

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
DEPARTMENT OF EDUCATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2008*

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

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December 15, 2010

**AUDITORS' REPORT  
DEPARTMENT OF EDUCATION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2008**

We have made an examination of the financial records of the Department of Education for the fiscal years ended June 30, 2007 and 2008. 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, 2008, were as follows:

	<u>Term Expires February</u>
Allan B. Taylor, Chairperson	2011
Janet M. Finneran, Vice Chairperson	2011
Beverly R. Bobroske	2011
Kathleen P. O'Connor	2013
John Voss	2011
Lynne S. Farrell	2011
Theresa Hopkins-Staten	2013
Patricia B. Luke	2013
Linda E. McMahan	2011
Dr. Mark K. McQuillan, Commissioner of Education	

Non-voting members

Michael P. Meotti, Commissioner, Department of Higher Education	(A)
Christine E. Larson, Student member	(B)
Brandt A. Smallwood, 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, 2009.

Dr. Betty J. Sternberg, resigned as Commissioner of Education, effective August 11, 2006. The State Board of Education appointed Dr. George A. Coleman as Acting Commissioner of Education, effective August 14, 2006. He served in that capacity until April 16, 2007, when Dr. Mark K. McQuillan was appointed Commissioner of Education.

**Legislative Changes:**

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

- **Public Act 06-55** – This Act increased the charter school enrollment cap for State charter schools found by the State Board of Education to have demonstrated a record of achievement. Such schools may, upon application to and approval by the State Board, enroll up to 85 students per grade to the extent that sufficient State money is appropriated.
- **Public Act 06-135** – This Act implemented provisions of the budget concerning education and covers a wide range of topics. Of interest for this report is that this Act eliminates the provision that required that the costs attributable to conforming to the additional testing requirements of the No Child Left Behind Act (NCLB) be paid exclusively from Federal funds received by the State and boards of education pursuant to NCLB.

- **Public Act 06-158** – This Act authorized the Commissioner of Education to enter into grant commitments for school construction projects, including previously authorized projects that have changed substantially in scope or cost, enacts special provisions for individual school construction projects. This Act also prohibits projects initially authorized as standard construction projects from later being reauthorized as interdistrict magnet schools and receiving a higher percentage of reimbursement than that determined at the time of the initial authorization.
  
- **Public Act 07-3, June Special Session** - This Act amended the education cost sharing formula by increasing the State guaranteed wealth level, the minimum base aid ratio, and the foundation, changing the weightings for resident students to better reflect need, and by phasing in full funding of the grant over time. It also allows towns to use a portion of their aid increase for non-educational purposes and provided that twenty percent of a town’s increased aid can will be withheld if a school district is in at least the third year of being identified as in need of improvement under No Child Left Behind Act (NCLB) and has failed to make Adequate Yearly Progress in mathematics or reading at the whole district level.
  
- **Public Act 07-114** – This Act changed the process for appointing the Commissioner of Education by requiring that the State Board of Education recommend the appointment of the commissioner to the Governor who then makes the appointment, subject to the advice and consent of the General Assembly in accordance with the nomination and approval process for State department heads.

**RÉSUMÉ OF OPERATIONS:**

On July 1, 2004, a new State accounting system, Core-CT, was implemented. This also included the transfer of accounting for Federal and other restricted funds from restricted accounts within the General Fund to newly established Special Revenue Fund entitled “Federal and Other Restricted Accounts”. As a result, Federal and other restricted account activity are no longer included as part of the General Fund.

A summary of those receipts by category, as compared to the 2005-2006 fiscal year, follows:

	<u><b>2007-2008</b></u>	<u><b>Fiscal Year 2006-2007</b></u>	<u><b>2005-2006</b></u>
Federal grants – Restricted	\$425,633,392	\$413,726,059	\$424,182,578
Grants – Other than Federal Restricted	<u>9,326,491</u>	<u>11,595,498</u>	<u>16,533,049</u>
<b>Total Federal Grants (12060)</b>	<u><b>434,959,883</b></u>	<u><b>425,321,557</b></u>	<u><b>440,715,627</b></u>
Connecticut Tech. Extension	<u>3,156,504</u>	<u>3,348,730</u>	<u>3,020,022</u>
<b>Total Connecticut Tech. (21003)</b>	<u><b>3,156,504</b></u>	<u><b>3,348,730</b></u>	<u><b>3,020,022</b></u>
Teachers' Certification fees	2,045,544	2,163,636	2,132,603
Other	<u>836,371</u>	<u>478,681</u>	<u>643,903</u>
<b>Total General Fund Receipts</b>	<u><b>2,881,915</b></u>	<u><b>2,642,317</b></u>	<u><b>2,776,506</b></u>
 <b>Total Receipts</b>	 <u><b>\$440,998,302</b></u>	 <u><b>\$431,312,604</b></u>	 <u><b>\$446,512,155</b></u>

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

The increase in the amount of refunds in fiscal year 2007-2008, as compared to the previous year, primarily reflects an increase in Federal grant spending from the Department of Education.

Combined Expenditures for the General Fund (Budgeted Appropriations) and Grants and Restricted Accounts Fund (Federal grants, Other than Federal grants) for the Department of Education for the fiscal years ended June 30, 2007 and 2008, totaled \$2,733,738,447 and \$3,002,502,943, respectively. For comparison purposes, the combined 2006 fiscal year expenditures for the General Fund and Grants and Restricted Accounts Fund, as recorded by the State Comptroller for the Department of Education, totaled \$2,652,397,228.

A summary of those expenditures by category, as compared to the fiscal year ended June 30, 2006, follows:

	<u>2007-2008</u>	<u>Fiscal Year 2006-2007</u>	<u>2005-2006</u>
Budgeted Appropriations:			
Personal services	\$ 140,559,920	\$ 135,228,051	\$ 125,704,653
Other expenses	18,382,714	17,597,516	15,695,768
Equipment	32,352	57,475	57,475
Grants to education agencies and Various other payments	<u>2,410,458,899</u>	<u>2,159,118,063</u>	<u>2,091,344,121</u>
Total Expenditures from Budgeted Appropriations	2,569,433,885	2,312,001,105	2,232,802,017
Restricted Contributions:			
Other than Federal	12,626,651	8,847,140	5,585,118
Federal	<u>420,442,407</u>	<u>412,890,202</u>	<u>414,010,093</u>
<b>Total General Fund and Grants and Restricted Accounts Fund Expenditures</b>	<u>\$3,002,502,943</u>	<u>\$2,733,738,447</u>	<u>\$2,652,397,228</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 fiscal year 2006-2007 to 2007-2008 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 2006-2007 to 2007-2008 were "Title I Grants to Local Educational Agencies," which increased by approximately \$5,064,527, and "Special Education – Grants to States" which increased by approximately \$3,700,354.

Approximately \$181,870,000 of the increase in “Grants to education agencies” from fiscal year 2006-2007 to 2007-2008 was the result of funding increases made by the General Assembly to the State’s primary and secondary education funding formula (i.e. education cost sharing).

According to expenditure records, the majority of personal services expenditures from budgeted accounts were related to the operation of the Connecticut Technical High School System. Expenditures for this System amounted to approximately \$121,085,622 and \$125,126,943 for the fiscal years ended June 30, 2007 and 2008, respectively.

The increase in “Other than Federal” expenditures from fiscal year 2006-2007 to 2007-2008 was primarily due to an increase in school construction project expenditures of \$2,492,326 in the second year.

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

	<u>2007-2008</u>	<u>2006-2007</u>	<u>2005-2006</u>
Payments to Educational Agencies and Others:	\$	\$	\$
Education equalization grants	1,808,802,300	1,626,932,345	1,619,662,393
Excess cost – student based	129,834,799	106,644,574	88,861,259
Priority school districts	127,061,405	122,780,325	108,735,494
Magnet schools	109,750,149	98,627,915	83,594,252
Transportation of school children	47,964,217	47,965,091	47,964,000
Charter Schools	34,880,000	28,850,250	22,446,721
Adult education	19,619,967	18,616,580	18,616,580
Development of mastery exams	15,687,824	11,391,173	13,420,958
Inter-district Cooperation	13,980,504	13,980,858	14,663,035
OPEN Choice program	13,272,156	11,392,474	10,777,092
American School for the Deaf	9,246,202	8,594,202	8,594,202
Family resource centers	6,359,460	6,359,461	6,359,461
Omnibus grants State supported	6,336,025	5,383,625	3,035,447
Early Childhood program	4,824,024	4,679,918	4,406,810
Health and welfare services	4,775,000	4,750,000	4,750,000
Vocational Agriculture	4,485,985	0	0
Nonpublic school transportation	3,995,000	3,995,000	3,995,000
Teachers’ standards implementation Program	3,032,302	3,029,480	3,008,909
Miscellaneous program payments	<u>24,365,118</u>	<u>29,997,939</u>	<u>28,352,508</u>
<b>Total Grants to Educational Agencies and Other Payments</b>	<u><b>\$2,388,272,436</b></u>	<u><b>\$2,153,971,209</b></u>	<u><b>\$2,091,244,121</b></u>

In addition to the grants and payments from General Fund budgeted accounts presented in the above summary, there were grants for school building construction financed from a capital projects

fund, which are discussed further in the report section entitled "School Construction Grants".

Descriptions of the significant State grant programs follow:

**Education Equalization Grants to Towns:**

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

**Excess Cost – Student Based:**

Under the provisions of Sections 10-76d, 10-76g, and 10-253 subsection (b), of the General Statutes, the Excess Cost-Student Based grant provides state support for special education placements. Certain State agency placements are subject to 100 percent State funding. The Excess Cost grant is computed twice during the year: February and May.

**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 2007-2008 fiscal year included Ansonia, Bridgeport, Bristol, Danbury, East Hartford, Hartford, Meriden, New Britain, New Haven, New London, Norwalk, Norwich, Stamford, Waterbury, and Windham.

**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 57 inter-district magnet schools and programs operating in 2007-2008.

**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.

**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. There were approximately 18 charter schools operating in 2007-2008.

**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.

**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

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Fund for the year under audit, is presented below:

	<b>Fiscal Year <u>2008</u></b>	<b>Fiscal Year <u>2007</u></b>
<b>Beginning Cash</b>	\$ 70,994,424	\$ 4,337,287
Receipts - Sale of Bonds	<u>717,290,000</u>	<u>819,570,000</u>
Total Available	788,284,424	823,907,287
Disbursements - School construction grants	<u>713,397,890</u>	<u>752,912,863</u>
<b>Ending Cash</b>	<u>\$ 74,886,534</u>	<u>\$ 70,994,424</u>

Public Act 07-7, Section 47, increased the total bond authorization for school construction grants from \$5,401,860,000 to \$6,711,860,000 for the 2007 fiscal year. Public Act 08-169, Section 30, increased the total bond authorization for school construction grants for the 2008 fiscal year to \$6,731,860,000. Various Public and Special Acts authorized additional funding for Magnet School construction projects and other educational grants. 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, 2006, 2007 and 2008, respectively, is as follows:

	<b><u>2007-2008</u></b>	<b><u>2006-2007</u></b>	<b><u>2005-2006</u></b>
<b>Type of Grant:</b>			
Principal Installment	694,812,047	730,326,860	670,361,848
Interest	<u>18,585,843</u>	<u>22,586,003</u>	<u>26,934,213</u>
<b>Total Grants</b>	<u>\$713,397,890</u>	<u>\$752,912,863</u>	<u>\$697,296,061</u>
<b>Source of Funding:</b>			
School Building Capital Projects	<u>713,397,890</u>	<u>752,912,863</u>	<u>697,296,061</u>
<b>Total Grants</b>	<u>\$713,397,890</u>	<u>\$752,912,863</u>	<u>\$697,296,061</u>

The State's liability for installment grant obligations under Sections 10-287 and 10-287h amounted to approximately \$454,000,000 and \$376,000,000 as of June 30, 2007 and 2008, respectively. The liability for bond interest subsidy grants amounted to approximately \$94,000,000 and \$75,000,000 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 \$2,800,000,000 and \$2,640,000,000 for the fiscal years ended June 30, 2007 and 2008, respectively.

**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, 2007 and 2008, no transfers were required.

Vocational Education Extension Fund cash receipts and disbursements for the fiscal years ended June 30, 2007 and 2008, as compared to the fiscal year ended June 30, 2006, are presented below:

	<u><b>2007-2008</b></u> <u><b>Fiscal Year</b></u>	<u><b>2006-2007</b></u> <u><b>Fiscal Year</b></u>	<u><b>2005-2006</b></u> <u><b>Fiscal Year</b></u>
<b>Beginning Cash</b>	\$ 1,309,736	\$ 2,802,721	\$ 2,359,087
Receipts:	3,150,113	3,368,782	3,026,000
Disbursements:	<u>(3,865,642)</u>	<u>(4,861,767)</u>	<u>(2,582,366)</u>
<b>Ending Cash</b>	<u>\$ 594,207</u>	<u>\$ 1,309,736</u>	<u>\$ 2,802,721</u>

Approximately 80 percent of the Vocational Education Extension Fund cash receipts were from tuition fees for adult education for the two fiscal years under review. The remaining cash receipts were from customer fees generated in the production shops. Adult education related expenses accounted for approximately 87 percent of the Fund's disbursements over the audited period. The rest of the disbursements were for costs associated with the operation of the production shops.

**OTHER MATTERS:**

The following disclosures represent ongoing matters that may have a significant effect in the way the State funds public education:

**Lawsuit – Connecticut Coalition for Justice in Education Funding vs. Rell:**

The Connecticut Coalition for Justice in Education Funding (CCJEF) brought this action against the State in November 2005 to enforce the State Constitution guaranteeing “that every child, regardless of the child’s town of residence, has the right to receive a suitable and substantially equal educational opportunity.” The lawsuit describes a suitable education as providing more than minimal skills. The State’s educational system “must prepare children who will, as adults, function as responsible citizens, compete in obtaining productive employment and advance through higher education.”

In March 2010, the State Supreme Court found that a lower court erred in dismissing claims filed by the CCJEF. The Court concluded “that article eighth, section 1, of the Connecticut Constitution guarantees Connecticut’s public schools students educational standards and resources suitable to participate in democratic institutions, and to prepare them to attain productive employment and otherwise to contribute to the state’s economy, or to progress on to higher education.” As a result of State Supreme Court’s ruling, the CCJEF can continue their action against the State.

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

In August 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). In April 2008, a Federal District Judge dismissed the suit ruling that Connecticut failed to prove that Federal officials had forced the State to spend its own money. Subsequently, the State appealed the decision to the Court of Appeals for the Second Circuit where it has been heard but no decision has been issued to date.

**PROGRAM EVALUATION:**

**Consideration of the Operational Relationship between the Department of Education and State Education Resource Center:**

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. For the audited period we judgmentally selected the State Education Resource Center (SERC) for consideration. That consideration stemmed from audit work performed as part of our review of the State's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. As part of that work, we reviewed four payments made for the purpose of funding SERC. The payments were made pursuant to a contractual agreement. Although the transactions were approved by the appropriate person, the State Department of Education (Department) did not provide documentation to support that the approval was based on a review of deliverables.

Our further inquiry and review of the contract led us to questions that went beyond the scope of our CAFR audit. Such questions included what type of entity was SERC, what were they responsible to do and how were they monitored. The answers to those questions are fundamental to our understanding of the relationship between the Department and SERC, the regulations to apply and the procedures to perform. We, therefore, added procedures to this audit to complete our review.

What is now SERC was created in 1969 to address the requirements of the Education of the Handicapped Act. Subsequently, Sections 10-4q and 10-76n of the General Statutes were enacted and placed requirements on the State Board of Education (Board), the Department and the Commissioner of Education (Commissioner) with regard to the continued operation of SERC and the activities that it may perform. To accomplish this, the Department contracted with Rensselaer Hartford Graduate Center (Rensselaer) to act as the fiscal agent for SERC. As compensation for this service, Rensselaer receives a percentage of the amount expended by SERC.

The statutes and contract suggest that SERC is distinct and separate from Rensselaer. However, the fact that payments for the funding of SERC are made directly to Rensselaer and that the federally required independent audit of those grant funds is performed and reported as a small portion of the Rensselaer audit suggests that SERC is part of Rensselaer. This is further complicated by the fact that SERC refers to itself as a "nonprofit agency" on its website, but no such nonprofit entity was ever formally established.

Since we raised our inquiry in October of 2008, the Department has engaged in internal discussions to address these issues. The Department is currently developing a proposal to amend the legislation cited above to allow SERC to be established as an official nonprofit corporation. The Department estimates that nonprofit status for SERC should be secured by June 2013. However, the current contract with Rensselaer expires in June 2010. Accordingly, we make the following recommendation:

**Interim SERC Administration:**

*Criteria:* Pursuant to Connecticut General Statutes, Sections 10-4q and 10-76n, the Department must maintain the State Education Resource Center (SERC).

Pursuant to “Procurement Standards for Personal Service Agreements and Purchase of Service Contracts” published by the State of Connecticut Office of Policy and Management, “an agency must develop an outline of work that describes in detail what the agency wants the future contractor to do, provide, or accomplish. At a minimum, the outline of work must include information about the contract’s purpose, scope, activities, deliverables, outcomes, and timeline.”

Office of Management and Budget (OMB) Circular A-133 states that “Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

*Condition:* During the period under review, the Department maintained SERC through a contractual fiscal agency arrangement with Rensselaer Graduate Center Hartford (Rensselaer) which expired on June 30, 2010. During the period under review the contract was for an amount not to exceed \$10,000,000 each fiscal year. The Department is in the process of establishing SERC as an official nonprofit corporation; however, that process is estimated for completion in June 2013. The current contract does not specify deliverables, outcomes or timetables. The entity definition of SERC is not clearly defined.

*Effect:* In the absence of deliverables, outcomes and timetables, it is not clear whether the Department is receiving the services for which it is paying from either SERC or the fiscal agent. In the absence of a clear definition of entity for SERC it is not clear whether the proper criteria are being applied for the determination of compliance with State and Federal regulations.

*Cause:* The business entity definition of SERC had not been sufficiently developed to keep pace with the expanded roles and responsibilities accorded to SERC.

*Recommendation:* It is recommended that the Department continue with its efforts (presently scheduled for completion at the end of fiscal year 2013) to establish the State Education Resource Center (SERC) as a separate legal entity and develop a contractual relationship with that entity with clearly defined deliverables, outcomes, timelines and audit requirements.

In the interim it is recommended that the Department should take the steps necessary to establish deliverables, outcomes and timetables for both SERC and its fiscal agent and should apply those deliverables, outcomes and timelines to the approval process prior to payment.

As a new contract period is imminent, the Department should consider a “fee for service” payment arrangement based on the deliverables, outcomes and timelines noted, as opposed to the percentage of expenditures methodology currently employed to ensure that the Department receives the services for which it is paying.

Finally, until the Department establishes SERC as a separate and distinct legal entity, the Department should take the steps necessary to ensure that SERC is audited as a separate and distinct entity and in accordance with OMB Circular A-133 rather than included only in the notes for the report of its fiscal agent. (See Recommendation 1.)

*Agency Response:* “We agree with the finding. The Department will continue to pursue its efforts toward securing SERC as a nonprofit organization by the end of FY2013. The Personal Services Agreement (PSA) that has been drafted to begin July 1, 2010 includes language consistent with OPM’s “Procurement Standards for Personal Service Agreements and Purchase of Service Contracts.” Criteria addressing the issues of charging a fee for service and ensuring that SERC is audited as a distinct entity are also contained within the new PSA.”

## CONDITION OF RECORDS

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

### **Enrollment Projections Utilized in the Computation of State Grant Reimbursement for School Building Projects (C.G.S. Section 10-286):**

*Background:* This matter was included in our prior audit of the State Department of Education (Department) as a Program Evaluation. It is repeated in summarized form in our current review as the associated prior audit recommendation with respect to enrollment projections has not been sufficiently addressed.

The prior Program Evaluation was designed to consider: whether school districts were developing and reporting “projected student enrollment” in accordance with Section 10-286 of the Connecticut General Statutes; whether the Department’s policies and procedures were sufficient to ensure that valid “projected student enrollment” data was used in the State’s school building grant calculation; and, whether there was a potential fiscal impact when those statutory requirements were not followed.

The State of Connecticut through the Department of Education provides a significant amount of financial support for State and local school construction projects and repairs. School Districts are reimbursed by the State for a portion of each building project’s costs based upon a statutorily-defined grant calculation. Enrollment projections represent one of the key data elements used in determining the amount of State grant reimbursement for certain school construction projects.

The total bond authorization for school construction grants for the 2008 fiscal year was \$6,731,860,000. Total school building Capital Project expenditures were \$752,912,863 and \$713,397,890 as of June 30, 2007 and 2008, respectively.

*Criteria:* Section 10-286(a)(1) of the General Statutes states in part that,

“... in the case of a new school plant, an extension of an existing school building or projects involving the major alteration of any existing building to be used for school purposes, the eligible percentage, as determined in section 10-285a, of the result of multiplying together the number representing the highest projected enrollment, based on data acceptable to the Commissioner of Education, for such building during the eight-year period from the date a local or regional board of education files a notification of a

proposed building project with the Department of Education, the number of gross square feet per pupil determined by the Commissioner of Education to be adequate... .”

*Condition:*

Our follow-up of the prior audit Program Evaluation recommendation on enrollment projections found:

- The Department has not completed the development and formal adoption of guidance concerning the requirements associated with Section 10-286 and the submission of projected student enrollment data for school building projects.
- A review of a sample of five enrollment projections received by the Department from School Districts found that four were accepted without supporting documentation showing the methodology used by the school district to develop the projection.

As was noted in our prior audit, a current review of six post grant audit reports completed by the Department’s Office of Internal Audit since our prior audit recommendation contained findings and recommended adjustments concerning improper and/or unsupported projected enrollment data reported by the respective districts. The six projects had a total of 4,333 student enrollment projections. All six projects had disallowed student enrollment projections ranging from 55 to 169. In total, the Office of Internal Audit disallowed 567 or 13% of the projections. These disallowed student enrollment projections resulted in a combined negative grant impact of approximately \$3.9 million.

*Effect:*

Improperly performed and/or unsupported enrollment projections could result in oversized school buildings, excess State grant reimbursements and unnecessary construction and operating costs borne by State and local taxpayers. Further, there is an increased risk that the State of Connecticut may incur bond debt beyond what is considered absolutely necessary.

*Cause:*

The Department has not developed sufficient guidance and procedures to ensure that school districts comply with Section 10-286. Further, the Department relies on post-construction audits to confirm enrollment data rather than obtaining and reviewing the supporting documentation (i.e. studies, analyses, etc.) from the school districts prior to construction.

*Recommendation:* The Department should develop and provide to districts updated guidance concerning the requirements associated with Section 10-286 and the submission of projected student enrollment data for school building projects.

At a minimum, the guidance should clarify what constitutes, “data acceptable to the Commissioner of Education” and the method of collection and reporting to the Department. Further, the Department should establish procedures to obtain and review such data for conformance with the newly established guidance, prior to the approval of project applications. (See Recommendation 2).

*Agency Response:* “We agree with the finding. The Department has developed draft guidelines for developing, documenting and reporting the highest projected enrollment for school construction grant purposes. In an e-mail dated May 7, 2008, the draft guidelines were provided to all school districts. The draft guidelines have also been presented and discussed at several school construction conferences. School districts are now required to submit enrollment projection documentation with the school construction grant application rather than at the time of the project audit. If adequate and acceptable documentation is not submitted with the grant application, the Department will receive the application for submission deadline purposes, but will not process grant payments unless and until adequate documentation of the projected enrollment has been submitted.”

**Prevention and Correction of Internal Control Deficiencies 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 on-site compliance reviews of the Connecticut Technical High School System (CTHSS).

The Department’s CTHSS has directed its own self-assessment unit to conduct site reviews at various locations within the CTHSS. For the 2005-06 school year, this unit conducted site reviews for the purpose of ensuring school compliance with Federal, State, and agency policies, procedures and statutes with the primary goal of eliminating unresolved audit findings. This unit had not performed any on-site compliance reviews during the audited period.

*Criteria:* An internal control system is the process by which management accomplishes specific goals or objectives of an organization. Internal controls are used to direct, monitor, and measure how an organization uses its resources to meet its goals or objectives.

As such, controls should protect an organization's resources by both preventing and detecting errors and/or fraud from occurring.

*Condition:* The Department's Office of Internal Audit conducted two on-site compliance reviews of the CTHSS during the audited period. They also completed three on-site compliance reviews between the end of the audited period and the last day of our field work. Those reviews reported ongoing internal control deficiencies in various operational areas such as: Student Activity Funds; Payroll and Attendance; Inventory; and, Donated Vehicles.

Those internal control deficiencies are similar to those that have been previously reported by the Department's Office of Internal Audit and our own Office. The repeated detection of the internal control deficiencies over many audit periods is evidence that the Department has not been successful in correcting those deficiencies and has not developed sufficient prevention controls.

*Effect:* The above-referenced internal control deficiencies affect the Department's ability to properly record, process and report financial data, safeguard assets, and comply with established procedures.

*Cause:* The Department has been unable to implement the necessary changes to the CTHSS internal control system to correct and then prevent the recurrence of the internal control deficiencies found by the Auditors of Public Accounts and the Department's Office of Internal Audit.

*Recommendation:* The Department should take the necessary steps to ensure that internal control deficiencies detected by the auditors of the Connecticut Technical High School System are adequately corrected and then prevented from recurring. At a minimum, prevention controls should be designed to predict and/or deter problems before they arise. (See Recommendation 3.)

*Agency Response:* "We agree with the finding. The CTHSS fiscal and administrative review team did assist in the detection of internal control deficiencies and the team was able to deter problems before they would arise in the schools. The resources once allocated for this purpose are now directed to fully support central office, district and school business operations, due to the statewide efforts to downsize State agencies and reduce operating costs. Since site visits by the team are no longer a viable option, the monitoring of the corrective actions taken by the school and central office to address the OIA's and the APA's findings must now be conducted through alternative methods including the use of a variety of applications which may prove to be not as effective."

**Written Travel Justification:**

*Criteria:* The Office of State Comptroller Employee Travel Procedures states that an employee may be required to travel in the performance of their duties or to maintain training and or hours for a certified designation. All travel requests must be made at least three (3) weeks prior to traveling. The following information outlines the travel process:

Employee provides information about the trip and submits a written request to the Director for approval. If the request is denied, the process ends. If the request is signed and approved:

The employee collects all information related to the desired trip. The employee obtains a Travel Authorization (CO-112), and provides the necessary information. The employee signs original CO-112. The employee incorporates all documentation which includes the itinerary, conference documents, etc. and submits the package to the supervisor for signatures with sufficient justification for the travel and the object and necessity of travel.

*Condition:* Our examination of sample travel requests totaling \$17,675 found 8 out of 10 instances or 80 percent where an employee was reimbursed for travel expenses without including full justification to support the travel request. The total amount of associated travel expenses for the 8 instances was \$13,837.

*Effect:* The propriety of travel requests that are not fully documented can not be properly assessed by the authorizer of the related expenditures. As a result, there is an increased risk that the travel expenditures incurred may not support the mission of the Department.

*Cause:* The Department did not comply with guidelines set forth by the Office of State Comptroller Employee Travel Procedures.

*Recommendation:* The Department should comply with established policies and procedures with respect to travel requests and improve internal controls over travel related expenditures. (See Recommendation 4.)

*Agency Response:* “We agree with the finding. The Department will take the steps necessary to comply with the Office of the Comptroller’s Employee Travel Procedures with particular regard to ensuring that all travel requests are fully documented and are properly assessed by the authorizer. Internal procedures have been reviewed and controls have been introduced to respond accordingly to the statewide efforts for curtailing out of state travel expenses.”

**Accountability for Equipment and Real Property:**

*Criteria:* Section 4-36 of the General Statutes requires that each State Agency establish and keep an inventory in the form prescribed by the State Comptroller. In addition, the State's Property Control Manual establishes the standards for maintaining an inventory system and sets reporting requirements. These standards and procedures include: properly tagging, recording and accounting for equipment; filing accurate Annual Fixed Assets/Property Inventory Reports (CO-59 report); maintaining a complete inventory with required information; and producing an annual inventory report that should be reconciled to a physical inventory.

The Department's "Equipment Inventory Procedures" states that a school designee is the person who receives, opens, and notifies the business manager when new equipment has arrived at the school. The designee should fill out a receiving report and then have the Business Manager sign off on the receiving report and determine whether or not the items delivered will be tagged using the Department's bar-code system.

*Condition:* Our current audit examination of the Department's Bond Funds and Capital Equipment Purchase Fund revealed the following:

- Our testing identified four of 20 or 20 percent of equipment purchases that did not have the business manager's signature on the receiving report.
- We have received and continue to receive disclosure reports from the Department's Office of Internal Audit concerning lost or damaged physical inventory at its Central Office and Connecticut Technical High School System. A review of a sample of those reports received between April 2009 and January 2010 included four technical high schools that had inventory that could not be located totaling approximately \$199,000 (ranging from \$8,000 to \$87,000).
- In addition, the internal auditors found approximately \$185,000 (ranging from \$29,000 to \$100,000) in inventory that was not on the inventory records for those schools.

*Effect:* Deficiencies in the controls over equipment inventory reduce the Department's ability to properly safeguard and report on its inventory assets.

*Cause:* The Department's inventory controls are not sufficient to ensure that additions and deletions to inventory are promptly and accurately recorded.

*Recommendation:* The Department should take the necessary steps to improve controls over its inventory system to ensure that equipment inventory additions and deletions are promptly and accurately recorded. In addition, the business manager should sign all receiving reports for equipment purchases to verify that all items were actually received. (See Recommendation 5.)

*Agency Response:* “We agree with the finding. The Department has taken the corrective actions necessary to improve its control over inventory and to ensure that equipment additions and deletions are accurately documented and recorded. Engagement of the CTHSS Board, Department management, the Superintendent’s Office and Schools have brought forward new standards, policies and procedures to maintain a district inventory system designed to properly record and safeguard assets.”

**Compensatory Time and Overtime Procedures and Records:**

*Criteria:* When the need for overtime or 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 compensatory time and overtime found:

- Seven of 20 or 35 percent of compensatory time samples selected throughout the audited period were not approved prior to the time earned. Four of 20 or 20 percent compensatory time samples selected throughout the audited period did not have the proper request form filed by the employee.
- Three of 10 or 30 percent of overtime samples selected throughout the audited period were not approved prior to the work performed.

*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 compensatory time and overtime 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 compensatory time and overtime 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 the finding. Proper administrative oversight needs to be improved relative to compensatory and overtime activities. To the extent possible, evidence of advance notice and sufficient documentation substantiating the activity will be retained and filed accordingly.”

**Workers’ Compensation Accrual Adjustment:**

*Criteria:* The Department of Administrative Services “Introduction to Workers’ Compensation & Core-CT Claim Processing Manual” provides guidance to State agencies on the Workers’ Compensation claims process. It includes guidance to agencies on the process by which the Third Party Workers’ Compensation Administrator issues the first check and the process by which agencies reconcile the first benefit check and adjusts the leave balances of the claimant.

The guidance explains that, when an injury first occurs, the injured worker often remains on the regular payroll, while the paperwork is processed. During this time the claimant may use sick time, personal leave or vacation. Eventually, the employee goes off the regular payroll and is paid by the Third Party Workers’ Compensation Administrator for Workers’ Compensation. The agency will have to be repaid for any money that it paid the employee, which should have come from Workers’ Compensation funds and the employee needs his or her time restored.

*Condition:* Our review of ten Workers’ Compensation Claims found two instances where the employee was not restored the appropriate hours of leave time. In response to our audit exception, the Department was able to subsequently restore approximately 50 hours of leave time to one employee’s record. In the second instance, the employee was no longer active with the Department. For that employee one hour of leave could not be restored.

*Effect:* The Department was not in compliance with the guidelines relative to Workers’ Compensation Claims processing. As a result, two employees did not have their leave time restored to the appropriate amount.

- Cause:* The exceptions noted appeared to be an administrative oversight.
- Conclusion:* The Department took corrective action by restoring the accrued time for one employee. The other exception could not be resolved as the employee in question was no longer active. However, the error noted was considered immaterial. Based upon the nature of the errors noted and their relative materiality, no recommendation will be offered for this matter.

**Dual Employment:**

- Criteria:* Section 5-208a of the Connecticut General Statutes states that “No State employee shall be compensated for services rendered to more than one State agency during a biweekly pay period unless the appointing authority of each agency or his designee certifies that the duties performed are outside the responsibility of the agency of principal employment, that the hours worked at each agency are documented and reviewed to preclude duplicate payments, and that no conflicts of interest exist between services performed. No State employee who holds multiple job assignments within the same State agency shall be compensated for services rendered to such agency during a biweekly pay period unless the appointing authority of such agency or his designee certifies that the duties performed are not in conflict with the employee’s primary responsibility to the agency, that the hours worked on each assignment are documented and reviewed to preclude duplicate payment, and that there is no conflict of interest between the services performed.”
- Condition:* Our review of the personnel files of 30 employees revealed that four or 13 percent of employees’ Dual Employment Request forms were either misplaced or never completed. In addition, 16 (53%) other Request forms were determined to be unverifiable due to a lack of response to our request for the forms.
- Effect:* Employees may be working in multiple State positions without proper authorization.
- Cause:* The existing monitoring procedures were not adequate to ensure that both dual employment certification forms are properly completed and maintained on file for all of the Department’s dual employees.
- Recommendation:* The Department should comply with Section 5-208a of the General Statutes and State dual employment policies to appropriately document and monitor dual employment situations. (See Recommendation 7.)

*Agency Response:* “We agree with the finding. The Department will improve its existing monitoring procedures to ensure that the proper certification forms have been completed and are retained for employees engaged in dual employment activities.”

**Non-Business Use of State Computers:**

*Criteria:* In accordance with C.G.S. 4d-2 c (1), the Chief Information Officer of the Department of Information Technology is responsible for developing and implementing policies pertaining to information and telecommunication systems for State agencies.

The Department of Information Technology’s Acceptable Use of State Systems policy states that, “State systems are provided at State expense and are to be used solely to conduct State of Connecticut business. Unacceptable system usage is generally defined as any activity NOT in conformance with the purpose, goals, and mission of the agency. Additionally, activities that are NOT in accordance with each user’s job duties and responsibilities as they relate to the user’s position within State service are also unacceptable.”

*Condition:* We tested employee Internet usage during the month of May 2009. Specifically, we reviewed the Internet usage of those employees who had been granted the capability to bypass blocked websites by the Department. We judgmentally selected 17 of 29 employees who had that capability and reviewed their Internet usage reports obtained from the Department of Information Technology. We also reviewed the same sample for the presence of unauthorized downloads existing on Department computers as of June 2009. Our review found the following:

- Our review noted eight or 47 percent of the 17 tested employees who exercised their bypass privileges and made a number of overrides of system blocked websites where the ‘work related purpose’ was not readily apparent. The Department was unable to provide documentation to show that it had a system in place to monitor such overrides for appropriateness.

Our review noted five or 29 percent of the 17 tested employees who downloaded software applications where the ‘work related purpose’ was not apparent. The Department was unable to provide documentation to show that it had a system in place to monitor such downloads for appropriateness.

*Effect:* The Department is not able to document compliance with the Department of Information Technology’s Acceptable Use of State Systems Policy. Non-work related websites may contain viruses that could have a negative impact on the Department’s computer systems.

Lost labor time due to personal use of the Internet and/or computers during work hours may impact on the Department's ability to carry out its mission.

*Cause:* The Department does not have a program in place that monitors employee Internet bypass activity and downloads, evaluates that activity for appropriateness and documents those efforts along with whatever corrective action was required.

*Recommendation:* The Department should develop a program of monitoring that tracks employee internet bypass activity and downloads, evaluates that activity for appropriateness and documents those efforts along with whatever corrective action was required.

The Department should require written justifications from employees applying for the capability to bypass blocked websites. On a periodic basis, the Department should reevaluate the justifications to ensure that those employees continue to need the granted bypass capability. (See Recommendation 8.)

*Agency Response:* "We agree with the finding. While the Department has implemented the DOIT Internet website restriction software which has severely limited employees access to non-state approved sites, monitoring activities stemming from the bypass privileges granted to employees need to be improved. Efforts to address appropriateness, use and timeframes will be directed to comply with DOIT's Acceptable Use of State System policy."

### **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 Teachers' Certification Unit within the Department of Education received fees of approximately \$2.2 and \$2.0 million for the fiscal years ended June 30, 2007 and 2008, respectively.

Tuition fees from the Department's adult educational programs at the Connecticut technical high schools were approximately \$2.7 and \$2.5 million for the fiscal years ended June 30, 2007 and 2008, respectively.

*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:* A prior review noted that reconciliations between fees received and deposited with the number of certifications processed or pending were not routinely prepared. While the Department has installed a new Certification system, that system has not been used to perform the reconciliation between certification activity and revenue.

*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 9.)

*Agency Response:* "We agree in part. The new certification system that was installed in FY2008 has been designed to allow for improved reconciliations between fees received and deposited with the number of certificates issues, processed or pending. Efforts have been taken by the Accounting Office and the Certification Unit to prepare and generate reconciliation reports in accordance with the State Accounting Manual.

Accounting ability reports are prepared by the CTHSS comparing revenues to operating expenses and actions have been taken to increase Adult Education revenues. While a favorable outcome has yet to happen, the district annually petitions to increase tuition fees for the purpose of generating adequate revenues to support the operation of its various Adult Education programs."

**Charter Schools:**

In our prior audit we included recommendations on emerging issues associated with two Charter Schools that had entered into a new type of business relationship with a management service organization. The Charter Schools entered into an agreement with the management service organization to provide administrative and program support services. Since that report, the number of management service organizations has expanded to three and the number of Charter Schools has increased from 16 to 18.

While the Department has taken positive steps toward addressing our prior audit recommendations, those steps have not been sufficient to fully resolve the issues noted. As a result, the prior audit recommendations are repeated in modified form as follows:

**Charter School Governance and Independence:**

*Criteria:* Section 10-66aa(1)(D) of the Connecticut General Statutes defines a charter school as a public, nonsectarian school which operates independently of any local or regional board of education in accordance with the terms of its charter. Further, no member or employee of a governing council of a charter school shall have a personal or financial interest in the assets, real or personal, of the school.

*Condition:* Our prior review of the composition of the governing boards (“boards”) for two charter schools and their management service organization found that several board members served on two or more of the boards. It was also noted that several employees had been paid by both the management service organization and one of the charter schools. There was no policy prohibiting charter schools and management organizations from sharing board members and/or management level employees.

The Department responded to our prior audit recommendation by indicating that they would consider the need to establish a policy to prohibit board members from serving on the charter school governing board and the management service organization. Our current review found that no such policy has been established.

In other correspondence, the Department indicated that they would revise the charter school application to include language prohibiting interlocking boards and revise the annual reporting form to include self-disclosures of related party governing board members.

While these are steps in the right direction, they are not sufficient to fully address our recommendation. Board member composition may change subsequent to the charter school application. Year-end self-disclosures may fail to identify interlocking board members.

*Effect:* Either in appearance and/or practice, the ability of charter schools to “operate independently” is compromised by the sharing of board members and employees. Decisions made for the collective good of the management service organization and the associated entities, may not be in the best interests of an individual charter school.

*Cause:* The Department has not established a formal policy and monitoring procedures to prevent and/or detect the presence of interlocking board members and the sharing of management level employees by charter schools and their management service organizations.

It was noted that the Department had taken steps to address this matter, however no formal policy with respect to this emerging issue has been generated to date.

*Recommendation:* The Department should establish a formal policy that prohibits charter schools and their management service organizations from sharing board members and management level employees. The policy should be distributed to all charter schools. In addition, the Department should establish its own monitoring procedures designed to periodically test for the presence of shared board members and management level employees by charter schools and their management service organizations. (See Recommendation 10.)

*Agency Response:* “The State General Assembly passed Section 15, of Public Act (P.A.) 10-111 which prohibits the practice of charter schools and their respective management service organizations from sharing board members and requires the disclosure of sharing management personnel. The law mandates that the State Board of Education adopt regulations in accordance with this section on or before July 1, 2011. The Connecticut State Department of Education (CSDE) is developing regulations in accordance with this section. Also, the CSDE will incorporate monitoring procedures into its charter school site visit protocols beginning in the 2010-11 school year. The monitoring procedures will test for the presence of shared board members and management level employees by charter schools and their respective management service organizations. CSDE will revise the ED001(C) to include the disclosure of related party board members and any shared management level employees amongst charter schools and affiliated management service organizations.”

**Calculation of Service Fee Rates by Management Service Organizations:**

*Criteria:* Pursuant to Section 10-66ee(c)(1) of the Connecticut General Statutes, “the State shall pay in accordance with this subsection to the fiscal authority for a State charter school for each student enrolled in such school, for the fiscal year ending June 30, 2006, seven thousand six hundred twenty-five dollars, for the fiscal year ending June 30, 2007, eight thousand dollars, for the fiscal year ending June 30, 2008, eight thousand six hundred fifty dollars, for the fiscal year ending June 30, 2009, and each fiscal year thereafter, nine thousand three hundred dollars.”

*Condition:* With respect to the service fees charged by the management service organization for services rendered to the two charter schools, our prior review noted the following: The Department had not yet developed a policy with respect to the application and use of service fees by charter school management service organizations; the service agreement did not specifically identify the direct and indirect costs that have been factored into the service fee rate; some of the services listed in the agreements in exchange for the service fee appeared to be one time or intermittent in nature; the Department had not reviewed the cost analysis and supporting documentation used by the management service organization to calculate the service fee rate charged to the two charter schools.

In its response to our recommendation, the Department indicated that it would review the basis for management fees charged to charter schools through an examination of management service organizations agreements during the charter school application process.

While the Department’s planned review is a step in the right direction, it does not address the substance of our recommendation. It is our position that the Department should develop a uniform policy and method for the calculation of service fee rates for all management service organizations. A one-time review of service fees charged by a management service organization at the point of application is not sufficient. Service fees should be periodically tested by the Department to determine if the rates charged are supported by actual costs and are calculated in accordance with State guidelines.

*Effect:* There is an indeterminate risk that the service fee rates charged by the management service organizations may recover costs from the charter schools in excess of the services provided. By extension, the State is also at risk of making grant payments to the charter schools for administrative and program services not fully rendered by the management service organization.

*Cause:* The Department has not developed a policy with respect to the methodology used by management service organizations to calculate service fee rates and has not established formal monitoring procedures to periodically determine if the rates are properly calculated and supported.

*Recommendation:* The Department should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates. The policy should be distributed to all charter schools. At a minimum, the policy should provide guidance on how service fee rates should be calculated and what constitutes allowable costs.

In addition, the Department should establish monitoring procedures designed to periodically test the service fee rates charged by management service organizations to determine if the rates are properly calculated and supported. (See Recommendation 11.)

*Agency Response:* “The State General Assembly passed Section 15, of Public Act 10-111 which requires charter schools to define allowable direct and indirect costs and the methodology to be used by charter management organizations to calculate per pupil service fees. The law mandates that the State Board of Education adopt regulations in accordance with this section on or before July 1, 2011. The Connecticut State Department of Education (CSDE) is developing regulations in accordance with this section. The 2010-11 Charter School Application includes language that requires applicants to indicate if it will contract with a management service provider. Such applicants must define what the allowable costs will be and include a calculation of the management fee. Applicants must provide the signed management service contract to CSDE for review and approval prior to opening the school. CSDE will review the basis for management fees charged for reasonableness. Also, CSDE collects through the ED001(C) the charter schools that pay fees to organizations for management related services, the management services performed and the amounts paid.” The CSDE will continue to monitor the relationship and fees as necessary for reasonableness. In addition, the CSDE will incorporate monitoring procedures into its site visit protocols beginning in the 2010-11 school year. The monitoring procedures will test the service fee rates charged by management service organization to determine that the rates are properly calculated and supported.”

**Fund Transfers between Charter Schools and Management Service Organizations:**

*Criteria:* Section 10-66aa(1)(D) of the Connecticut General Statutes defines a charter school as a public, nonsectarian school which operates independently of any local or regional board of education in accordance with the terms of its charter.

Section 10-66ee(e) of the Connecticut General Statutes states that, “Notwithstanding any provision of the general statutes to the contrary, if at the end of a fiscal year amounts received by a State charter school, pursuant to subdivision (1) of subsection (c) of this section, are unexpended, the charter school, (1) may use, for the expenses of the charter school for the following fiscal year, up to ten per cent of such amounts, and (2) may (A) create a reserve fund to finance a specific capital or equipment purchase or another specified project as may be approved by the commissioner, and (B) deposit into such fund up to five per cent of such amounts.”

*Condition:* Our prior audit noted several non-interest bearing transfers among the two charter schools and a management service organization. We identified several emerging issues associated with those monetary transfers:

While there may be a collective benefit in terms of minimizing the costs associated with cash management for the affiliated group of non-profits, such transfers may not be in the financial or operational interest of an individual charter school and its students; the transferor surrenders direct control over the transferred funds and relinquishes the potential investment income from those funds.

The Department indicated in its response to our recommendation that it would establish a policy to prohibit the use of State and Federal grant funds with respect to unsecured, non-interest bearing transfers between charter schools and a management service organization. To date it has not done so.

In other correspondence, the Department indicated that it would develop a formal review process of the IRS 990's to monitor unsecured, non-interest bearing transfers of State and Federal grant funds and non-state or Federal funds between charter schools and management service organizations. When implemented, such procedures will be effective in identifying such transfers. However, at a minimum, unsecured, non-interest bearing transfers of State and Federal grant funds should not be allowed.

*Effect:* Charter schools that make unsecured, non-interest bearing loans to affiliated organizations subject themselves to additional financial and operational risk. A default in the “loan” by one organization could have a negative, cascading effect on the other affiliated organization.

Further, in the absence of monitoring procedures, it is possible that the transferred amounts could include State or Federal grant funds in violation of applicable laws.

*Cause:* There is no Departmental policy allowing or prohibiting unsecured, non-interest bearing transfers among charter schools and their management service organizations.

There are no monitoring procedures in place to determine whether the transfers included State or Federal grant funds.

*Recommendation:* The Department should develop a policy with respect to unsecured, non-interest bearing transfers between charter schools and their management service organizations. The policy should be distributed to all charter schools.

At a minimum, the policy should prohibit the use of State and Federal grant funds for such purposes. The policy should describe the conditions under which such transfers are allowable, require the approval of the charter schools’ board of directors and require that the transfers be properly secured and interest bearing. (See Recommendation 12.)

*Agency Response:* “The State General Assembly passed Section 15, of Public Act 10-111 which prohibits unsecured, noninterest bearing transfers of State and Federal funds between charter schools and from charter schools to management service organizations. The law mandates that the State Board of Education adopt regulations in accordance with this section on or before July 1, 2011. The Connecticut State Department of Education (CSDE) is developing regulations in accordance with this section. Also, the 2010-11 Charter School Application includes language prohibiting this activity. In addition, the CSDE currently collects the IRS Form 990 and financial statements from each charter school as part of the annual single audit. The CSDE will develop a formal review process of the IRS Form 990 to ensure that unsecured, noninterest bearing transfers of State and Federal grant funds between charter schools and management service organizations do not take place.”

**Magnet Schools :**

On July 9, 1996, in *Milo Sheff, et al. v. William A. O’Neill, et al.*, the Connecticut State Supreme Court held that students in the City of Hartford attended public schools that were racially, ethnically and economically isolated, in violation of the Connecticut Constitution. The court urged the State to take prompt steps to remedy the violation. To date, measures taken by the State include a variety of high quality, accessible, reduced-isolation educational options for Hartford-resident minority students and other students throughout the State. These options include: Open choice, Inter-district magnet schools, State technical high schools, Charter schools, Regional agriculture science and technology education centers, and Inter-district cooperative grant programming.

As a result, interdistrict magnet schools were designed to voluntarily reduce racial, ethnic and economic isolation. They seek to attract students from school districts by offering a special, high-quality curriculum.

These schools provide educational opportunities for students who benefit from a range of themes or teaching philosophies that include performing arts, mathematics, science and technology, international studies, early childhood and multicultural education. Students are admitted by lottery.

**Magnet Schools - Programmatic or Site Reviews :**

*Criteria :* Section 10-264l of the Connecticut General Statutes directed the Department of Education to establish, within available appropriations, a grant program for the operation of interdistrict magnet school programs. An interdistrict magnet school program was created to support racial, ethnic and economic diversity through a special and high quality curriculum.

To determine whether the grant program for the operation of magnet schools is achieving the goal of reducing racial, ethnic and economic isolation, the Department developed an “Interdistrict Magnet School Visitations” monitoring and accountability tool. The tool includes questions that seek to assess whether the interdistrict magnet school has met: pupil participation enrollments, recruitment procedures, staff development and program planning, parent involvement, plant and facility and other considerations. The Department has been conducting site reviews using the monitoring and accountability tool for approximately fifteen years. In the prior fiscal year, approximately 4 or 5 site reviews were performed. We were informed that at one time, when there were far fewer magnet schools and more staff, every magnet school was visited once every two years.

*Condition:* The State Department of Education did not perform any of their programmatic site reviews for fiscal year 2010. As noted above, these reviews are designed to assess whether an inter-district magnet school has met the pupil participation enrollment, recruitment procedures, and various other considerations.

*Effect:* Without the programmatic site reviews, the Department cannot fully assess whether the inter-district magnet schools are making their best efforts toward achieving the goal of reducing racial, ethnic and economic isolation.

*Cause:* During the audited period, the number of magnet schools grew to sixty-one and the amount of the operating grants to magnet schools increased to \$155,000,000. However, during the audited period only one program manager was tasked with the responsibility for monitoring the magnet schools.

*Recommendation:* The State Department of Education should resume performing programmatic site reviews of the magnet schools on a sample or scheduled basis to ensure that the magnet schools are making their best efforts toward achieving the goal of reducing racial, ethnic and economic isolation. (See Recommendation 13.)

*Agency Response:* “We agree, in part, to the recommendation. The Connecticut State Department of Education (CSDE) collects and reviews racial data from all magnet schools annually. Magnet schools that are below targeted goals are contacted and asked to develop enrollment management plans. Assistance in developing these plans and implementing them is available through CSDE staff. Magnet schools are visited for specific programmatic issues throughout the year; however these are not considered comprehensive site reviews.

Using achievement data, No Child Left Behind compliance data and racial, ethnic and economic data, CSDE will prioritize magnet school site visitations. Currently, an education consultant new to the Bureau of Choice Programs is developing a revised site visit instrument informed by the magnet school program’s participation in the 2009-10 Results Based Accountability work under the Connecticut General Assembly’s Appropriations Committee and the creation of a comprehensive magnet school plan required by Public Act 09-6. Within available resources, site visit teams will be assembled to conduct these visits. The number of visits scheduled and completed will be contingent upon these resources.”

**Magnet Schools – Financial Audits and Agreed-Upon Procedures:**

*Background:* As of June 30, 2010 there were 61 magnet schools operating in the State of Connecticut. Of the 61 magnet schools, twenty-three are run by regional educational service centers or (i.e. RESC's). The State's share of the operating costs (excluding transportation and construction) of the magnet schools was approximately \$155,000,000 for fiscal year 2010. The number of magnet schools is expected to grow to over 70 schools in the next few years.

*Criteria:* The following sections describe the criteria for three different established types of audit reviews of interdistrict magnet schools:

- Pursuant to Section 10-264l subsection (n) (2) “Annually, the commissioner shall randomly select one inter-district magnet school operated by a regional educational service center to be subject to a comprehensive financial audit conducted by an auditor selected by the commissioner. The regional educational service center shall be responsible for all costs associated with the audit conducted pursuant to the provisions of this subdivision.”
- Pursuant to Sections 4-230 through 4-236 of the Connecticut General Statutes, each municipality, audited agency, tourism district and not-for-profit organization that expends State financial assistance equal to or in excess of one hundred thousand dollars in any fiscal year of the entity, shall have a single audit made for such fiscal year in accordance with the provisions of the above-referenced General Statutes.
- The Department has developed a review package for Form ED001C for charter schools. That form is used to report the charter school's financial operations for the year. In addition to the form, the Department has also developed agreed-upon audit procedures to be used by Independent Public Accountants to review the financial information on the Form ED001C and enrollment data reported by the charter school through the Public School Information System.

*Condition:* The following describe limitations in the audit coverage and established procedures for each of the three different types of audit reviews for interdistrict magnet schools:

- It will take the State Department of Education at least twenty-two years (or longer if the RESC's expand over that time period) to audit all the magnet schools that are run by RESCs. This very limited review rate significantly reduces the

usefulness and timeliness of any audit feedback to the users of the information. This is demonstrated by the following:

The one audit that has been conducted by the State Department of Education's Office of Internal Audit included the following recommendation. One recommendation described a significant variance between the auditor's student enrollment count and that reported by the magnet school through the Public School Information System. The Department's Internal Audit Unit calculated that the magnet school was overpaid by approximately \$100,000.

Due to the low frequency of audit reviews, such overpayments may exist in other magnet schools without a chance for discovery.

- We reviewed the Office of Policy and Management's State Single Audit Act Compliance Supplement for Magnet Schools. The compliance requirement and suggested audit procedures are very limited and do not address the core objectives of magnet schools. For instance, there are no procedures to verify student enrollment counts. The student enrollment counts are applied against the statutory reimbursement rate to arrive at the operating grant payments to the magnet school. The State Single Audit Act Compliance Supplement has no procedures that address whether magnet school programs have reduced racial, ethnic and economic isolation.
- The Department has not developed a magnet school form to report the financial operations for the year similar to the one used by charter schools. Further, the financial operations and enrollment data reported on the Public School Information System for magnet schools are not subjected to agreed-upon audit procedures by Independent Public Accountants as they are for charter schools.

*Effect:* The current level of audit coverage is not sufficient to adequately monitor the operating grant payments to the expanding number of magnet schools.

*Cause:* The laws, regulations and procedures used by the State to audit magnet schools have not kept pace with their expansion in numbers.

*Recommendation:* It is recommended that the Department of Education take the following actions with respect to the laws, regulations and procedures used by the State to audit and monitor magnet schools: Amend Section 10-2641 subsection (n) (2) to significantly increase the number

and/or percentage of annual audits performed on RESC magnet schools; Amend the Office of Policy and Management’s State Single Audit Act Compliance Supplement for Magnet Schools by expanding the suggested audit procedures to address the core objectives of magnet schools (i.e. reducing racial, ethnic and economic isolation); Develop a review package and agreed-upon audit procedures for its magnet schools based upon the charter school model. (See Recommendation 14.)

*Agency Response:* “We agree, in part, to the recommendations. The CSDE acknowledges the need for a rigorous review process of the data after the close of the fiscal year to ensure that each magnet school ultimately receives its appropriate compensation thereby protecting the state’s resources. With that in mind, the CSDE has proposed new legislation that would require the following post-payment activities:

1. All magnet schools, not just RESC-operated magnets as is currently mandated, would be required to annually file a financial audit.
2. The CSDE would be required to adjust current year payments for funds due from the prior year as a result of the financial audit or pupil data changes.

In the interim, the CSDE’s Office of Internal Audit will work with the Magnet School Program office to expand the State Single Audit Compliance Supplement to include testing of student enrollment for magnet schools. However, testing of program objectives including success in reducing racial, ethnic and economic isolation is better accomplished through program reviews than auditor evaluation through the State Single Audit process. Additionally, the CSDE will consider, under current resource limitations, the need for developing further agreed-upon procedures to test financial and enrollment data of magnet schools to supplement the current program and financial review processes.”

## RECOMMENDATIONS

Our prior report contained 15 recommendations. Six of the prior recommendations related by a shared control environment have been consolidated into one current recommendation. The remaining nine recommendations have been repeated or restated to reflect current conditions. Four additional recommendations are being presented as a result of our current examination.

### *Prior Audit Recommendations:*

- 1. The Department should develop and provide to districts updated guidance concerning the requirements associated with Section 10-286 of the General Statutes and the submission of projected student enrollment data for school building projects. At a minimum, the guidance should clarify what constitutes, “data acceptable to the Commissioner of Education” and the method of collection and reporting to the Department. Further, the Department should establish procedures to obtain and review such data for reasonableness and compliance with Section 10-286, prior to approval of project applications.**

The Department has made some progress in addressing this recommendation. However, that progress was not sufficient to fully address the conditions cited in our prior audit report. Therefore, the recommendation is repeated in modified form. (See Recommendation 2.)

- 2. The Department should develop the necessary monitoring and enforcement tools and procedures to ensure compliance with the Department of Information Technology’s Acceptable Use of State Systems Policy.**

The recommendation will be repeated as the condition remained substantially unchanged during the audited period. (See Recommendation 8.)

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

This condition remained substantially unchanged. In addition, our current review found a similar condition for the authorization of overtime. As a result, the prior audit recommendation will be repeated in expanded form to include the overtime authorization condition. (See Recommendation 6.)

- 4. The Department should comply with Section 5-208a of the General Statutes and State dual employment policies to appropriately monitor dual employment situations.**

This recommendation remained substantially unchanged and will be repeated for the current period under review. (See Recommendation 7.)

5. **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.**

Both the Department's Office of Internal Audit and our own Office have reported on the same or similar conditions over several audit cycles. The Department has not been able to correct the recurring deficiencies or develop sufficient prevention controls. Rather than repeating this individual recommendation, it was consolidated with several other prior audit conditions into one recommendation that addresses the Connecticut technical high schools' internal control system on an overall basis. (See Recommendation 3.)

6. **The Department should implement procedures to ensure that the variances between the Point of Service Accountability reports and deposits are properly researched and resolved in a timely manner. Also, the Department should ensure that the required monthly food and supplies reports are submitted and reviewed by management.**

Refer to the above comment under prior audit recommendation 5. (See Recommendation 3.)

7. **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.**

Refer to the above comment under prior audit recommendation 5. (See Recommendation 3.)

8. **The Department should establish the necessary monitoring and operational controls to ensure that cash registers are properly operated by the Connecticut technical high schools.**

Refer to the above comment under prior audit recommendation 5. (See Recommendation 3.)

- 9. The Department should take the necessary steps to improve controls over its inventory system to ensure that equipment inventory is properly recorded when received and safeguarded.**

The condition remained substantially unchanged during the audited period and will be repeated. (See Recommendation 5.)

- 10. The Department should take the necessary steps to improve controls over the acceptance of gifts to ensure that gift acceptance forms are completed and retained for each donated car and that the donated cars are properly recorded in inventory.**

Refer to the above comment under prior audit recommendation 5. (See Recommendation 3.)

- 11. The Department should institute procedures to ensure that the registration forms are appropriately maintained with supporting documentation for cash receipts and be kept for a minimum of three years or until audited, whichever comes later.**

Refer to the above comment under prior audit recommendation 5. (See Recommendation 3.)

- 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.**

While the Department has installed a new Certification system, that system has not been used to perform the reconciliation between certification activity and revenue. Pending implementation of that part of the new Certification system, this recommendation will be repeated in modified form. (See Recommendation 9.)

Rather than repeating the Adult Education fees part of this recommendation, it was consolidated with several other prior audit conditions into one recommendation that addresses the Connecticut technical high schools' internal control system on an overall basis. (See Recommendation 3.)

- 13. The Department should establish a formal policy that prohibits charter schools and their management service organizations from sharing board members and management level employees. The policy should be distributed to all charter schools. In addition, the Department should establish monitoring procedures designed to periodically test for the presence of shared board members and management level employees by charter schools and their management service organizations.**

While the Department has made some progress in addressing this recommendation additional work is needed to fully address the conditions cited in our prior audit report. Therefore, the recommendation is repeated in modified form. (See Recommendation 10.)

- 14. The Department should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates. The policy should be distributed to all charter schools. At a minimum, the policy should provide guidance on how service fee rates should be calculated and what constitutes allowable costs. In addition, the Department should establish monitoring procedures designed to periodically test the service fee rates charged by management service organizations to determine if the rates are properly calculated and supported.**

Refer to the above comment under prior audit recommendation 13. (See Recommendation 11.)

- 15. The Department should develop a policy with respect to unsecured, non-interest bearing transfers between charter schools and their management service organizations. The policy should be distributed to all charter schools. At a minimum, the policy should prohibit the use of State and Federal grant funds for such purposes. The policy should describe the conditions under which such transfers are allowable, require the approval of the charter schools' boards of directors and require that the transfers be properly secured and interest bearing.**

Refer to the above comment under prior audit recommendation 13. (See Recommendation 12.)

*Current Audit Recommendations:*

- 1. It is recommended that the Department continue with its efforts (presently scheduled for completion at the end of fiscal year 2013) to establish the State Education Resource Center (SERC) as a separate legal entity and develop a contractual relationship with that entity with clearly defined deliverables, outcomes, timelines and audit requirements. In the interim it is recommended that the Department should take the steps necessary to establish deliverables, outcomes and timetables for both SERC and its fiscal agent and should apply those deliverables, outcomes and timelines to the approval process prior to payment. As a new contract period is imminent, the Department should consider a “fee for service” payment arrangement based on the deliverables, outcomes and timelines noted, as opposed to the percentage of expenditures methodology currently employed to ensure that the Department receives the services for which it is paying. Finally, until the Department establishes SERC as a separate and distinct legal entity, the Department should take the steps necessary to ensure that SERC is audited as a separate and distinct entity and in accordance with OMB Circular A-133 rather than included only in the notes for the report of its fiscal agent.**

Comment:

Our initial interest in the working relationship between the Department, the Rensselaer Hartford Graduate Center and the State Education Resource Center (SERC) stemmed from other audit work performed at the Department. That working relationship has been a long standing one spanning many decades. The nature of the relationship has not evolved sufficiently to account for the expanded and changing roles for both the Department and SERC. Our continued inquiries in this area became the subject matter for the Program Evaluation included in this audit report.

- 2. The Department should develop and provide to districts updated guidance concerning the requirements associated with Section 10-286 and the submission of projected student enrollment data for school building projects. At a minimum, the guidance should clarify what constitutes, “data acceptable to the Commissioner of Education” and the method of collection and reporting to the Department. Further, the Department should establish procedures to obtain and review such data for conformance with the newly established guidance, prior to the approval of project applications.**

Comment:

While the Department has made progress in addressing this prior recommendation, that progress has not been sufficient to resolve the conditions cited in our prior audit. The Department has not completed the development and adoption of guidance concerning the requirements associated with the submission of projected student enrollment data by school districts.

Also, our sample testing found that the enrollment projections submitted by the school districts were not supported by documentation showing the methodology used by the school districts to develop the projections. None of the sample enrollment projections tested had a documented review based upon established guidance performed by the Department.

3. **The Department should take the necessary steps to ensure that internal control deficiencies detected by the auditors of the Connecticut Technical High School System are adequately corrected and then prevented from recurring. At a minimum, prevention controls should be designed to predict and/or deter problems before they arise.**

Comment:

Over the years the Department's Office of Internal Audit and our own Office have reported on a number of recurring control deficiencies in the Connecticut Technical High School System (CTHSS). For many of those control deficiencies, the Department has been unable to prevent their continued recurrence. Rather than repeating the same or similar recommendations for our current review, we have consolidated all of our prior audit recommendations involving the CTHSS into this one recommendation that addresses its system of controls on an overall basis.

4. **The Department should comply with established policies and procedures with respect to travel requests and improve internal controls over travel related expenditures.**

Comment:

Our review of a sample of travel requests found that employees were reimbursed for travel expenses without including a full justification to support those expenses.

5. **The Department should take the necessary steps to improve controls over its inventory system to ensure that equipment inventory additions and deletions are promptly and accurately recorded. In addition, the business manager should sign all receiving reports for equipment purchases to verify that all items were actually received.**

Comment:

The Department continues to experience significant inventory write-downs and write-ups of its equipment inventory. Inventory controls are not sufficient to ensure that additions and deletions to inventory are properly and accurately recorded. These control deficiencies reduce the Department's ability to safeguard its inventory assets.

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

Comment:

Our review found that employees worked overtime and compensatory hours prior to management's authorization of the time.

- 7. The Department should comply with Section 5-208a of the General Statutes and State dual employment policies to appropriately document and monitor dual employment situations.**

Comment:

The existing controls were not sufficient to ensure that dual employment certifications forms were properly completed and maintained on file by the Department for dual employees.

- 8. The Department should develop a program of monitoring that tracks employee internet bypass activity and downloads, evaluates that activity for appropriateness and documents those efforts along with whatever corrective action was required. The Department should require written justifications from employees applying for the capability to bypass blocked websites. On a periodic basis, the Department should reevaluate the justifications to ensure that those employees continue to need the granted bypass capability.**

Comment:

The Department does not have a program in place that monitors and evaluates employee internet bypass activity and downloads. Our review found that Department employees were visiting non-business related websites during work hours. We also noted that Department employees had downloaded software applications where the work related purpose was not apparent.

- 9. 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.

- 10. The Department should establish a formal policy that prohibits charter schools and their management service organizations from sharing board members and management level employees. The policy should be distributed to all charter schools. In addition, the Department should establish its own monitoring procedures designed to periodically test for the presence of shared board members and management level employees by charter schools and their management service organizations.**

Comment:

The Department has not yet established a formal policy and monitoring procedures to prevent and/or detect the presence of interlocking board members and the sharing of management level employees by charter schools and their management service organizations.

- 11. The Department should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates. The policy should be distributed to all charter schools. At a minimum, the policy should provide guidance on how service fee rates should be calculated and what constitutes allowable costs. In addition, the Department should establish monitoring procedures designed to periodically test the service fee rates charged by management service organizations to determine if the rates are properly calculated and supported.**

Comment:

The Department has not yet developed a policy with respect to the methodology used by management service organizations to calculate service fee rates and has not established formal monitoring procedures to periodically determine if the rates are properly calculated and supported.

- 12. The Department should develop a policy with respect to unsecured, non-interest bearing transfers between charter schools and their management service organizations. The policy should be distributed to all charter schools. At a minimum, the policy should prohibit the use of State and Federal grant funds for such purposes. The policy should describe the conditions under which such transfers are allowable, require the approval of the charter schools' board of directors and require that the transfers be properly secured and interest bearing.**

Comment:

The Department has not yet developed a policy with respect to non-interest bearing transfers between charter schools and management service organizations.

- 13. The State Department of Education should resume performing programmatic site reviews of the magnet schools on a sample or scheduled basis to ensure that the magnet schools are making their best efforts toward achieving the goal of reducing racial, ethnic and economic isolation.**

Comment:

The Department did not perform any of their programmatic site reviews of magnet schools for fiscal year 2010. These reviews are designed to assess whether an inter-district magnet school has met the pupil participation enrollment, recruitment procedures, and various other considerations.

- 14. It is recommended that the Department of Education should take the following actions with respect to the laws, regulations and procedures used by the State to audit and monitor magnet schools: Amend Section 10-264l subsection (n) (2) to significantly increase the number and/or percentage of annual audits performed on RESC magnet schools; Amend the Office of Policy and Management's State Single Audit Act Compliance Supplement for Magnet Schools by expanding the suggested audit procedures to address the core objectives of magnet schools (i.e. reducing racial, ethnic and economic isolation); Develop a review package and agreed-upon audit procedures for its magnet schools based upon the charter school model.**

Comment:

The laws, regulations and procedures used by the State to audit magnet schools have not kept pace with their expansion in numbers.

## 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, 2007 and 2008. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Education for the fiscal years ended June 30, 2007 and 2008, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

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

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

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

*A control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets,

and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 1—concerning the operational relationship between the Department of Education and the State Education Resource Center; Recommendation 2 – regarding enrollment projections utilized in the computation of State grant reimbursement for school building projects; Recommendation 3 – concerning the prevention and correction of internal control deficiencies at the Department's Connecticut Technical High School System; Recommendation 13 – on the need for programmatic or site reviews for Magnet schools; and, Recommendation 14 – regarding the insufficiency in the current level of audit coverage to adequately monitor the operating grant payments to magnet schools.

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

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the five significant deficiencies described above, we consider all of them to be material weaknesses.

### **Compliance and Other Matters:**

As part of obtaining reasonable assurance about whether the Department of Education complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Other Matters", "Condition of Records" and "Recommendations" sections of this report.

The Department of Education's responses to the findings identified in our audit are described in the accompanying "Condition of Records" section of this report. We did not audit the Department of Education's responses and, accordingly, we express no opinion on them.

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

**CONCLUSION**

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