior reviews.

Effect: Prior and current reviews, performed by our Office and the Department, of the Production Funds at the various Connecticut Technical High Schools have identified a number of common and persistent reportable conditions. Those reportable conditions, such as are noted above, reflect Production 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 Connecticut Technical High Schools' Production Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. (See Recommendation 9.)

Agency Response: "We agree with this recommendation. Connecticut Technical High School System management will take the necessary steps to ensure that production fund activities are in compliance with established procedures. Production work requirements will be reviewed and monitored as part of the site assessment."

Operation of Cafeteria Cash Registers:

Background: The Department operates cafeterias at the Connecticut Technical High Schools. Those cafeterias provide food services to the employees and students of the schools.

Criteria: Standard internal control procedures require that cash register drawers be closed after the execution of each and every cash transaction. All non-cash openings of cash register drawers should be monitored and approved by management.

Condition: In coordination with the Department's Office of Internal Audit, we performed site reviews at three Connecticut Technical High Schools. Those reviews found the following:

- It was observed that the drawers of three cash registers in two schools remained open during the lunch wave of students.

Effect: Cash register transactions may not be accurately accounted for and receipts are not properly safeguarded when cash registers remain open between transactions.

Cause: The Department's internal control procedures were not sufficient to detect or prevent the improper operation of the cash registers.

Recommendation: The Department should establish the necessary monitoring and operational controls to ensure that cash registers are properly

operated by the Connecticut Technical High Schools. (See Recommendation 10.)

Agency Response: “We agree with this recommendation. The Connecticut Technical High School System has procured a new Point of Sales (POS) system that is being phased in over the next several months. The implementation of the POS system in the schools includes training of appropriate staff on the proper operation of the cash registers in order to support the recording and accounting of the transaction.”

Equipment and Real Property Management:

Background: The Department reported approximately \$270,541,000 in inventory at June 30, 2004, a majority of which represents real property (\$227,289,000).

Criteria: 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.

During the audited period the State of Connecticut converted to a new central asset management and inventory system. The Office of the State Comptroller issued Memorandum No. 2005-04 with the intent of correcting deficiencies in the inventory records prior to that conversion. The memorandum stated that, “during the conversion of agency capitalized assets from the legacy systems, there will be a one time opportunity for agencies to remove and report missing assets from their records.” That process was to be completed by June 30, 2005.

Condition: Our prior audit reports have included repeated recommendations on the inadequacy of the controls and records over equipment purchased with State and Federal funds. In general, the Department’s detailed expenditure records and inventory listings did not support the amounts reported on the CO-59 report submitted to the Comptroller.

Further, the Department’s records were not adequate to substantiate the additions and deletions reported on the CO-59. Our current

review found similar inadequacies with respect to controls and records over equipment. However, those concerns were eclipsed by the following consideration:

The Department availed itself of the opportunity (as described above) to remove and report missing assets from its records. A complete and thorough inventory of the Department and its Technical High Schools was performed subsequent to our audited period. A second recount at the various schools is ongoing. The results of the first pass-through as of June 30, 2005, are as follows:

- Approximately \$3,702,000 was reported as lost or damaged;
- Approximately \$14,556,000 appeared to have been scrapped or disposed of over the years;
- Approximately \$5,792,000 was identified during the physical inventory process that had not been included in the inventory records.

Effect: Subsequent to our audited period, the Department allocated significant resources to identify, remove and report missing assets from their records. Procedural and organizational changes have been made to ensure the accuracy of future inventory reports and records.

A second inventory review is ongoing to further refine the controls necessary to prevent the inventory inaccuracies noted above.

Cause: The Department had not addressed the prior audit recommendation during the audited period. However, subsequent to the audited period the Department expended substantial effort in recounting its inventory.

Conclusion: The Department's efforts subsequent to the audited period have substantially addressed the conditions found prior to and during the audited period. The Department's inventory corrections are presented in this section for disclosure purposes.

Capitalization Procedures:

Background: The Department receives infrastructure funding that is primarily used for renovations and repair projects at its Technical High 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: 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 the Department’s Connecticut Technical High 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 11.)

Agency Response: “We agree in part with this recommendation. The CTHSS will modify the project completion form to indicate whether the project is a repair, renovation/replacement, or an addition. The CTHSS will continue to transmit a copy of the project completion form to the Bureau of Fiscal Services. The BFS will attach the project completion forms to the CO-59 agency annual asset report for the Comptroller to make the final determination(s) whether to capitalize the project costs.”

**Other Conditions:
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 Connecticut Technical High 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 \$2.1 million for both the 2002-2003 and 2003-2004 fiscal years.

Tuition fees from the Department’s adult educational programs at the Connecticut Technical High Schools were also approximately \$2.1 million for the fiscal years ended June 30, 2003 and 2004.

Criteria: In accordance with the 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.

Condition: Our prior review noted that reconciliations between fees received and deposited with the number of certifications processed or pending were not routinely prepared. That condition remains unchanged.

Our prior review found that the Department did not reconcile its Adult Education Accountability Reports for attendance and tuition to the revenue reports for the same activity. That condition remains

unchanged.

Effect: The lack of accountability procedures prevents the comparison of revenue that should have been received with amounts actually deposited.

Cause: 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.

Recommendation: Internal controls over the receipt of Teachers' Certification and Adult Education fees should be improved to include the performance of accountability procedures over those receipts. (See Recommendation 12.)

Agency Response: "We agree with this recommendation. The Department will report the adult education tuition and fees received and the costs associated with providing adult educational programs in the CTHSS. Further, an outside contractor is developing a system that will provide an electronic reconciliation of the teacher certificate revenues received to the number and type of certificates issued."

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.

A scan of the Department's travel documentation for the 2004 fiscal year noted a number of apparent instances where the required paperwork for petty cash advances was returned one or more days in excess of five working days.

A detailed review of thirteen travel advances made in June 2004 found that the paperwork associated with ten of those advances was returned in excess of the standard five working days allowed. The

paperwork ranged from one to 12 days late.

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 13.)

Agency Response: “We agree with this recommendation. The Bureau of Fiscal Services is revising the current travel authorization and reimbursement process to comply with the agency’s policy and the Comptroller’s regulations relating to the timely submission of travel documentation.”

RECOMMENDATIONS

Our prior report contained nine recommendations. There has been satisfactory resolution of four of these recommendations. The five remaining recommendations have been repeated or restated to

reflect current conditions. Eight additional recommendations are being presented as a result of our current examination. One of these additional recommendations resulted from our Statewide Single Audit review.

Prior Audit Recommendations:

- **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.**

This recommendation has been substantially addressed by the inclusion of a disclosure note on the financial information submitted by the Department to the Office of the State Comptroller.

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

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 7.)

- **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.**

This recommendation was substantially addressed subsequent to the audited period. The Department conducted an extensive recount of its inventory and disclosed the resulting lost or damaged items to the Office of the Comptroller and the Auditors of Public Accounts.

- **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.**

The condition remains unchanged. This recommendation will be repeated. (See Recommendation 13.)

- **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.**

The prior audit condition remained unchanged during the period under review. This recommendation will be repeated. (See Recommendation 11.)

- **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.**

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

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

Our review found no reoccurrence of the condition. The recommendation will not be repeated.

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

The prior audit recommendation remains substantially unchanged and will be repeated in modified form. (See Recommendation 4.)

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

The Department has not taken the necessary corrective action to address this recommendation. The recommendation will be repeated. (See Recommendation 12.)

Current Audit Recommendations:

1. **The Department should consider revising its plan of organization and methods**

of assigning authority and responsibility to address those internal control deficiencies that remain persistent and repetitive throughout the Connecticut Technical High School System.

Comment:

The business managers at the individual Connecticut Technical High Schools report directly to the directors of those schools and are also evaluated by the directors. This alignment of fiscal related functions under program management direction does not provide the maximum potential segregation of duties and countervailing controls.

- 2. The Department should take the necessary steps to ensure that monitoring activities at the Connecticut Technical High Schools are sufficient to determine whether internal controls are adequately designed, properly executed, and effective. In addition, the Department should develop the necessary procedures to ensure that all identified deficiencies in internal controls are corrected in a timely manner.**

Comment:

The Department's monitoring of internal controls at the Connecticut Technical High Schools during the period under review was greatly reduced due to the discontinuance of its self-assessments and limited audit coverage by its audit function.

- 3. The Department should take the necessary steps to ensure that it is in compliance with Sections 4-190 through 4-197 of the Connecticut General Statutes concerning personal data. Those steps should include the appointment of a Personal Data Protection Coordinator and the formal consideration of the proposed, "Personal Data Protection and Privacy Policy" and/or the implementation of such procedures as to fully address the requirements of State laws with respect to personal data.**

Comment:

The Department has not formalized nor implemented a personal data protection policy that is responsive to Sections 4-190 to 4-197 of the Connecticut General Statutes.

- 4. Uniform attendance procedures should be established and maintained for the Connecticut Technical High School System. The Department's Connecticut Technical High 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 Connecticut Technical High Schools. Deficiencies found and reported by the Department's own internal reviews are not always resolved in a timely manner.

- 5. The Department should implement a formal and documented process for reviewing and verifying personnel actions on the Personnel Actions History Report (or similar report) by someone independent of the approval and input functions.**

Comment:

The Department has not implemented a formal and documented process for reviewing and verifying personnel changes by someone independent of the approval and input functions.

- 6. The Department should implement the necessary controls to ensure that the authorization of overtime and compensatory time is made in advance of the work performed and that sufficient documentation is retained in support of those approvals.**

Comment:

The Department did not exercise the necessary administrative oversight to ensure that overtime and compensatory time were approved in advance and that sufficient documentation was retained in support of those approvals.

- 7. The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut Technical High Schools' Student Activity Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner. Further, those controls should ensure that excess Student Activity Fund checking account balances are invested in the State of Connecticut's short-term investment account.**

Comment:

The Department has not established the necessary accounting and administrative controls required to prevent the occurrence and reoccurrence of the types of exceptions noted in this and previous audit reports.

- 8. The Department should establish a policy that clearly defines those limited instances where a donation to a Parent Faculty Organization is necessary to**

accomplish a task or goal that could not otherwise be accomplished through the resources and controls of the Department. The Department should refrain from making donations to Parent Faculty Organizations that are in effect transfers for the purpose of avoiding their own operating procedures and controls in order to expedite purchases.

Comment:

The transfer of funds from the Department to a Parent Faculty Organization for the purchase of equipment was done to avoid the more stringent accountability controls of the Department and State.

- 9. The Department should establish the necessary accounting and administrative controls to ensure that the Connecticut Technical High Schools' Production Funds are operated in accordance with established procedures and that identified deficiencies in controls are corrected in a timely manner.**

Comment:

Prior and current reviews of the Department's Production Funds at the various Connecticut Technical High Schools have identified a number of common and persistent reportable conditions.

- 10. The Department should establish the necessary monitoring and operational controls to ensure that cash registers are properly operated by the Connecticut Technical High Schools.**

Comment:

Direct observation of three cash register operators at two Connecticut Technical High Schools noted that they were working from open cash register draws.

- 11. 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 form used by the Department's Connecticut Technical High School System does not include an accounting rationale for determining whether project expenditures should be capitalized. The form should include a final determination made by accounting personnel on whether project expenditures should be capitalized.

- 12. Internal controls over the receipt of Teachers' Certification and Adult Education fees should be improved to include the performance of accountability procedures over those receipts.**

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.

- 13. 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 review found that the required paperwork for travel advances was not received from employees within the five working day period established by the Comptroller.

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 years ended June 30, 2003 and 2004. 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 years ended June 30, 2003 and 2004, is included as a part of our Statewide Single Audit 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 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 years ended June 30, 2003 and 2004, 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 generally accepted government auditing standards.

We did, however, note 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: Plan of organization deficiencies at the Department's Connecticut Technical High Schools; lack of monitoring at the Department's Connecticut Technical High Schools; lack of a personal data protection policy and procedures; deficiencies in attendance procedures at the Connecticut Technical High Schools; deficiencies in overtime and compensatory time procedures; deficiencies in controls over Activity Funds, Production Funds and cash registers at the Connecticut Technical High Schools; the lack of adequate capitalization procedures; lack of accountability procedures over teacher certification receipts.

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. We believe that the following reportable conditions described above are considered to be material or significant weaknesses: Plan of organization deficiencies at the Department's Connecticut Technical High Schools; lack of monitoring at the Department's Connecticut Technical High Schools; lack of a personal data protection policy and procedures.

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
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts