

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FISCAL YEARS ENDED JUNE 30, 2009, 2010, AND 2011*

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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AUDITORS OF PUBLIC ACCOUNTS

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May 4, 2017

**AUDITORS' REPORT
DEPARTMENT OF EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2009, 2010, and 2011**

We have examined the financial records of the Department of Education for the fiscal years ended June 30, 2009, 2010, and 2011. This report on our examination consists of the Comments, Recommendations, and Certification which follow.

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

COMMENTS

FOREWORD

The Department of Education (SDE) operates primarily under the provisions of Title 10, Chapters 163 through 166, 168 through 170, and 172 through 173 of the General Statutes. The SDE, 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 of Education. 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

As of June 30, 2011, the State Board of Education consisted of thirteen members, at least two of whom have experience in manufacturing or a trade offered at the Technical High School System, one with a background in vocational agriculture and two nonvoting Grade 12 student members. The Governor appoints, with the advice and consent of the General Assembly, the members to the board. The eleven voting members are appointed to four-year terms, and the student members are appointed to one-year terms. The president of the Board of Regents for Higher Education serves as an ex officio, nonvoting member. The State Board of Education recommends to the Governor the appointment of the Commissioner of Education, who serves as the secretary to the board for a term coterminous with that of the Governor.

Members of the board as of June 30, 2011, were as follows:

Allan B. Taylor, Chairperson
Theresa Hopkins-Staton, Vice Chairperson
Ellen Camhi
Charles A. Jaskiewicz III
Terry H. Jones
Patricia Keavney-Maruca
Estela López
Patricia Luke
Ferdinand L. Risco, Jr.
Joseph J. Vrabely Jr.
Stephen P. Wright
George Coleman, Commissioner of Education non-voting members
Michael P. Meotti, President of the Board of Regents for Higher Education, Ex-officio
Patrick Campbell, Student Member
Neha Mehta, Student Member

Other members who served during the audited period were as follows:

Dr. Mark K. McQuillan, Commissioner of Education non-voting member
Beverly R. Bobroske
Lynne S. Farrell
Janet M. Finneran, Vice Chairperson
Linda E. McMahan
Kathleen O'Connor
John Voss

Hannah Klein, Student Member
Hunter Kodama, Student Member
Christine Larson, Student Member
Brandt Smallwood, Student Member

Dr. Mark K. McQuillan resigned as Commissioner of Education, effective January 2011. The State Board of Education appointed Dr. George A. Coleman as Acting Commissioner of Education, effective January 2011. He served in that capacity until October 2011, when Stefan Pryor was appointed Commissioner of Education. Commissioner Pryor resigned on January 8, 2015. On April 17, 2015, Dianna R. Wentzell was appointed commissioner and continues to serve in that capacity.

Legislative Changes

Notable legislative changes are as follows:

School Construction Projects

Public Act 08-169, effective June 12, 2008, authorized \$345.4 million in state grant commitments for 29 new school construction projects, with estimated total project costs of \$535.6 million. It also reauthorized 18 previously authorized projects that had changed substantially in cost or scope. The reauthorizations increased state grant commitments for these projects by a net \$109.4 million.

Public Act 09-2 enacted by the September 2009 Special Session of the General Assembly, effective July 1, 2010, authorized \$630.4 million in bonding for ongoing construction projects for the fiscal year ended June 30, 2010.

Public Acts 09-6 Section 1 enacted by the September 2009 Special Session of the General Assembly, effective October 5, 2009, implemented the budget concerning education. The act approved \$398.5 million in state grant commitments for school construction projects on the education commissioner's 2009 project priority list. The act also authorized additional new grants for 18 school projects and grant increases for 21 previously authorized projects.

Public Act 11-57 Section 93 increased school building project grants approved under Section 10-287d of the General Statutes, effective July 1, 2011, for the fiscal year 2012 authorizations and effective July 1, 2012 for the fiscal year 2013 authorizations. The legislature authorized up to \$523 million in new general obligation bonds for school construction project reimbursements in fiscal year 2012 and up to \$584 million for fiscal year 2013. For school construction subsidy grants, the legislature authorized up to \$13.4 million for fiscal year 2012 and up to \$8.3 million for fiscal year 2013.

Interdistrict Magnet Schools

Public Act 08-170, effective July 1, 2008, expanded the types of entities that may establish and operate interdistrict magnet schools and receive state grants for doing so to include the Board of Trustees for Community-Technical Colleges, University of Connecticut, Connecticut

State Universities, any independent college's board of trustees, and any other nonprofit corporation the education commissioner approves.

Public Act 09-2 enacted by the September 2009 Special Session of the General Assembly authorized up to \$4 million in general obligation bonds in accordance with Section 10-283 of the General Statutes, for start-up costs for interdistrict magnet schools required to meet the terms of the 2008 Sheff v. O'Neill stipulation and order. The act also increased per-pupil operating and transportation grants for these interdistrict magnet schools.

Public Act 09-6 enacted by the September 2009 Special Session of the General Assembly, effective October 5, 2009, amended Section 10-264h subsection (a) of the General Statutes. The act imposed a moratorium on applications for state school operating and construction grants for new interdistrict magnet schools not meeting the goals of the 2008 Sheff v. O'Neill stipulation and order. The moratorium lasts until the education commissioner develops a comprehensive statewide magnet school plan. The commissioner was required to submit the plan to the Education Committee by January 1, 2011. In addition, the act specified that interdistrict magnet schools operating under the Sheff v. O'Neill stipulation and order were required to enroll students through a commissioner-designated lottery, rather than directly.

Public Act 10-108, effective June 7, 2010, authorized \$416.6 million in grant commitments for 29 new local school construction and interdistrict magnet school projects. The act also reauthorized and increased grant commitments for four previously authorized projects.

Public Act 10-111 Section 15, effective July 1, 2010, established Section 10-66mm of the General Statutes, requiring the State Board of Education, on or before July 1, 2011, to adopt regulations, to (1) prohibit a charter school and any affiliated charter management organization operating such charter school from sharing board members with other charter schools and such charter management organizations; (2) require the disclosure of sharing management personnel; (3) prohibit unsecured, noninterest bearing transfers of state and federal funds between charter schools and from charter schools to charter management organizations; (4) define allowable direct or indirect costs and the methodology to be used by charter management organizations to calculate per pupil service fees; and (5) permit charter management organizations to collect private donations for purposes of distributing them to charter schools.

Public Act 11-179 Section 9, effective July 1, 2011, amended Section 10-264l subsection (n)(1) of the General Statutes, to require magnet schools to annually file a financial audit with the commissioner of education in such form as prescribed by the commissioner.

Public Act 11-48 Section 195, effective June 13, 2011, codified as Section 10-262s of the General Statutes, gave the education commissioner authority to transfer funds appropriated for the Sheff v. O'Neill settlement to (1) the vocational technical schools for programming and (2) grants for (a) inter-district cooperative programs, (b) state charter schools, (c) the Open Choice program, and (d) inter-district magnet schools.

Education Reform and Data Tracking

PA 08-107, effective July 1, 2008, eliminated the beginning educator support and training program and established a 21-member task force to develop a plan for a new mentor assistance program.

PA 09-241, effective July 1, 2009, amended Section 10-10a of the General Statutes to require the Department of Education to develop and implement a statewide public school information system. The system was required to assign a unique student identifier to each student and provide for the tracking of the performance of individual students on each of the statewide mastery tests.

Effective August 1, 2009, the act required SDE to provide data maintained in the system to full-time permanent employees of nonprofit organizations organized and operated for educational purposes.

Public Act 10-111, effective July 1, 2010, amended Section 10-10a subsection (1)(b) of the General Statutes and made numerous changes to certification requirements and expanded the statewide information system. The enhanced data reporting and tracking systems enabled the evaluation of data pertaining to teacher training and education, student progress, and overall school or district performance.

Early Childhood Program Planning and Evaluation and the Early Childhood Information System

Public Act 11-181 Section 2, effective July 1, 2011, established a “coordinated system of early care and education and child development.” The act required the governor to appoint a planning director to develop a plan to implement the new system. It also listed the new system’s duties and required various state agencies to assist the planning director in the plan’s development. It (1) required the system to collaborate with local and regional early childhood councils to implement the system at the local level and (2) listed the childhood councils’ duties in the collaboration.

RÉSUMÉ OF OPERATIONS

A summary of receipts by category, as compared to the fiscal year ended June 30, 2008, follows:

	<u>Fiscal Year</u>			
(In Thousands of Dollars)	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Federal Grants – Restricted	\$ 425,634	\$ 440,257	\$ 864,376	\$ 838,289
Grants – Other than Federal Restricted	<u>9,326</u>	<u>11,357</u>	<u>3,968</u>	<u>2,626</u>
Total Federal Grants and ARRA	<u>434,960</u>	<u>451,614</u>	<u>868,344</u>	<u>840,915</u>
Connecticut Technical Extension	<u>3,156</u>	<u>3,091</u>	<u>2,532</u>	<u>2,780</u>
Total Connecticut Technical	<u>3,156</u>	<u>3,091</u>	<u>2,532</u>	<u>2,780</u>

(In Thousands of Dollars)	<u>Fiscal Year</u>			
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Teacher Certification Fees	2,046	2,462	3,379	3,726
Other	<u>836</u>	<u>1,069</u>	<u>871</u>	<u>1,340</u>
Total General Fund Receipts	<u>2,882</u>	<u>3,531</u>	<u>4,250</u>	<u>5,065</u>
Total Receipts	<u>\$ 440,998</u>	<u>\$ 458,236</u>	<u>\$ 875,126</u>	<u>\$ 848,760</u>

As presented in the summary, the increase in revenues was primarily attributable to increases in federal grants, most significantly the American Recovery and Reinvestment Act (ARRA) of 2009 funding of \$0.1 million, \$400 million and \$359 million in the fiscal years ended June 30, 2009, 2010, and 2011, respectively. Additionally, a new federal program, Education Job Funds Program, provided \$28 million in the fiscal year ended June 30, 2011, to fund jobs that provide educational and related services for early childhood, elementary, and secondary education.

Total expenditures for the General Fund, grants to education agencies, various other payments and Restricted Accounts Fund expenditures for the Department of Education for the fiscal years ended June 30, 2009, 2010, and 2011, as compared to the fiscal year ended June 30, 2008, are presented below by category.

(In Thousands of Dollars)	<u>Fiscal Years</u>			
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Budgeted Appropriations:				
Personal Services	\$ 140,560	\$ 145,072	\$ 135,027	\$ 135,743
Other Expenses	18,383	18,162	18,164	20,059
Equipment	32	102	198	300
Grants to Education Agencies and Various Other Payments	<u>2,410,459</u>	<u>2,508,264</u>	<u>2,509,368</u>	<u>2,552,340</u>
Total Expenditures from Budgeted Appropriations	2,569,434	2,671,600	2,662,757	2,708,442
Grants and Restricted Accounts Fund:				
Other than Federal	12,627	14,473	11,878	6,414
Federal	<u>420,442</u>	<u>440,937</u>	<u>591,403</u>	<u>567,348</u>
Total General Fund and Grants and Restricted Accounts Fund Expenditures	<u>\$3,002,503</u>	<u>\$3,127,010</u>	<u>\$3,266,038</u>	<u>\$3,282,204</u>

Federal restricted expenditures were audited on a statewide basis. The results of those annual reviews are presented as part of our Statewide Single Audit for each respective fiscal year. The increase from 420.4 million in federal restricted expenditures during the fiscal year ended June 30, 2008 to \$567.3 million during the fiscal year ended June 30 2011 was primarily attributable to ARRA funding for the Special Education - Grants to States, Part B, Recovery Act (CFDA

#84.391) and Title I Grants to Local Education Agencies, Recovery Act (CFDA #84.389). In addition, expenditures of the federal Education Jobs Fund (CFDA #84.410) contributed to the increase. The following table summarizes the expenditures from each of these federal awards.

(In Thousands of Dollars)	<u>Fiscal Years</u>			
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Title I Grants to Local Education Agencies, Recovery Act (CFDA #84.389)	\$ -	\$ -	\$ 45,377	\$ 24,531
Special Education - Grants to States, Part B, Recovery Act (CFDA #84.391)	-	100	75,035	55,872
Education Jobs Fund (CFDA #84.410)	-	-	-	28,003
All Others	<u>420,442</u>	<u>440,837</u>	<u>470,991</u>	<u>458,941</u>
 Total Expenditures from Budgeted Appropriations	 <u>\$ 420,442</u>	 <u>\$ 440,937</u>	 <u>\$591,403</u>	 <u>\$567,348</u>

The General Assembly increased funding for grants from \$2.4 billion during the fiscal year ended June 30, 2008 to \$2.6 billion during the fiscal year ended June 30 2011. Offset by decreases in other grants, the net increase is mainly attributable to increases in the primary and secondary education funding formula (education cost sharing) and the magnet school funding grant. The primary and secondary education funding grant increased by \$5.1 million, \$1.0 million and \$74.1 million during the fiscal years ended June 30, 2009, 2010, and 2011, respectively. Magnet school funding increased by \$28.3 million, \$26.4 million and \$18.9 million during the fiscal years ended June 30, 2009, 2010, and 2011, respectively.

The majority of personal services expenditures from all funds were related to the operation of the Connecticut Technical High School System. Expenditures for this system amounted to \$130.1 million, \$122.8 million and \$122.9 million for the fiscal years ended June 30, 2009, 2010, and 2011, respectively.

The overall decrease in Other than Federal expenditures during the fiscal years ended June 30, 2009, 2010, and 2011, was primarily due to a decrease in school construction project expenditures of \$4.2 million, comprised of an approximate \$4.3 million increase in the fiscal year ended June 30, 2009, and a combined approximate \$8.5 million decrease in the fiscal years ended June 30, 2010 and 2011.

A summary of grants to educational agencies and other payments made from budgeted appropriations, as compared to the fiscal year ended June 30, 2008, is as follows:

(In Thousands of Dollars)	<u>Fiscal Year</u>			
	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Education Equalization Grants	\$1,808,802	\$1,882,944	\$1,883,944	\$1,889,023
Magnet Schools	109,750	128,613	155,033	183,330
Excess Cost – Student-Based	129,835	140,045	139,821	139,811
Priority School Districts	127,061	114,417	115,509	115,656
Charter Schools	34,880	41,655	48,081	52,768
Transportation of School Children	47,964	47,974	28,729	28,740
Adult Education	19,620	19,567	19,565	19,565
Development of Mastery Exams	15,688	16,425	16,585	17,441
OPEN Choice Program	13,272	14,572	14,949	16,757
Interdistrict Cooperation	13,981	14,419	13,990	11,081
American School for the Deaf	9,246	9,979	9,480	9,480
Sheff Settlement	932	4,250	5,215	7,351
Family Resource Centers	6,360	6,041	5,739	6,041
Early Childhood Program	4,824	4,984	4,932	5,007
Vocational Agriculture	4,486	4,561	4,561	4,561
After School Programs	5,088	5,280	4,700	4,320
Health and Welfare Services	4,775	4,775	4,775	4,298
Nonpublic School Transportation	3,995	3,995	3,995	3,995
Health Foods Initiative	-	-	-	3,622
Miscellaneous Program Payments	<u>49,900</u>	<u>43,768</u>	<u>29,766</u>	<u>29,493</u>
Total Grants to Educational Agencies and Other Payments	<u>\$2,410,459</u>	<u>\$2,508,264</u>	<u>\$2,509,369</u>	<u>\$2,552,340</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 significant state grant programs follow:

Education Equalization Grants to Towns

Sections 10-261a to 10-262j 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% 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, school districts falling into one of more of three categories, 1) the eight towns in the state with the largest populations, 2) the eleven towns with the highest number of students, and 3) 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, may be designated as Priority School Districts. School districts receiving Priority School District funding during the fiscal year ended June 30, 2011, 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 10-264o of the General Statutes, there exists an interdistrict magnet school grant 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 SDE approval of the operations plan. The significant increase in operating grant expenditures corresponds with a similar increase in the number of magnet schools in operation. The number of interdistrict magnet schools and programs increased from 57 at June 30, 2008, to 70 at June 30, 2011.

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 0 to 60%, 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 percentages.

Charter School

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. Their goal is to serve as centers for innovation and educational leadership to improve student performance, provide a choice to parents and students within the public school system, and be a potential vehicle to reduce racial, ethnic, and economic isolation. Annual assessments determine whether the schools 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 17 charter schools operating in the fiscal year ended June 30, 2011.

Adult Education

Sections 10-69 to 10-73d 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 0 to 65%.

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 acquisitions) 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 the School Building Construction Fund, established under the provisions of Sections 10-287e 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 Construction Fund for the audited period, as compared to the fiscal year ended June 30, 2008, is presented below:

	<u>Fiscal Year</u>			
(In Thousands of Dollars)	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Beginning Cash	\$ 70,995	\$ 74,887	(\$ 42,075)	\$ 180,633
Receipts – Sale of Bonds	<u>717,290</u>	<u>566,950</u>	<u>759,250</u>	<u>330,000</u>
Total Available	788,285	641,837	717,175	510,633
Disbursements – School Construction Grants	<u>713,398</u>	<u>683,912</u>	<u>536,542</u>	<u>370,958</u>
Ending Cash	<u>\$ 74,887</u>	<u>(\$ 42,075)</u>	<u>\$ 180,633</u>	<u>\$ 139,675</u>

Per Public Act 08-169 Section 30, total bond authorizations for school construction grants were \$6.7 billion for the fiscal year ended June 30, 2009. Public Acts 09-03 Section 127 and 09-02 Section 3, enacted by the June 2009 and September 2009 Special Sessions of the General Assembly, respectively, increased the total bond authorization to \$7.4 billion for fiscal year ended June 30, 2010 and \$8.0 billion for the fiscal year ended June 30, 2011. 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, 2009, 2010, and 2011, as compared to the fiscal year ended June 30, 2008, is as follows:

	<u>Fiscal Year</u>			
(In Thousands of Dollars)	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Type of Grant				
Principal Installment	\$ 694,812	\$ 667,703	\$ 523,061	\$ 361,708
Interest	<u>18,586</u>	<u>16,209</u>	<u>13,481</u>	<u>9,250</u>
Total Grants	<u>\$ 713,398</u>	<u>\$ 683,912</u>	<u>\$ 536,542</u>	<u>\$ 370,958</u>
Source of Funding				
School Building Capital Projects	<u>713,398</u>	<u>683,912</u>	<u>536,542</u>	<u>370,958</u>
Total Grants	<u>\$ 713,398</u>	<u>\$ 683,912</u>	<u>\$ 536,542</u>	<u>\$ 370,958</u>

In accordance with Section 10-287 of the General Statutes, the state incurs its share of construction project costs on a progress-payment basis during the construction period. Progress-payment indebtedness amounted to approximately \$2.5 billion, \$2.6 billion, and \$2.5 billion for the fiscal years ended June 30, 2009, 2010, and 2011, respectively.

As a result of Public Act 97-265, the state no longer participates in the payment of debt service on new municipal bonds for school construction projects. Therefore, the amounts of outstanding grant obligations have peaked and gradually decreased during the current and prior audited periods. The state's liability for installment grant obligations amounted to approximately \$314 million, \$304 million, and \$243 million as of the fiscal years ended June 30, 2009, 2010, and 2011, 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 education programs and includes an Industrial Account for production activities conducted at the Connecticut Technical High Schools. Section 10-99 of the General Statutes enables 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 were required to be transferred to the General Fund within ten months of the close of a fiscal year. For the fiscal years ended June 30, 2009, 2010, and 2011, no transfers were required under Section 10-99 of the General Statutes. However, \$175,000 was transferred to the General Fund under Public Act 09-111 as part of the state deficit mitigation plan for the fiscal year ended June 30, 2009. Vocational Education Extension Fund cash receipts, disbursements, and transfers out for the fiscal years ended June 30, 2009, 2010, and 2011, as compared to the fiscal year ended June 30, 2008, are presented below:

	<u>Fiscal Year</u>			
(In Thousands of Dollars)	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
Beginning Cash	\$ 1,309,736	\$ 594,207	\$ 518,845	\$ 378,489
Receipts	3,150,113	3,090,955	2,532,217	2,780,247
Disbursements	(3,865,642)	(2,991,317)	(2,672,573)	(1,878,027)
Transfers Out	-	(175,000)	-	-
Ending Cash	<u>\$ 594,207</u>	<u>\$ 518,845</u>	<u>\$ 378,489</u>	<u>\$ 1,280,709</u>

Approximately 70% of the Vocational Education Extension Fund cash receipts were from tuition fees for adult education for the audited period. The remaining cash receipts were from customer fees generated in the production shops. Adult education related expenses accounted for 61% 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.

The decreases in fund receipts and disbursements were directly related to the state's declining financial condition during the audited period. The main factor was the SDE suspension of the adult education and LPN programs during the fiscal years ended June 30, 2009 and 2010, respectively. As a result, non-budgeted operating appropriations were \$2.3 million, \$1.9 million and \$1.4 million during the fiscal years ended June 30, 2009, 2010, and 2011, respectively. There were two factors that resulted in increased receipts during the fiscal year ended June 30, 2011: 1) a smaller LPN program was restarted during January 2011, with a 206% higher tuition rate, and 2) enrollment at the newly constructed CT Aero Tech School for Aviation Maintenance Technicians increased.

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 Connecticut 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 CCJEF. The Court concluded "that article eighth, section 1, of the Connecticut Constitution guarantees the students of Connecticut's public schools 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 this ruling, CCJEF was permitted to continue action against the

state. On September 7, 2016 a decision was rendered. The case is currently in the appeal phase with the state filing an appeal on September 23, 2016 and CCJEF filing a cross appeal on October 3, 2016.

PROGRAM EVALUATION

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. Our prior audit judgmentally selected the State Education Resource Center (SERC) for consideration. Our current review followed up on recommendations within that audit as well as some additional concerns caused by the close relationship between SDE and SERC.

Our prior audit recommended that SDE take the following actions:

- Continue with its efforts to establish the State Education Resource Center as a separate legal entity and develop a contractual relationship with that entity with clearly defined deliverables, outcomes, timelines, and audit requirements.
- Take the steps necessary to establish deliverables, outcomes, and timetables for both SERC and its fiscal agent and apply those deliverables, outcomes, and timelines to the approval process prior to payment.
- 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 SDE receives the services for which it is paying.
- Take the steps necessary to ensure SERC is audited as a separate and distinct entity and in accordance with the federal OMB Circular A-133 rather than included only in the notes for the report of its fiscal agent.

On February 21, 2013, we published an interim report on SERC to document the details of our findings. At that time, SERC’s status as a separate legal entity had not yet been established. Public Act 14-212, effective July 1, 2014, established SERC as a quasi-public agency, thereby addressing many of the concerns noted by the prior audit. The results of additional testing determined that SERC had not been audited prior to becoming a quasi-public agency. However, as a quasi-public agency, both financial and compliance audits will be required going forward. SDE’s insufficient oversight of SERC through the audit process is addressed in the finding, Monitoring of Service Organizations and the State Education Resource Center, presented below.

During the course of this review, we found that SERC met the criteria for a state education organization and was covered by Section 10-66p of the General Statutes. As such, SDE is exempt from purchasing requirements with regard to SERC. We noted that before SERC was established as a quasi-public agency, SDE directed SERC to hire specific employees and contractors without complying with state employment and procurement laws, regulations, policies and procedures. These matters are included in the finding, Contracting and Hiring – Circumvention of State Hiring and Contractor Selection Processes, presented below.

In addition, SDE did not maintain inventory records for state-owned equipment with a cost totaling over \$900,000 that was in the custody of SERC. The ownership of these assets was transferred to SERC when it was established as a quasi-public agency. Details regarding this matter are presented in the finding, Property Control – State Education Resource Center.

CONDITION OF RECORDS

Magnet Schools – Lottery Failures Resulting in Noncompliance with the Sheff v. O’Neill Agreement

Background:

In the case Sheff v. O’Neill, a 1996 Connecticut Supreme Court decision concluded that students in the Hartford public schools were racially, ethnically, and economically isolated, and as a result, Hartford public school (HPS) students had not been provided a substantially equal educational opportunity under the state constitution. To meet state obligations under the Sheff decision, the parties reached a negotiated agreement, which was approved by the Court and General Assembly. In order to comply with the 2008 Sheff settlement, the Department of Education was required to create the Sheff Office “as the central authority in the planning, development, implementation, support, evaluation, monitoring, and reporting on the progress of all programs, functions, and strategies in the Greater Hartford Region....” This includes the creation and funding of the Regional School Choice Office (RSCO) “to support the collaborative effort between the state and the group of stakeholders...that will support Sheff initiatives and programming...” In response to the agreement, existing interdistrict magnet schools were identified as an inherently excellent method of reducing racial, ethnic, and economic isolation.

Criteria:

Admission to interdistrict magnet schools is open to all students in the participating districts. In the Hartford area, and in accordance with the 2008 Sheff settlement, the Regional School Choice Office was created by the Department of Education’s Sheff Office. One of RSCO’s responsibilities is to develop and implement a common application and unified lottery as the sole tools for application, selection, and placement of students for Sheff compliant programming. As a result, RSCO has established a randomized computer-based method that takes into consideration each school’s preferred applicants.

The contract between SDE and HPS states that HPS agrees to "utilize the common application and unified lottery as the sole tools for application, selection and placement of applicants to HPS's voluntary interdistrict schools and programs that are part of the Sheff initiative in accordance with the preferences and policies adopted and approved by RSCO."

Proper internal control dictates that formal policies and procedures provide clear and consistent guidance regarding the lottery for magnet school operators and RSCO.

Condition:

Our review of the RSCO lottery process disclosed that there is no single formal written document representing policies and procedures for the lottery process adopted and approved by RSCO. Instead, SDE defines policies in multiple documents: lottery protocols, the RSCO catalog, and operational plans. Through further review, we noted that the operational plans are not reviewed by the Sheff Office, and one operational plan for Capital Preparatory Magnet School violates the contractual agreement between SDE and HPS.

The operational plan approved by SDE for the Capital Preparatory Magnet School (Capital Prep) provides that “in special circumstances the board extends the opportunity to the principal to place a student.” We have reviewed plans for 18 out of 45 magnet schools and found this language only appears in the Capital Prep plan. Noncompliance with the terms of the Sheff agreement and a violation of annual contracts between SDE and HPS occur when students are placed outside the lottery. This condition contributed to the following findings.

We judgmentally selected four magnet schools from the Hartford area to determine whether all students, newly admitted during the 2014-2015 school year, were selected through the blind lottery administered by the SDE RSCO. Through our review of the Public School Information System (PSIS) enrollment records and the offers accepted by the applicants, we noted the following exceptions:

- Out of 162 new students, 45 (or 28%) were admitted to Capital Prep outside the SDE RSCO lottery;
- Out of 145 new students, 5 (or 4%) were admitted to Breakthrough II outside the lottery;
- Out of 128 new students, 5 (or 4%) were admitted to Betances Early Reading Lab outside the lottery;
- Out of 135 new students, 2 (or 2%) were admitted to Betances STEM Magnet School outside the lottery.

Due to the significant number of students identified as admitted to Capital Preparatory Magnet School outside the lottery, we performed additional testing of the school’s 2013-2014 school year enrollment process. We found that 71 out of 161 new students, or 44%, were not selected for enrollment at the school through the RSCO lottery.

Annually, SDE provided grants to the City of Hartford for operations and transportation totaling \$15,054 for each magnet school student who is not a resident of Hartford. We were unable to determine how

many students admitted outside the lottery were covered by such grants.

Effect: Enrollment of students to magnet schools outside the lottery violates the Sheff agreement and increases the risk for fraud regarding the enrollment of exceptional athletes, who improve the image of the school; high achieving students, who disproportionately improve the school's average test scores; and preschoolers, who thereby reduce a family's costs for childcare. The goals of the Sheff settlement to reduce economic, racial, and ethnic isolation may not be achieved.

Cause: We noted a lack of administrative oversight.

Without clear and cohesive written policies and procedures, SDE cannot effectively instruct magnet school operators on the lottery process.

We were unable to determine why the Capital Prep operational plan included language that appeared to give them a unique opportunity to place students outside the lottery. The language is in violation of the Sheff agreement and annual contracts between SDE and HPS.

There is no common identifier between the lottery and enrollment databases, making it difficult for SDE to monitor for enrollment fraud.

Recommendation: The Department of Education should comply with the Sheff agreement and ensure a fair process for admitting students to magnet schools. SDE should establish formal and cohesive policies and procedures for the Regional School Choice Office. Internal controls over magnet school enrollment should be designed to detect and prevent fraud. SDE should verify that only applicants selected through the Regional School Choice Office lottery are admitted to magnet schools. SDE should perform a review of all magnet school operational plans to ensure compliance with the Sheff agreement. Additionally, SDE should only pay for students who are enrolled through the blind lottery process. (See Recommendation 1.)

Agency Response: "The Connecticut Department of Education... continues to comply with the Sheff agreement and has implemented measures to ensure a fair magnet admissions process for the Sheff region. Since 2009, [SDE] has included specific provisions regarding enrollment policies within its contracts with...HPS that require HPS to use the uniform lottery system as the exclusive means of enrolling students into Sheff interdistrict magnet schools. The contractual requirement is unambiguous and states that HPS will '[u]tilize the Common Application and unified lottery as the sole tools for application, selection, and placement of applicants to HPS's voluntary interdistrict

schools and programs that are part of the Sheff initiative...’ Furthermore, the...RSCO staff are fully aware of this requirement and have taken appropriate steps to enforce it when they become aware of facts suggesting possible non-compliance by HPS. Pursuant to its contract with [SDE], HPS is a partner in RSCO and participates in the development of the lottery and its policies and protocols. Through that collaboration, the specific policies and procedures for enrolling students into HPS Sheff interdistrict magnet schools are articulated in the lottery protocol for each HPS magnet program as approved by RSCO. The [SDE] does not control the HPS registration process that follows from the lottery process and thus cannot currently identify the students who have actually enrolled in an HPS school until after the upload to the...PSIS. Only then can [SDE] take steps to determine whether the enrollment occurred through the lottery. Going forward, the [SDE] plans to verify compliance with magnet enrollment requirements through an annual audit of enrolled students to ensure that all students are enrolled through the RSCO lottery. The [SDE] will not pay for students who are admitted outside of the lottery as determined by verified findings of such non-lottery enrollments through the annual audits or otherwise. Although the RSCO contract with HPS sets forth the terms of RSCO operations relative to application, recruitment, and enrollment into HPS operated Sheff interdistrict magnet programs, RSCO staff will also review all Sheff magnet school operational plans to ensure compliance with the Sheff agreement.”

Magnet Schools – Programmatic and Site Reviews

Criteria: In accordance with Section 10-264l subsections (a) and (e) of the General Statutes, the Department of Education established, within available appropriations, a grant program for the operation of interdistrict magnet school programs to support racial, ethnic, and economic diversity through a special and high quality curriculum. SDE may retain up to one-half of 1% of the amount appropriated for evaluation and administration of the grant program.

To determine whether the grant program for the operation of magnet schools is achieving its goals, SDE developed a monitoring and accountability tool to evaluate pupil participation, enrollment, recruitment procedures, staff development and program planning, parent involvement, plant and facility, curriculum, programmatic review, and other considerations.

Condition: In order to assess interdistrict magnet schools, SDE has been conducting site reviews using a monitoring and accountability tool for approximately 15 years. SDE informed us that at one time, when there

were far fewer magnet schools and more staff, every magnet school was visited once every two years. SDE did not perform a sufficient number of site reviews during the audited period to continue this trend and also did not report on all of the reviews that were completed, as noted below:

	<u>Fiscal Year Ended June 30,</u>			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
# of Site Reviews Performed	-	1	4	4
# Reports issued	-	1	4	-

The number of magnet schools increased to 83 at June 30, 2014. At the current rate, it would take SDE approximately 37 years to review each school once.

In addition, SDE selected certain magnet schools for review during the fiscal years ended June 30, 2013 and 2014, but told us it was denied access by the schools' administration. The schools claimed that the law does not require them to be subject to a review or programmatic evaluation.

Effect: Without the programmatic site reviews, SDE cannot fully assess whether interdistrict magnet schools are reducing racial, ethnic, and economic isolation. SDE is not able to evaluate the curriculum to determine whether the school is meeting program requirements.

Cause: The increasing numbers of magnet schools when combined with decreasing numbers of SDE staff, and some schools' refusals to be reviewed contributed to the condition.

Recommendation: The Department of Education should resume performing programmatic site reviews of magnet schools to ensure they are achieving the goal of reducing racial, ethnic, and economic isolation through a special and high quality curriculum. (See Recommendation 2.)

Agency Response: "We agree with this finding. Programmatic site reviews will resume using a newly developed protocol that will be implemented based on existing staff. Additionally, site visits will be further informed by the Comprehensive Statewide Interdistrict Magnet School Plan."

Magnet Schools – Financial Audits

Background: As of June 30, 2014 there were 83 magnet schools operating in the State of Connecticut. Of those schools, 33 are run by one of five regional educational service centers (RESA). The state's share of the

operating costs, excluding transportation and construction of the magnet schools was \$238.3 million for the fiscal year ended June 30, 2014. The number of magnet schools is expected to grow to over 90 schools in the next few years.

- Criteria:* Pursuant to Section 10-264l subsection (n)(2) of the General Statutes, “Annually, the commissioner shall randomly select one interdistrict 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.”
- Condition:* SDE has not established policies and procedures to monitor magnet school compliance with statutory requirements.
- Effect:* We were not able to verify compliance with statutory audit requirements.
- Cause:* SDE does not have policies and procedures to monitor magnet school compliance with statutory reporting requirements.
- Recommendation:* The Department of Education should establish policies and procedures to monitor magnet school compliance with statutory reporting requirements. (See Recommendation 3.)
- Agency Response:* “We agree with this finding, in that policies and procedures should be established to monitor the magnet schools compliance with statutory reporting requirements, and [SDE] has established policies and procedures for monitoring compliance with Section 10-264l subsection (n)(2). [SDE] will change its magnet school review policies, procedures, and processes as needed to ensure that there is compliance with all state and federal regulations and statutes.”

Magnet Schools – Comprehensive Statewide Interdistrict Plan

- Criteria:* Beginning July 1, 2009, Section 10-264l subsection (b) of the General Statutes bars the education commissioner from accepting applications for operating grants for new interdistrict magnet schools until the commissioner submits, on or before January 1, 2011, a comprehensive statewide interdistrict magnet school plan to the joint committee of the General Assembly having cognizance of matters relating to education. The moratorium does not apply to magnet schools that help the state meet the goals of the 2008 Sheff v. O’Neill settlement as determined by the commissioner.

Public Act 15-177, effective July 1, 2015, extended the deadline for the submission of the comprehensive statewide interdistrict magnet school plan until October 1, 2016.

Condition: SDE informed us that drafts of the comprehensive statewide interdistrict magnet school plans were prepared every year from 2011 to 2014 and provided to the Commissioner of Education. However, none of these plans were submitted to the legislature as required by Section 10-264l subsection (b) of the General Statutes. Instead, in November 2011, former commissioner Stefan Pryor requested the legislature take no action on the plan until he implemented broad changes at SDE.

Effect: By failing to file the report with the legislature in a timely manner, the moratorium on new magnet schools was significantly extended beyond the 2011 deadline. The lack of magnet school data may have negatively impacted the legislature's decisions regarding the expansion of both magnet and charter schools.

Cause: In November 2011, the Commissioner of Education submitted a request to the legislature to take no action on a comprehensive statewide interdistrict magnet school plan required by Section 10-264l of the General Statutes.

Recommendation: The Department of Education should comply with the reporting requirements contained in Section 10-264l subsection (b) of the General Statutes. (See Recommendation 4.)

Agency Response: "We agree with [the] finding. The Comprehensive State-wide Interdistrict Magnet School Plan is on target for completion for October 1, 2016, pursuant to Public Act 15-177."

Auditors' Concluding

Comment: SDE informed us that the report was filed with the legislature on December 12, 2016.

Charter Schools – Review and Approval of Charter School Applications

Background: The Department of Education approved four new charter schools during the fiscal year ended June 30, 2014. Two of these schools began operations during the fiscal year ended June 30, 2015. Great Oaks received \$1,375,000 in state funds and \$67,000 in federal funds for 125 students. Booker T. Washington Academy received \$1 million in state funds and was granted \$36,000 in federal funds for 91 students. The remaining two schools, Capital Preparatory Harbor

Charter School and Stamford Charter School for Excellence opened in the fall of 2015.

Criteria:

Section 10-66bb of the General Statutes states that the State Board of Education shall review each charter application, hold a public hearing on such application, solicit and review comments from the local or regional board of education, and vote on the complete application.

The application package for the development of state and local charter schools stipulates that the review team will develop a summary rating for each scored section of the application and for the application as a whole. The summary rating should be justified with evidence from the application.

Sound business practices dictate that financial plans included in the applications for new charter schools be reviewed by personnel with sufficient financial backgrounds.

Section 4-181a subsection (b) of the General Statutes indicates that “on a showing of changed conditions, the agency may reverse or modify the final decision, at any time, at the request of any person or on the agency's own motion. The procedure set forth in this chapter for contested cases shall be applicable to any proceeding in which such reversal or modification of any final decision is to be considered. The party or parties, who were the subject of the original final decision, or their successors, if known, and intervenors in the original contested case, shall be notified of the proceeding and shall be given the opportunity to participate in the proceeding. Any decision to reverse or modify a final decision shall make provision for the rights or privileges of any person who has been shown to have relied on such final decision.”

Condition:

With respect to the SDE review of applications for the four new charter schools approved during the fiscal year ended June 30, 2014, we noted the following:

- Summary ratings for 2 of the 4 applications were not justified with evidence from the application and 1/3 had incomplete justifications.
- None of the interviews were supported by interviewees’ responses. Names of the people interviewed were not documented and interview review sheets were not retained.
- The financial aspects of the four approved charter school applications were not reviewed by anyone with a financial background before SDE recommended approval of the charters to

the board. The Office of Internal Audit (OIA) normally performed the reviews. However, for the fiscal year ended June 30, 2014, none of the applications were provided to OIA for review. In addition, members of the SDE application review team lacked the financial expertise needed to review and score the applications' financial plans.

- SDE has no policies or procedures for reviewing revised charter school applications. We noted significant concerns regarding its handling of the revised Booker T. Washington Academy (BTWA) charter application. The SDE application review notes indicate that the initial charter application was approved based mainly on BTWA's close collaboration with Family Urban Schools of Excellence (FUSE). It is unclear whether BTWA was viable as a separate organization or just an extension of FUSE. Well before the first day of classes, the BTWA relationship with FUSE ended, leaving BTWA without a management team and curriculum. At this point, BTWA submitted a revised application. However SDE did not restart the review process. We found that the revised application failed to adequately address two key points – strength of organizational effort and school viability. SDE recommended that the State Board of Education approve the revised charter during a contested case hearing on changed conditions in accordance with Section 4-181a subsection (b) of the General Statutes. This section could be applied when conditions change. However, in this case, SDE had not sufficiently reviewed the changes, and without FUSE, BTWA lacked sufficient management and educational expertise to begin serving students. In addition, a second public hearing based on the revised plan was not held.

Effect: Inappropriate reviews of applications for new charter schools put federal and state resources and children's education at risk. Without a public hearing on the significantly modified BTWA plan that was no longer based on the FUSE model, members of the public were denied an opportunity to weigh in before the school opened. Several SDE employees informed us that SDE and the State Board of Education's last-minute efforts to open BTWA continue to result in excessive and costly assistance.

Cause: SDE did not follow its own policies and procedures regarding application reviews for new charter schools, and there are no policies or procedures for evaluating revisions to charter applications.

Recommendation: The Department of Education should perform sufficient, well-documented reviews of charter school applications. SDE should ensure the evaluations are performed by independent, qualified individuals so that SDE only recommends the State Board of Education's approval of

financially and educationally viable charter schools. SDE should include justifications for the scores in the documentation of the review process. In addition, SDE should establish policies and procedures for evaluating revisions to charter school applications. (See Recommendation 5.)

Agency Response: “We agree with this finding. The [SDE] has developed a detailed charter school application designed to determine the educational and financial viability and organizational capacity of a proposed charter school. Applications are reviewed by teams of qualified [SDE] staff with expertise in school administration, education, finance, and special education. Reviewers are asked to read each application and five year financial plan. Each application is evaluated using a scoring rubric aligned to the application. Each reviewer is required to provide written justifications of each score. In addition, the [SDE] has developed a process to annually review the educational and financial viability and organizational capacity of each charter school in operation. This includes an annual review of student performance on state testing, student attendance, behavior, and graduation rates. Also, each school submits financial data, including a certified financial audit and IRS Form 990 and operating budget which the [SDE] uses to determine financial viability. While the instances of charter applications being revised are rare, [SDE] will develop policies and procedures for evaluating revisions to charter school applications.”

Charter Schools – Calculation of Service Fee Rates by Management Service Organizations

Background: In some cases, management service organization fees can be a significant cost to a charter school.

Our prior audit recommended that the Department of Education develop and distribute a policy with respect to the methodology used by management service organizations to calculate service fee rates and what constitutes allowable costs. In addition, monitoring procedures should be established to periodically test the service fee rates and whether they are properly calculated and supported.

Criteria: In accordance with Section 10-66ee subsection (c)(1) of the General Statutes, the state pays charter schools \$9,300 per year for each enrolled student. A portion of this amount may be used by the charter school to pay management service organization fees.

Condition: With respect to the service fees charged by the management service organization for services rendered to charter schools, our prior review noted the following: SDE 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; and SDE had not reviewed the cost analysis and supporting documentation used by the management service organization to calculate the service fee rate charged to the charter schools.

In response to our recommendation, SDE implemented the following procedures, which do not fully address the substance of our concerns.

- A review of the basis for management fees charged to charter schools through an examination of management service organizations' agreements during the charter school application process.
- Monitoring procedures were incorporated into site visit protocols beginning in the 2010-2011 school year to determine whether the rates are properly calculated and supported in accordance with the management service agreement.

These procedures do not establish a uniform policy and method for the calculation of service fee rates for all management service organizations. Without sufficient policies regarding allowable costs, the SDE application, review, and monitoring procedures cannot be applied consistently, and would not detect whether inappropriate, extravagant, or excessive charges have occurred.

For example, SDE did not detect the abuse of a management service organization, Family Urban Schools of Excellence. During 2014, SDE was caught unawares by news reports of purported fraud by its chief executive officer. As a result, SDE hired a contractor to investigate the finances, governance, and operations of the organization. At the same time, the Federal Bureau of Investigation also began an investigation. In January 2015, SDE published the results of its investigation, reporting numerous concerns that might have been prevented with appropriate policies and monitoring. Matters identified by the report that would impact the calculation of service fees include the following:

- intermingled funds, expenditures, and accounting between the charter school and service organization;
- significant nepotism;
- non-arms-length transactions;

- payment of \$1.5 million more than the appraised value for real estate;
- “property with noneducational uses;”
- “...significant financial responsibilities regarding... real estate transactions [that could cause] fatal financial obligations.”

Effect: Without sufficient policies and procedures, there is an indeterminate risk that management service organizations may overcharge state-funded charter schools for inappropriate, extravagant, or excessive charges.

Cause: SDE has not established uniform policies and procedures to be consistently applied by all management service organizations for the calculation of service fee rates. The established monitoring procedures do not include evaluating the propriety of the actual costs charged by the management service organization.

Recommendation: The Department of Education should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates based, in part, on a schedule of allowable costs. SDE should formalize and distribute the policy to all charter schools and establish formal monitoring procedures designed to periodically test that service fee rates are calculated properly and represent allowable costs. (See Recommendation 6.)

Agency Response: “We agree with this finding. Pursuant to Section 10-66tt of the General Statutes, whole school management service contracts between charter schools and charter management organizations (CMOs) must meet new statutory requirements and State Board of Education (SBE) approval. The statute went into effect July 1, 2015. Per statute, the [SDE] reviews each new whole school management services contract to determine it does not: include any provision that is contrary to any state or federal law or regulations; present a conflict of interest; amend, alter or modify any provision of the Charter (if provision of contract conflicts with a provision of the Charter, the Charter controls); have the effect of reducing the governing council's responsibility for the operation of the charter school; hinder governing council in exercising effective supervision of charter school. Per statute, the [SDE] also reviews each contract to ensure it includes: (1) the roles and responsibilities of the governing council (charter school governing council) and the CMO, including all services to be provided under the contract; (2) the performance measures, mechanisms, and consequences by which governing council will hold CMO accountable for performance; (3) the compensation to be paid to the CMO, including all fees, bonuses, and what such compensation includes or

requires; (4) financial reporting requirements and provisions for the governing council's financial oversight; (5) a choice of law provision that states that Connecticut state law shall be the controlling law for the contract; (6) a statement that the governing council and the CMO shall ensure compliance with the provisions of Section 10-66uu (transparency); (7) any such information required by the Commissioner of Education to ensure compliance with the provisions of this chapter.

With respect to the amount of CMO fees, which is not governed by statute but was examined by [SDE] prior to the passage of Section 10-66tt, [SDE] staff conducted research and determined that a mutual percentage of public revenues received by the school is an industry standard for calculating whole school management service fees. In addition, [SDE] determined that whole school management service fees generally range between 8 percent and 17 percent of public revenues, depending on the level of services provided. As a result, the [SDE] determined that a management fee at or about 10 percent of public revenue would be reasonable. In addition, whole school management service contracts may include mutually agreed upon ancillary services and fees. The term of each SBE approved whole school management services contract will coincide with the term of the school's charter.”

Failure to Perform an Internal Control Self-Assessment

Background: In the interest of promoting responsible, efficient, and cost-effective governance, the Office of the State Comptroller issues the Internal Control Guide as a tool to assist agencies in evaluating and strengthening internal controls. The annual self-evaluation and risk assessment process allows managers to evaluate internal controls and identify possible deficiencies within their areas of responsibility.

Criteria: The Office of the State Comptroller issues an annual memorandum reminding agency heads to conduct an annual internal control self-assessment as required by the Internal Control Guide. In accordance with the Internal Control Guide, management personnel of the agency are responsible for establishing and maintaining effective internal control. The internal control self-assessment is to be completed annually by June 30th and kept on file at the agency. The review of the self-assessment questions should be completed with a report noting weaknesses and recommendations for improvements.

The questionnaire includes a form the agency head and business manager must sign to confirm that the information entered into the questionnaire is complete and accurate.

- Condition:* An updated version of the Internal Control Questionnaire was not available during the audited period. SDE was only able to provide us with a substantially completed version for the fiscal year ended June 30, 2014.
- Effect:* SDE has not used the annual Internal Control Questionnaire as an assessment tool to assist in identifying weaknesses in internal controls. Failure to identify weaknesses does not provide management the opportunity to design and implement more effective controls.
- Cause:* SDE either did not complete the annual Internal Control Questionnaire, or did not retain a copy of it.
- Recommendation:* The Department of Education should complete the Internal Control Questionnaire annually and keep it on file. SDE should include a report in the file of any identified deficiencies and corrective action to address those deficiencies. (See Recommendation 7.)
- Agency Response:* “We agree with this finding. The Bureau of Fiscal Services will produce the Internal Control Questionnaire annually and will submit [it] to the Office of Internal Audit (OIA) for review and approval. Once approved, the OIA will send [it] to the [Chief Financial Officer’s (CFO)]... office for signature. The Internal Control Questionnaire will be kept on file in the CFO’s office.”

Contracting and Hiring – Circumvention of Laws and Policies and Procedures

- Background:* Public Act 08-139, effective July 1, 2008, was codified as Section 10-66p of the General Statutes. This section defines state education organizations as including, “but not limited to, organizations or associations representing superintendents, boards of education, and elementary and secondary schools.” According to the Department of Education, this broad definition can be applied to many organizations. They have identified 10 of the SDE vendors as such; however, additional organizations could also be covered. Six of the 10 organizations identified by SDE are Regional Education Service Centers (RESCs) established by Part IVa of Title 10 of the General Statutes.
- During the three fiscal years ended June 30, 2009, 2010, and 2011, total payments to the 10 state education organizations identified by SDE were \$431.3 million.
- Criteria:* Section 10-66p of the General Statutes exempts payments to state education organizations from “Sections 4-98, 4-212 to 4-219, inclusive, 4a-51 and 4a-57” of the General Statutes. These sections

relate to budgeting, purchase orders, personal service agreements, purchasing, and competitive bid requirements.

The state has established what can be considered sound business practices over hiring, procurement, budgeting, and contracting through a variety of statutes, regulations, policies, and procedures. A few are described below:

Contractor Selection, Monitoring, Commitment of Funds, and Payments:

- Section 3-117 of the General Statutes addresses the payment of claims against the state, and requires that if payments are for services that have not yet been received or performed, they must be covered by properly drawn and executed contracts.
- Section 4-98 of the General Statutes provides that, except for emergencies, budgeted agencies should not incur obligations without a properly processed purchase order.
- Sections 4-212 to 4-219 of the General Statutes establish guidelines for the selection and contracting for personal services and assigns responsibility for developing procurement standards for personal service agreements and purchase of service contracts to the Office of Policy and Management. These standards establish that 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 a timeline.
- Title 4a of Chapter 58 of the General Statutes establishes the Commissioner of Administrative Services' (DAS) responsibilities regarding the purchase of contractual services, including the adoption of regulations. Section 4a-57 of this chapter indicates that whenever possible, purchases of, and contracts for, supplies, materials, equipment, and contractual services, shall be based on competitive bids or competitive negotiation. In addition, the DAS procurement regulations and policies provide agencies with specific guidance. Section 4a-65 of the General Statutes provides that any purchase or contract that fails to comply with Title 4a of Chapter 58 is void and of no effect.

Hiring, Supervision and Payroll:

Laws regarding state employment are addressed in Title 5 of the General Statutes. Chapter 67 of Title 5 is referred to as the State

Personnel Act. This chapter documents state personnel and employment policies over hiring, salaries, and employment benefits.

In addition, the SDE Hiring and Promotion Manual is designed to “promote consistent practices relative to SDE’s hiring...” Policies and procedures documented in the manual relate to 1) obtaining position approval; 2) reviewing special candidates; 3) posting and advertising a job announcement; 4) applicant screening; 5) interviewing candidates; 6) affirmative action; and 7) making an offer of employment.

Condition:

Grant agreements between SDE and state education organizations that comply with Section 10-66p of the General Statutes provide SDE with an opportunity to circumvent established state laws, regulations, and sound business practices over contracting and hiring. We noted the following areas of concern:

Competitive Bidding:

The exemption from competitive bidding for the selection of state education organizations does not provide any assurance that the best contractor is hired at the lowest price and the exemption may provide SDE with an opportunity to circumvent state bidding requirements regarding those organizations’ sub-recipients.

- During the fiscal year ended June 30, 2013, SDE spent over \$6 million on a new talent development program. Three contracts associated with this program, totaling \$4.75 million, were with state education organizations. None of these contractors were selected based on competitive bids. In addition, it appears that the budgets associated with these contracts were all designed to pass through a majority of the award to sub-recipients. An agreement between one of these state education organizations and the organization’s sub-recipient included language that the organization is subcontracting on behalf of SDE. Without documentation relating to requests for proposals and sub-recipient contracts for the remaining 2 organizations, we were unable to evaluate SDE’s intent and, therefore, could not clearly determine whether the agreements represented an effort by SDE to circumvent competitive bidding requirements with regard to the sub-recipients’ services.
- We noted that SDE directed a fourth state education organization, the State Education Resource Center, to contract with 3 other organizations on behalf of SDE. Upon the expiration of those contracts, SDE instructed the contractors to continue working without a contract. As SDE did not have the legal authority to pay for the additional work, the 3 contractors were forced to pursue

legal action against the state. Stipulated agreements with the contractors resulted in payments totaling \$235,400.

Contract Language: Contracts with state education organizations are not required to include the standard provisions and affidavits generally included in state contracts (i.e. executive orders, governing law, non-discrimination clauses, etc.), and the contracts frequently lacked sufficient specificity regarding the services to be provided. This impedes SDE's ability to properly monitor deliverables and enforce the agreements.

Commitment of Funds: Section 10-66p exempts SDE from recording purchase orders relating to grant payments to state education organizations. Therefore, the standard budgeting practices maintained through the state's accounting system are not being followed. During the state fiscal years ended June 30, 2009, 2010, and 2011, SDE paid 4,202 vouchers totaling \$382.7 million to 8 of the 10 state education organizations without issuing purchase orders. This represents 89% of the total amount of all payments to such organizations. Considering the magnitude of these transactions, the lack of purchase orders could compromise SDE's ability to properly plan and budget for these payments.

Hiring: SDE directed the State Education Resource Center to hire two specific individuals on behalf of SDE, thereby circumventing state laws and SDE policies and procedures regarding the hiring of employees. Their salaries and fringe benefits were funded by SDE grants to SERC, yet the individuals were selected by and reported directly to SDE. We were told by the SDE Human Resources Division that they did not participate in the selection of these individuals. Therefore, SDE could not be certain that SERC hired the best individuals at appropriate salaries.

Effect: SDE's purchase of personal services and hiring did not reflect sound business practices. Without adequate contracts, it is difficult to determine whether sufficient deliverables were received by SDE at the best price.

Cause: Section 10-66p of the General Statutes provides SDE with an opportunity to not only disregard sound business practices as documented in established laws, regulations, policies, and procedures, but also provides an opportunity to circumvent those laws and regulations concerning the hiring of staff, selection of contractors, and budgeting.

Recommendation: The Department of Education should implement sound business practices, documented in state laws, regulations, policies, and

procedures, with regard to contracts with and payments to state education organizations. SDE contracts should, at a minimum, be based on a fair and open bidding process resulting in written agreements that sufficiently document the contract's purpose, scope, activities, deliverables, outcomes, and timeline. (See Recommendation 8.)

Agency Response: "We agree with this finding and it has been resolved. The Bureau of Fiscal Services has implemented the [SDE] Contracting Standards and Procedures consistent with the Office of Policy and Management's 'Procurement Standards for Personal Service Agreements and Purchase of Service Contracts.' These procedures ensure a fair and open bidding process and that all resulting agreements properly document the contract's purpose, scope, activities, deliverables, outcomes and timeline. The bureau will continue to offer annual training agency-wide to improve this process."

Monitoring of Service Organizations and the State Education Resource Center

Background: The Rensselaer Hartford Graduate Center, Inc. (Rensselaer) contracted with SDE as the fiduciary agent for the State Education Resource Center at an annual cost of \$12 million. Of this amount, approximately \$9 million is federally funded for SERC projects. The contract requires, in part, that Rensselaer provide services to SERC such as processing and recording of financial transactions, including payroll. That contract also requires Rensselaer to provide SDE with federal and state Single Audits.

Criteria: Our audit of SDE for the fiscal years ended June 30, 2007 and 2008 recommended that SDE take the necessary steps to ensure SERC is audited as a separate and distinct entity and in accordance with the federal OMB Circular A-133. SDE has an established process to review the federal and state Single Audits in order to comply with federal monitoring requirements.

In addition, a Statement on Standards for Attestation Engagements (SSAE) 16, type 2 report includes a description by the service organization's management of its system of policies and procedures for providing services to user organizations. The report should also address whether the service organization's controls are suitably designed to achieve the control objectives and that the controls operated effectively throughout a specified period of time. In addition, the SSAE report should include the service organization auditor's opinion on the matters described by management and the auditor's tests of the operating effectiveness of the controls and the results of those tests.

Condition: SDE agreed with our prior audit recommendation to obtain a separate and distinct audit of SERC activities; however, those activities continued to be included in Rensselaer’s audits with only a footnote relating to SERC. The SDE Office of Internal Audit (OIA) is responsible for reviewing grantee audit reports. However, we found that management had excluded Rensselaer’s audit reports from the OIA review process. As a result, we were unable to determine whether sufficient monitoring occurred.

SDE never requested an SSAE report from the service organization. In addition, SDE confirmed that the service organization never prepared such a report.

Effect: Without a separate audit of SERC and a proper review of such a report, SDE cannot fully monitor state and federal grant activities. In addition, without an SSAE report, SDE could not determine whether the service organization’s internal controls over Rensselaer’s processing of SERC financial transactions were properly designed and operating effectively.

Cause: SDE did not require that any audits specific to SERC activities be obtained. In addition, it appears that both SDE and Rensselaer were unaware of the SSAE report.

Recommendation: The Department of Education should ensure that any future contracts with service organizations are properly monitored. SDE monitoring should include ensuring that its service organization’s controls are properly designed and operating effectively by requiring and obtaining an SSAE, type 2 report. In addition, the Office of Internal Audit should review audit reports in accordance with the SDE standard monitoring procedures. (See Recommendation 9.)

Agency Response: “We agree with this finding and it has been resolved. As of 2015, SERC is a quasi-public agency. [SDE] has no contracts with ‘service organizations’ at this time. If...[SDE] enters agreements with service organizations, we will require the appropriate Single Audit reports to be filed with the Office of Policy Management (OPM) for inclusion on the Electronic Audit Report System (EARS). The Single Audit will be reviewed by the [SDE]’s Office of Internal Audit.”

Contracting – Perpetual Contractual Agreements

Background: Master agreements provide for long-term procurement of certain products and services. Additional products and services are frequently added to an existing master agreement rather than being competitively bid. In an environment of emerging technology, long-term contracts

may not provide for sufficient competition to obtain optimal pricing and can prevent vendors that are new to an industry from offering services.

Criteria: Sound business practices dictate that contracts and agreements document effective dates, expiration dates, and deliverables to minimize the potential for conflicts. Any additional costs and services should only be allowed if approved under a contract amendment.

Condition: We reviewed the master agreement for a Statewide Longitudinal Education Data System and noted that it does not include an expiration date. In addition, the last payment under this contract was made in February 2012. However, the agreement is still identified as active.

Effect: There is an increased risk that additional products and services will be added under this agreement without seeking other vendors in a competitive environment. The longer the contract is in effect, the higher the risk that the prices utilized are not reasonable for the services provided.

Cause: It appears that SDE did not review the agreement for utilization.

Recommendation: The Department of Education should terminate long-term agreements that are not being utilized. (See Recommendation 10.)

Agency Response: “We agree with this finding. The department will review all contracts and ensure that unnecessary agreements are terminated. The department has procedures in place that comply with all Personal Service Agreement and Purchase of Services Procurement Standards set forth by the Office of Policy and Management, and will continue to utilize those to ensure conformance with all required competitive requirements.”

Payroll – Core-CT User Roles

Criteria: According to the Core-CT Security Liaison Guide, “Employee supervisors should review each user’s access and restrict that access when it is incompatible with the user’s job responsibilities, or does not provide proper segregation of duties. They should ensure that users only have the roles they need to perform their business functions.” An individual with both Agency Payroll Specialist and Agency HR Specialist roles could hire and pay someone inappropriately and without oversight.

Condition: We reviewed SDE employees with the ability to make changes to payroll, personnel, and time and labor records in Core-CT. We noted

that 6 employees assigned to work outside of the payroll and human resources units have the ability to modify these records. Three of the 6 can modify payroll records; 2 can modify human resources records; and 1 can modify both payroll and human resources records.

Effect: Inappropriate access to an information system increases the risk of data system error and fraud.

Cause: SDE indicated that employees outside of the payroll and human resources units are needed to assist with certain duties as a result of being short-staffed. In addition, some of the employees who were no longer needed were not removed from the system after either a change in position or changes in SDE needs after the implementation of Core-CT.

Recommendation: The Department of Education should periodically review the Core-CT access granted to employees to determine whether access is still appropriate. SDE should remove access privileges for those employees who no longer need it. (See Recommendation 11.)

Agency Response: “We agree with this finding and it has been resolved. An internal review has been performed and access has been granted to those individuals who need it for the performance of their job functions. Individuals who have retired, or moved to new functions, no longer have access to Core-CT. Access requires supervisory approval. Core-CT access reports will be monitored by... [supervisors] on a quarterly basis.”

Payroll – Controls over Regular Wages, Overtime, and Compensatory Time

Criteria: Sound business practices dictate that timesheets be signed by the employee to confirm the hours worked and approved by the supervisor to attest to the hours worked.

When the need for overtime or compensatory time is considered necessary for the operational requirements of SDE, 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, preapproval is not required, but appropriate documentation must be prepared within two business days and retained.

Condition: Through our review of 23 compensatory and 21 overtime transactions for the fiscal years ended June 30, 2009, 2010, and 2011, we found the records associated with only 8 to be properly documented, reviewed,

and approved. The exceptions varied, from documentation that lacked proper or timely approvals to missing, discarded, or lost documents.

Effect: SDE was not in full compliance with standard guidelines relative to wages, compensatory time, and overtime. In addition, the lack of supervisor signatures eliminates the assurance that the supervisor has verified the accuracy of hours claimed. Without proper oversight, SDE has less assurance that the services for which it has compensated its employees have been received.

Cause: SDE 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. SDE did not have adequate procedures in place to ensure that timesheets were accurately completed and approved.

Recommendation: The Department of Education should strengthen internal controls over the proper completion and approval of timesheets. SDE should implement the necessary controls to ensure that the authorization of compensatory time and overtime is made in advance of the work performed and sufficient documentation is retained in support of those approvals. (See Recommendation 12.)

Agency Response: “We agree with this finding and it has been resolved. [SDE] will ensure compliance with the authorization of compensatory time and overtime in advance of the work being performed. [SDE] will communicate this requirement and monitor its compliance.”

Payroll – Dual Employment

Background: The Department of Education agreed with the Auditors of Public Accounts’ prior audit finding to improve monitoring procedures, ensuring that the proper certification forms are completed and retained for employees engaged in dual employment activities.

Criteria: Section 5-208a of the General Statutes establishes that no state employee shall be compensated for services in multiple positions at either one or more agencies in a biweekly pay period without certification that the duties performed in the second position are outside of the employee’s primary responsibilities, that the hours worked in each position are documented and reviewed to preclude duplicate payments, and that no conflicts of interest exist between the services performed.

Condition: Our review of 31 individuals who worked in 45 dual employment positions with the state during the fiscal years ended June 30, 2010 and

2011, revealed properly reviewed and approved dual employment forms to support only 3 of the positions. Of the remaining 42 positions, the required dual employment form was not available for 27 positions. The remaining 15 positions lacked either the required signatures or approval date, and 9 of the 15 were approved between 4 and 331 days late.

Effect: Without proper authorization and monitoring, conflicts and overpayments could occur when employees work in multiple state positions.

Cause: SDE compliance and monitoring procedures were not adequate to ensure that dual employment was proper and that authorization forms were properly completed and maintained on file for employees with dual employment.

Recommendation: The Department of Education should strengthen dual employment procedures and controls to ensure compliance with Section 5-208a of the General Statutes. (See Recommendation 13.)

Agency Response: “We agree with this finding and it has been resolved. This issue is discussed regularly at Business Managers’ meetings. We have also reissued Administrative Letter CT-15, in January 2016, to revise the process subsequent to meetings with [the Department of Administrative Services] to help us streamline and correct the process. We will continue to communicate with CTHSS Business Managers and central office managers in an attempt to ensure compliance. [Human Resources] works in conjunction and regularly communicates with DAS, as required, and for questions and advisement.”

Payroll – Workers’ Compensation Leave Balance Adjustments

Background: When an injury first occurs, the injured worker often remains on the regular payroll, using either accrued sick, personal, or vacation leave until the paperwork is processed. Eventually, the employee goes off the regular payroll and is paid by the third party workers’ compensation administrator. The administrator reimburses SDE for any money paid to the employee during the initial period and the employee’s leave time is restored.

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 adjust the leave balances of the claimant.

Condition: Our review of 10 workers' compensation claims revealed 1 instance in which the sick leave supplement was calculated incorrectly, and 2 instances in which employee sick leave balances were not promptly adjusted. During the fiscal year ended June 30, 2011, SDE properly calculated that 12 hours needed to be restored to 1 employee's leave balance and a second employee's leave balance was undercharged by 3 hours. However, the corrections were not made until we inquired during the fiscal year ended June 30, 2014. In addition, SDE understated a third employee's adjustment by 3 hours, resulting in both an underpayment of wages and an equivalent overstatement of leave balance.

Effect: Employee leave time adjustments were not promptly made. An employee is owed 3 hours of pay with an equivalent reduction of leave time.

Cause: The exceptions appear to be caused by a lack of administrative oversight.

Recommendation: The Department of Education should accurately calculate workers' compensation leave balance adjustments in compliance with the Introduction to Workers' Compensation & Core-CT Claim Processing Manual. SDE should promptly record those adjustments. (See Recommendation 14.)

Agency Response: "We agree with this finding. [Human resources] and payroll are working to put checks and controls in place to prevent future errors. It is anticipated that new controls will be in place by December 31, 2016."

Payroll – Minimum Increments for the Usage of Employee Leave

Criteria: Proper internal controls require the review and approval of timesheets to ensure accuracy and compliance with bargaining unit contracts.

The following bargaining unit contracts include requirements for the minimum increment of leave time to be charged by employees:

- Managers – Vacation and personal leave must be used in minimum increments of 15 minutes.
- State Vocational Federation of Teachers – Sick and personal leave must be used in minimum increments of 15 minutes.

- Maintenance & Service Unit – Vacation, sick, and personal leave must be used in minimum increments of one-half hour.
- Administrative Clerical – Vacation leave must be used in minimum increments of one hour.
- Education Administrators – Sick leave must be used in minimum increments of one hour.

Condition: We performed analytical reviews of one month’s sick, vacation, and personal leave usage during the audited period for each bargaining unit. We identified 268 instances of employees using leave time in increments that were less than the minimum increment established for employees in the following bargaining units: Managers, State Vocational Federation of Teachers, Maintenance & Service Unit, Administrative Clerical, and Education Administrators.

Effect: Use of leave time in increments less than the mandated minimum is a violation of the bargaining unit contracts.

Cause: According to our testing, the review process demonstrates insufficient managerial oversight.

Recommendation: The Department of Education should improve controls over the review and approval of timesheets to ensure compliance with bargaining unit contracts. (See Recommendation 15.)

Agency Response: “We agree with this finding. The Bureau of Human Resources will review collective bargaining agreements and develop guidelines for distribution to business managers regarding the appropriate use of leave time increments.”

Payroll – Early Retirement Incentive Program Termination Payments

Criteria: According to the Local 61 American Federation of School Administrators contract, upon the retirement of employees hired into the bargaining unit before July 1, 1995, the employer shall pay one-half of the employee’s daily salary for each day of sick leave accrued up to a maximum payment equivalent to 80 days. Employees hired into the bargaining unit on or after July 1, 1995, receive 1/4 of the daily salary for each day of sick leave accrued up to a maximum equivalent to 60 days.

Proper internal controls over the accurate calculation of termination payments include monitoring of properly trained staff.

- Condition:* Our review of 13 Early Retirement Incentive Program (ERIP) payout calculations noted the following issues:
- Two employees who entered the Local 61 American Federation of School Administrators bargaining unit prior to July 1, 1995 incorrectly received 1/4 instead of 1/2 of the daily salary rate for each day of sick leave accrued. The sick leave payouts resulted in a total underpayment of \$33,066.
 - One employee who entered the Local 61 American Federation of School Administrators bargaining unit after July 1, 1995 incorrectly received a sick leave payout that exceeded the employee's maximum equivalent of 60 days. The amount of overpayment totaled \$7,913.
 - Incorrect adjustments booked by SDE resulted in incorrect vacation leave payouts to 4 employees. Two of the 4 employees accrued vacation hours over the maximum of 420 hours, but the retirement payouts were not adjusted to address the overages. The misstatements resulted in 3 employees being underpaid an aggregate of \$1,704 and 1 employee being overpaid \$536. The payroll department disputes our calculations for 3 of these employees, but would not provide clarification on how the balances were calculated.
- Effect:* Several termination payments were calculated incorrectly, resulting in under and overpayments to former employees.
- Cause:* Inaccurate calculations of termination payments appear to be the result of poorly implemented internal controls and time constraints due to the significant number of employees that terminated as part of an early retirement incentive program.
- Recommendation:* The Department of Education should ensure the accuracy of the calculation of employee termination payments by strengthening controls over staff training and supervisory monitoring. (See Recommendation 16.)
- Agency Response:* "We agree with this finding. Corrections were made in final payouts in 2014 and no balances remain. The Bureau of Human Resources will strengthen controls over staff training and supervisory monitoring."

Payroll – Accounting Corrections

- Criteria:* Sound business practices dictate that accounting corrections for the payroll charges of split-funded employees be based on documentation approved by either the bureau chief or funding provider.
- Condition:* Accounting adjustments to payroll charges were made without properly approved supporting documentation. Based on unapproved biweekly time distribution sheets, several adjustments were recorded to move the payroll charges of a split-funded employee’s entire salary to a different funding source. The distribution sheets were approved by the bureau chief only after the adjustments were recorded and they were all approved on the same date, which was as much as one year after the original payroll activity occurred.
- Effect:* Delays in approving biweekly time distribution sheets increase the risk that errors will not be detected by the approver. By basing adjustments on documentation that has not been approved by either the bureau chief or funding provider, errors could occur and the wrong funding source could be charged.
- Cause:* Business office staff did not require that time distribution sheets be approved before recording adjustments.
- Recommendation:* The Department of Education’s business office should only make payroll adjustments when they are based on properly approved supporting documentation. (See Recommendation 17.)
- Agency Response:* “We agree with this finding. It appears that the individual circumstance occurred with adjustments that were due to timing of the availability of federal funds. The department has procedures in place to ensure that all payroll adjustments are appropriately approved by management and fiscal [staff] prior to an adjustment being made. We also have a process that requires approval of the biweekly timesheets in a timely manner. The department will remind all timekeepers to ensure that timesheets are signed accordingly.”

Payroll – Policies and Procedures Over Paid Administrative Leave

- Criteria:* Most state employees are participants in collective bargaining agreements with the state. These agreements take legal precedence over state statutes and regulations governing the layoff, discipline, and dismissal of state employees.
- Article 13 of the union contract between the State of Connecticut Board of Education and the State Vocational Federation of Teachers,

Local 4200A, American Federation of Teachers, AFL-CIO, states, "...[an employee] shall not be dismissed, suspended or disciplined except for just cause. Arbitration shall be the exclusive procedure for resolving disputes..." The contract is otherwise silent on the matter of administrative leave.

Section 5-240-5a of the Regulations of the Department of Administrative Services allows the appointing authority to place an employee on a leave of absence with pay if the employee's presence at work could be harmful to the public; the welfare, health or safety of patients, inmates or state employees; or state property. The leave of absence must be immediately reported to the Commissioner of Administrative Services. The statutes and regulations do not offer provisions governing the rest of the process.

Condition: Through discussions with staff and review of documentation, we determined that the Department of Education does not have written policies and procedures for placing an employee on administrative leave. A review of the union contract, General Statutes, and Regulations of State Agencies did not provide sufficiently detailed guidance.

Effect: The lack of a formal written policy results in the agency having no official guidance to ensure that administrative leave is applied fairly and in a nondiscriminatory manner.

Cause: There is a lack of administrative oversight over policies and procedures for managing cases of employees placed on administrative leave.

Recommendation: The Department of Education should establish formal regulations or policies to govern the use of administrative leave. (See Recommendation 18.)

Agency Response: "We agree with this finding and it has been resolved. It is the policy to manage administrative leave in accordance with collective bargaining agreements and state statute. The appropriateness of placing an employee on administrative leave is determined on a case-by-case basis after discussions with the Office of Legal and Governmental Affairs, the Superintendent, the CFO, and the commissioner, depending on the circumstances."

Revenues – Central Office Grants Refunds Receivable

Criteria: In accordance with the State Accounting Manual, accounts receivable records should be accurate, complete, and maintained in a manner indicating the length of time the debt has been outstanding.

The Department of Education’s policies and procedures require reconciliation between the amounts distributed to a grantee and the grantee’s audited expenditures. Any differences identified as a result of the reconciliation should be resolved immediately.

Section 10-263 subsection (b) of the General Statutes states, “Unless otherwise provided by law, if the Commissioner of Education determines, based upon a final report of actual revenue and expenditures of a school district, that there has been an underpayment or overpayment in a grant made by the State Board of Education, the commissioner shall calculate the amount of the underpayment or overpayment and shall adjust the amount of the grant payment for either of the two fiscal years next following the fiscal year in which such underpayment or overpayment was made. The amount of the adjustment shall be equal to the amount of the underpayment or overpayment.”

Condition: SDE bills school districts by invoice for unspent grant funds distributed to them.

We noted 28 such invoices, totaling \$7.9 million, issued during the fiscal years ended June 30, 2009 and 2010 that remained outstanding as of June 30, 2011. An invoice for \$113,895 dated November 10, 2008, was still outstanding as of June 30, 2014. SDE’s last attempt to collect this amount was made during March 2011.

Not only did SDE not pursue collection of the outstanding invoices, it also did not recover the overpayments by reducing future grant payments.

Effect: SDE has not fulfilled its statutory obligation to adjust the amount of the grant payment in subsequent years. Delays in collection of past due invoices could result in failure to collect amounts due to the state.

Cause: SDE has not sufficiently implemented procedures and controls over the collection of invoices for recipients of unspent grant funds.

Recommendation: The Department of Education should generate and review grants receivable reports that facilitate the identification of aged accounts, and pursue the prompt resolution of grantee receivable balances. (See Recommendation 19.)

Agency Response: “We agree with this finding. The department will develop a procedure for implementing ... [Section 10-263 of the General Statutes] to offset future grant payments from state general fund appropriations, to a recipient who has not fully utilized the funds they received in a previous year. A procedure currently exists that does provide for the collection of the funds through a standard receivable process, but the department had never implemented the concept of offsetting future grants. This step will be added to the existing procedure.”

Revenues – Connecticut Educator Certification System

Background: The Teacher Certification Office (TCO) within SDE collected the following General Fund certification fees during the audited period.

<u>Fiscal Year</u> <u>Ending</u>	<u>Amount</u> <u>(in millions)</u>	<u>Certificates</u> <u>Issued</u> <u>(per TCO)</u>
June 30, 2009	\$2.5	21,300
June 30, 2010	3.4	26,600
June 30, 2011	3.7	23,700

Our prior audit reports have indicated that SDE did not reconcile teacher certification fees received and deposited to the number of certifications processed or pending.

Criteria: SDE responsibility for collecting teacher certification fees is established by Section 10-145b subsection (l) of the General Statutes.

In accordance with the State Accounting Manual, internal controls over cash receipts shall be established to minimize the risk of loss and, where feasible, certain duties should be segregated. Additionally, accountability reports should be periodically prepared to compare the receipts accounted for with the certificates issued and controls should ensure there is segregation of duties in the collection, recording, and reconciliation of receipts.

Functionality within the Connecticut Educator Certification System (CECS) is intended to support improved analysis of teacher certification revenues and receipts.

Condition: We noted the following concerns regarding SDE’s handling of teacher certification fees:

- Issued teacher certificates and the associated accounting have not been sufficiently controlled and monitored. Within SDE, neither the Bureau of Financial Services nor Teacher Certificate Office

prepared revenue accountability reports to reconcile the fees received and deposited to the certificates issued, processed, and pending.

- For the audited period, CECS data contained incomplete and inaccurate information that was not prevented or detected by system controls.
- CECS lacks the reporting capabilities to enable preparation of revenue accountability reports. Therefore, we could not verify that SDE collected the correct fee for each license issued.
- CECS stability was reported to be an issue during the period of our fieldwork, with continued daily outages.

Effect: The lack of accountability procedures and reconciliations prevents the verification of revenue balances and the verification of teacher certificates issued. Weaknesses in CECS controls and system instability preclude accurate, timely, and efficient administration of the certification process by the SDE Teacher Certification Office.

Cause: SDE has not established sufficient procedures and controls over the issuance of teacher certifications and the collection, accounting, and review of associated fees. Additionally, SDE has not sufficiently developed CECS to ensure proper and controlled data input, the production of useful output, and system stability.

Recommendation: The Department of Education should establish procedures and controls over the issuance of teacher certifications and the collection, accounting, and review of associated fees, including accountability and reconciliation procedures, as a means to monitor the issuances of certificates and substantiate revenue balances.

SDE should pursue improvements to the Connecticut Educator Certification System to strengthen data input controls, generate accurate and effective reporting, and stabilize functionality. (See Recommendation 20.)

Agency Response: “We agree with this finding. The...CECS contains the revenue received and the certification status for specific educators on a case-by-case basis. However, the revenue for a particular fiscal year will not have a direct relationship to the certifications issued for that same fiscal year. The Teachers Certification Unit (TCU) will continue to verify the revenue received and the certification status for specific educators on a case-by case basis and will perform any required reconciliations of the data...TCU agrees that it would benefit from the report recommended in this audit finding, however, it does not

currently have the capacity to create that report. The TCU will work with the Bureau of Information Technology to develop such a report.”

Information Technology – Non-Business Use of State Computers

Criteria: In accordance with Section 4d-2 of the General Statutes, the Commissioner of Administrative Services is responsible for identifying and implementing policies pertaining to information and telecommunication systems for state agencies.

The Department of Information Technology’s Acceptable Use of State Systems Policy includes 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 noted 2 concerns regarding employee access to the internet that increase the risk for nonbusiness use of state computers.

- Internet Browsing: Certain Department of Education employees were granted the capability to bypass blocked websites. There was no documentation to show a procedure was in place to monitor such overrides for appropriateness.
- Software Downloads: SDE informed us that, during the audited period, there was a system and process to identify software downloads for non-work related purposes. However, SDE did not maintain documentation that they reviewed the process. That system is no longer available; therefore, there is no process currently in place to monitor software downloads for appropriateness.

Effect: SDE is not able to document its compliance with the Acceptable Use of State Systems Policy. Non-work related websites may contain viruses that could have a negative impact on SDE computer systems. Personal use of the internet and computers during work hours may impact SDE’s ability to carry out its mission.

Cause: SDE does not document the review of internet activity for employees with bypass capabilities and does not have a program in place that monitors employee software downloads.

Recommendation: The Department of Education should develop a procedure to monitor employee internet activity and downloads, evaluate that activity for appropriateness, and document those efforts along with any corrective action taken. (See Recommendation 21.)

Agency Response: “We agree with this finding and it has been resolved. The Bureau of Information Technology (BIT) has addressed this issue from two perspectives. The first is keeping a documented list of who has bypass authority on websites and a logging of what websites have been visited. The second action item was to document this exact area in a risk assessment document. The BIT will review and report to the CFO quarterly all activity that bypassed the existing allowable websites.”

Information Technology – Policy for Information Technology Program Changes

Background: The Connecticut Educator Certification System is a comprehensive database designed to help educators complete the certification process. The system enables applicants to apply, renew, and update certifications online. SDE received about \$2.5 million, \$3.4 million, and \$3.7 million from teacher certificate license fees for the fiscal years ended June 30, 2009, 2010, and 2011, respectively.

The Prepayment Grant System is a database that processes over 50 state and federal prepayment grants. Federal funds paid by the system during fiscal years ended June 30, 2009, 2010, and 2011, totaled \$392 million, \$793 million, and \$773 million, respectively.

Criteria: Sound internal controls include policies and procedures to monitor program changes to information systems. Changes should be tracked to ensure there is appropriate documentation to support the approval, implementation, and testing of the change.

Condition: Based on discussions with SDE staff, there are no documented policies or procedures regarding information system program changes. Approvals from management are not required before a change request is submitted for the Connecticut Educator Certification System. Approvals from the bureau chief are obtained for changes relating to new requirements and functions to the Prepayment Grant System but are not obtained for less significant changes. In addition, logs are not maintained to document the changes that were made to the systems.

Effect: Unnecessary or inappropriate changes to information systems could be made and not be detected by management, increasing the risk of data system errors and fraud.

- Cause:* SDE does not have a policy in place regarding requirements for information technology program changes.
- Recommendation:* The Department of Education should develop policies and procedures to document and monitor program changes to information systems. SDE policy should require that approvals be obtained prior to the implementation of changes to the systems by a member of management. SDE should track all changes made to the systems and ensure there is appropriate documentation to support the approval, implementation, and testing of changes. (See Recommendation 22.)
- Agency Response:* “We agree with this finding and it has been resolved. The Bureau of Information Technology has addressed this issue by making the following changes and implementations: Establishment of a Help Desk Service Center; Establishing a Project Management Office ; Implementing a Ticketing system to track and log changes; Utilization of Team Foundation Server for tracking projects and tasks for the development and production technical teams. These things were implemented along with a workflow path for changes that require approvals and logging of where tasks stand and their respective priorities.”

Information Technology – User Access Controls Over Information Systems

- Criteria:* Sound internal controls require termination policies for employees upon separation from state service. Employee access to information systems should be removed upon separation from employment.
- Condition:* Our review of access to the Connecticut Educator Certification System identified 8 former employees who were terminated during the audited period and still had access to the system at the time of our review in April 2014. Of those 8 user accounts, 2 had login dates after the employee’s termination dates.
- Effect:* The effectiveness of information system access controls is compromised and confidential data may not be adequately protected from unauthorized use or modification.
- Cause:* The SDE Human Resources Division did not promptly notify the Bureau of Educator Standards and Certification unit of terminated employees to remove their access from the system.
- Recommendation:* The Department of Education should maintain security over its information systems by promptly terminating employees’ system access upon their separation from employment. (See Recommendation 23.)

Agency Response: “We agree with this finding and it has been resolved. Account deactivation is now a well-established standard that occurs when an employee no longer works for the department. The Bureau of Information Technology receives a list of employees from... human resources on a weekly basis that lists employees who leave, are terminated, or moved to another area within or outside of the department.”

CTHSS – Insufficient Facility Maintenance

Criteria: Management of a school system includes establishing and implementing custodial programs that incorporate expectations of a certain level of maintenance. Means for addressing routine and unexpected maintenance demands should also be established.

The State Board of Education has issued the Position Statement on Creating a Healthy Learning Environment that is Physically, Emotionally and Intellectually Safe. The document states that, “Students learn best when physical settings are clean, well maintained, bright and secure...”

The U.S. Department of Education has established benchmarks to determine optimal staffing levels required to adequately maintain school buildings.

Condition: An onsite compliance review performed by the Department of Education’s Office of Internal Audit (OIA) during May 2010, at one Connecticut technical high school found that both building maintenance and custodial care were inadequate. Additionally, the restrooms were extremely unsanitary. OIA felt the school maintenance area was fully staffed at that time, yet they found that the level of cleanliness was not in compliance with the SDE position statement.

During April and May 2014, our audit work included site visits at 2 technical schools. At one of these schools, we noted the facility was dirty and suffering from an obvious lack of maintenance. In addition, many areas were cluttered with obsolete equipment.

The superintendent of the Connecticut Technical High School System is aware of the problem and indicated that steps are being taken that include requesting permission from the Office of Policy and Management to fill vacant positions and establish new ones.

Effect: An improper or inadequate maintenance program may lead to premature deterioration of buildings and may pose health risks.

Disorganized and cluttered areas may result in the failure to provide students with a clean and safe learning environment.

Cause: Based on benchmarks established by the U.S. Department of Education, the SDE analysis of custodial staffing levels at the trade schools determined that, during August 2013, 15 out of 18 schools did not have sufficient staff to ensure the buildings were clean enough to provide students with a healthy and comfortable environment. At that time, the two schools included in this finding were understaffed by two positions each.

Recommendation: The Department of Education should establish and implement a standard for the maintenance and cleanliness of the Connecticut Technical High Schools. SDE should maintain adequate maintenance and custodial staffing levels at all facilities. (See Recommendation 24.)

Agency Response: “We agree with this finding. The report referenced in the audit report was developed by district staff and is updated periodically and shared with OPM. CTHSS will continue to pursue refill of maintenance vacancies.”

CTHSS – School Security

Background: The evolution of legislation concerning school security demonstrates the importance of security at the Connecticut Technical High School System (CTHSS). Initially, a brief mention of safety was made by the statutes requiring each local or regional board of education to provide an appropriate learning environment that includes a safe school setting. Eventually, a safety committee was established with the goal of increasing safety awareness among staff and students and reviewing the adequacy of emergency response procedures at each school. Finally, a School Safety Infrastructure Council was formed to develop school safety infrastructure standards for school building projects.

Criteria: Section 10-220 of the General Statutes requires each local or regional board of education to provide an appropriate learning environment that includes a safe school setting.

Proper security procedures for the safety of CTHSS students, teachers, visitors, and state assets should include controlled building access and visitor tracking that is documented in a comprehensive security policy.

Condition: We visited two Connecticut technical high schools. At 1of these schools, we found insufficient controls over building access and visitor

tracking. Additionally, the CTHSS Faculty and Staff Handbook lacks a comprehensive security policy.

SDE informed us that CTHSS is in the process of developing and implementing security and safety plans for its technical high schools.

Effect: Insufficient control of building access, poor visitor tracking, and the lack of a comprehensive security policy may expose CTHSS students, teachers, visitors, and state assets to safety threats.

Cause: SDE has not effectively established and implemented an adequate security policy at the technical high schools to ensure the safety of students, teachers, visitors, and state assets.

Recommendation: The Department of Education should implement interim safety procedures, and management oversight should be exercised to ensure maximum safety controls are achieved with reasonably available resources. (See Recommendation 25.)

Agency Response: “We agree with this finding and it has been resolved. The district has developed and disseminated through administrative letter CT-12 an Access Control Plan that articulates school entry procedures.”

CTHSS – Foundation Oversight

Background: The Connecticut Technical High School System Foundation is a nonprofit corporation established for “charitable, cultural, educational, and related purposes, more specifically to receive or use private funds to support programs, services, activities and initiatives in the Connecticut Technical High School System in accordance with the system’s mission, goals, and annual plan.”

Criteria: Statutory provisions governing foundations affiliated with state agencies are included in Sections 4-37e through 4-37j of the General Statutes. In accordance with Section 4-37f subsections (5) and (8) of the General Statutes, “the governing board of the foundation shall annually file with the state agency an updated list of the members and officers of such board...A foundation which has receipts and earnings from investments totaling less than one hundred thousand dollars in each fiscal year during any three of its consecutive fiscal years...shall have completed on its behalf for the third fiscal year in any such three-year period a full audit of the books and accounts of the foundation. For each fiscal year in which an audit is not required pursuant to this subdivision, financial statements shall be provided by the foundation to the executive authority of the state agency.”

- Condition:* Board members voted to dissolve the foundation in December 2011. According to the Secretary of the State, the business status of the foundation is currently indicated as active.
- During the audited period, the foundation did not comply with the statutory requirements of providing board member listings, annual financial statements, and audit reports to SDE for review. There was no oversight by CTHSS.
- Effect:* The foundation did not fully comply with Section 4-37f subsections (5) and (8) of the General Statutes.
- Cause:* The cause is unknown.
- Recommendation:* The Department of Education’s CTHSS should obtain and review the foundation’s records. In addition, CTHSS should complete the dissolution process. (See Recommendation 26.)
- Agency Response:* “We agree with this finding and it has been resolved. A Certificate of Dissolution was filed (electronically) on July 15, 2016, with the Secretary of State’s Office. The Department of Consumer Protection was also notified of the foundation’s dissolution.”

CTHSS – Ineffective Internal Controls

- Background:* In our prior audit report, our office reported the condition Prevention and Correction of Internal Control Deficiencies at the Department’s Connecticut Technical High School System and recommended that SDE implement changes to the Connecticut Technical High School System internal controls to correct and prevent the recurrence of internal control deficiencies in operational areas, such as: student activity funds; payroll and attendance; inventory; and donated vehicles. This condition was presented as a compilation of several repeated audit compliance and control activity findings by both the Auditors of Public Accounts and the Department of Education’s Office of Internal Audit (OIA).
- OIA is responsible for conducting audits as outlined in an annual audit plan approved by the State Board of Education. Those audit plans include Connecticut technical high school on-site compliance reviews.
- Criteria:* An internal control is the process by which management accomplishes the 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 and objectives. As such, controls should protect an organization’s resources by both preventing and detecting

errors, fraud, and the misuse of resources while ensuring compliance with state laws.

- Condition:* OIA presented nearly 70 recommendations during the fiscal years ended June 30, 2009, 2010, and 2011. These recommendations address internal control deficiencies in the following operational areas: Extension Fund tuition fees for adult education; General Fund business operations, such as cash, receipts, payroll, and attendance; Production Fund operations such as auto shop and culinary operations; and student trustee accounts. Similar recommendations have been reported by OIA and the Auditors of Public Accounts during multiple prior audit periods. The repeated detection of internal control deficiencies over many audit cycles is evidence that SDE has not successfully developed and implemented sufficient controls over CTHSS operations.
- Effect:* The above-referenced internal control deficiencies affect SDE’s ability to properly record, process and report financial data, safeguard assets, and comply with laws, regulations, and established policies and procedures.
- Cause:* SDE has not successfully established effective controls over CTHSS operations to prevent and detect the recurrence of internal control deficiencies reported by our office and OIA.
- Recommendation:* The Department of Education should take the necessary steps to ensure that internal control deficiencies detected by the internal auditors of CTHSS are adequately corrected in a timely manner. (See Recommendation 27.)
- Agency Response:* “We agree with this finding. The CTHSS will work with the Department of Education's Bureau of Fiscal Services to address all audit recommendations in a timely manner.”

CTHSS – Control Activities Over Adult Education Fee Revenue and Receivables

- Background:* Adult education programs within the Connecticut Technical High School System generated tuition fees totaling \$2.3, \$1.7, and \$1.9 million for the fiscal years ended June 30, 2009, 2010, and 2011, respectively. The Licensed Practical Nurse Program (LPN) is the largest revenue producing program, comprising 40% of adult education revenues.
- Criteria:* The State Accounting Manual requires the safeguarding of assets and the timely and accurate reporting of revenue and accounts receivable balances.

Periodic CTHSS procedural Full-Time Adult Collection guidance memos review the roles and responsibilities of staff involved in the adult education collection process. An adult LPN student is required to execute an LPN tuition payment plan agreement that defines the student's financial obligation and payment terms. These documents restrict the collection of cash payments to normal business hours and establish the state's collection authority in the event a student does not make payments.

The State Records Retention Schedule, issued in accordance with Section 11-8 and 11-8a of the General Statutes, defines for accounting records, such as those for adult education fee revenue and receipts, a minimum retention period of three years, or until audited, whichever is later.

Condition:

Our testing, combined with a recommendation issued by OIA, identified continued lapses in business practices and noncompliance related to the collection and accounting for adult education program fees as follows:

- Insufficient segregation of duties within the CTHSS business functions.
- Incomplete and insufficiently controlled reporting of revenue and accounts receivable balances, and a lack of revenue accountability reporting.
- Noncompliance with revenue collection procedures, whereby cash payments are accepted after business hours and past due amounts are not administered in accordance with required authorization and collection procedures.
- Failure to retain source documents and summary reporting of revenue and accounts receivable balances. Of greatest concern is the lack of complete activity and balance records contained in the fee management software that was discontinued during the fiscal year ended June 30, 2011.

Effect:

The weaknesses in business practices and noncompliance with applicable policies and procedures increase the risks that state assets might be misappropriated and financial balances might be misstated. The lack of accountability procedures precludes the timely identification of noncompliance or errors, while the failure to retain complete source documentation and summary reporting significantly hinders efficient and accurate analysis of revenue and accounts receivable balances.

Cause: SDE has not sufficiently implemented the necessary internal controls. When the fee management software was retired in 2011, the related data was not retained for reference purposes.

Recommendation: The Department of Education should improve controls to ensure compliance with policies and procedures for the collection, accounting, and substantiation of adult education program fees and tuition, and implement improved business processes accordingly. (See Recommendation 28.)

Agency Response: “We agree with this finding. At this time it is unclear if CTHSS will continue operating adult education classes. If it is determined that adult education offerings will continue, CTHSS will work with the Office of Policy and Management (OPM) to identify possible partners with similar business activities such as bursars’ offices (e.g. the community college system) to utilize existing infrastructures, electronic registration, and financial management systems to ensure proper processing of adult education tuition and fees.”

CTHSS – Control Activities Over Business Office Cash and Receipts

Criteria: Effective segregation of duties is an important control in a revenue system to help ensure assets are safeguarded and errors or irregularities will not occur in the accounting process. In an accounting system, the following duties should be separated and monitored: bookkeeping, access to assets, independent reconciliation, and authorization of transactions.

Condition: The State Department of Education’s Office of Internal Audit (OIA) performed reviews of Connecticut Technical High School System operations during the fiscal years ended June 30, 2009, 2010, and 2011. Those reviews continued to identify common and persistent failures to comply with established policies and procedures and weaknesses in internal controls over school business office cash and receipts. OIA made recommendations for improvements regarding the following matters at 4 of the 8 schools reviewed during the audited period.

- At each of 4 schools, only 1 person was responsible for the majority of cash handling functions: collections, banking, Core-CT recording, and maintenance of source documentation.
- One school’s petty cash box was short \$20 and the account register was missing.

- Cash handling and banking duties were assigned to a secretary at 1 school, an activity that is beyond the individual’s official job classification.
- Missing source documentation for some deposit packages precluded an efficient means of verification at one school.

Effect: Failure to comply with established policies and procedures such as proper segregation of duties, controls relative to cash handling and banking, management oversight, and contingency planning at the Connecticut technical high schools, increases the risk that cash receipt and deposit errors and irregularities might not be prevented or detected promptly.

Cause: Internal controls over cash and receipts were not properly implemented.

Recommendation: The Department of Education should reinforce procedures and training relative to cash and receipt transactions, including collections, banking, and accounting. The department should maintain adequate segregation of duties and backup capabilities to facilitate continued controls during periods of employee absence and turnover. (See Recommendation 29.)

Agency Response: “We agree with this finding. The CTHSS will increase the level of supervisory monitoring, and review and update existing policies and procedures at the next school business managers’ meeting.”

CTHSS – Control Activities Over Student Trustee Accounts and Activities

Criteria: In accordance with Section 10-95a of the General Statutes, each Connecticut technical high school has a student activity program consisting of athletic and non-athletic activities. The student trustee account is required to be operated in accordance with the provisions of Section 4-52 to 4-55 of the General Statutes for the purpose of conducting associated financial transactions.

The Department of Education has published extensive policies and procedures to address revenues and receipts; purchasing and disbursements, and associated controls; and reporting of the Student Activity Program, and associated fund. The manual addresses a fairly substantial variety of transactions at each Connecticut technical high school. The superintendent, principal, business manager or business office designee, and faculty advisors have defined responsibilities relative to proper controls to provide reasonable assurance that assets are safeguarded and transactions are authorized, valid, complete, and

accurate. Documented procedures require a separation of duties, compliance with documentation and expenditure standards, financial control and reporting to management, and proper fundraising.

Condition: Reviews performed by the Department of Education's Office of Internal Audit of the Connecticut Technical High School System student trustee accounts and activities covering the fiscal years ended June 30, 2009, 2010, and 2011, made recommendations for improvements regarding the following matters at the 8 schools reviewed during the audited period.

- Weak cash controls, including insufficient segregation of duties and bank reconciliations without preparer signatures and dates.
- Noncompliant documentation for field trips, fundraising, and journal vouchers at 6 schools.
- The use of multiple cash receipt books without a control log at 1 school.
- Excessive checking account balances at 3 schools.
- Inappropriate commingling of operations between the student trustee account and the parent-faculty organization at one school, with improper controls and activities.

Effect: Failure to comply with established policies and procedures and deficiencies in controls over student trustee funds and activities increase the risk that student assets held in trust might not be sufficiently safeguarded and could be misappropriated. Furthermore, noncompliant activities might not be promptly detected.

Cause: SDE did not implement the necessary controls over student trustee accounts and activities.

Recommendation: The Department of Education should establish the necessary internal controls to ensure that the Connecticut technical high school student trustee accounts and activities are in accordance with established policies and procedures. (See Recommendation 30.)

Agency Response: "We agree with this finding. The Student Trustee Coordinator will establish additional controls to ensure the CTHSS trustee accounts and activities are in accordance with policies and procedures. Additional training will be made available to advisors and business office personnel."

CTHSS – Control Activities over Shop Production Activities

Background: Separate production funds are maintained at the Connecticut technical high schools to account for the financial activities of each trade area; associated revenues were \$0.8, \$0.8, and \$0.9 million, respectively for the fiscal years ended June 30, 2009, 2010, and 2011.

Criteria: The Department of Education has issued formalized procedures for the Connecticut technical high schools to follow relative to the production activities of its trade areas. These procedures document general operating procedures, instructions, financial controls, reporting, and work forms.

Condition: Reviews of the Connecticut Technical High School Systems production areas were performed by the SDE Office of Internal Audit (OIA) covering the fiscal years ended June 30, 2009, 2010, and 2011. Those reviews resulted in recommendations for improvements to correct the following common and persistent failures to comply with established policies and procedures and weaknesses in internal controls.

Automotive Technology Shop – Four reviews identified 9 vehicles belonging to school employees and supervisors that were on the premises without an associated production order. At 2 of the 9 schools reviewed, the OIA noted production orders signed by customers, certifying the satisfactory completion of the work, but the actual work had not been completed. In addition, the OIA noted that at 2 locations customers were not required to pay for repairs when picking up their vehicle. This resulted in 1 outstanding accounts receivable.

Culinary Arts Shop – Five reviews identified unresolved cash discrepancies, inadequate segregation of duties, and deviations from culinary shop policies and procedures. In addition, 1 shop did not perform a physical inventory.

Effect: Failure to comply with established policies and procedures for shop production activities and deficiencies in controls diminish SDE's ability to safeguard assets and increase the risks of misappropriation and inaccurate reporting.

Cause: SDE has not effectively implemented formalized policies and procedures for the Connecticut technical high schools relative to the production activities of its trade areas.

Recommendation: The Department of Education should implement the necessary internal controls to ensure that the Connecticut technical high schools'

production funds and activities are in accordance with established policies and procedures. (See Recommendation 31.)

Agency Response: “We agree with this finding. The respective program consultants will increase oversight of production work activities during their school visits. In addition, we will request that school leaders review production work policies and procedures with school personnel during staff meetings and actively monitor the activities within the school.”

CTHSS – Control Activities over Donated Vehicles

Background: The Connecticut Technical High School System periodically receives donated vehicles for use in the Automotive Technology and Collision Repair and Refinishing trade shops.

Criteria: Section 10-9 of the General Statutes states, the “State Board of Education may receive in the name of the state any money or property given...[and] may use any such property for educational purposes.”

The SDE formalized policies and procedures require the completion of specific forms when CTHSS accepts gifts for instructional purposes. Forms such as the CTHSS Donor Acknowledgment of Conditions for Acceptance of Gifts form require the signature of the donor and coordination with the business office at each school. All gifts must be approved in writing by the CTHSS superintendent. In addition, donated vehicles must be recorded on a donation log, tagged, and recorded on the school’s inventory.

The State Property Control Manual states that an asset acquired by donation is generally capitalized at its estimated fair market value at the time of acquisition. Each agency should continuously survey its assets to determine what is unnecessary; reassign property when it is no longer required for its current use; and report to the Property Distribution Center property considered to be surplus or that is deemed unserviceable, obsolete, or otherwise unusable. Property that may be considered obsolete or unusable by one agency may serve another agency's operational needs.

Condition: The Department of Education’s Office of Internal Audit (OIA) identified broad and repeated noncompliance relative to donated vehicles at CTHSS during the fiscal years ended June 30, 2009, 2010, and 2011, as follows:

- For 54 donated vehicles reviewed, 19 lacked proper donation paperwork and 24 were not recorded on the respective school’s inventory.

- At 1 of the 8 schools reviewed, inconsistent documentation on the donation log was noted.
- At another school, with 17 inventoried vehicles, the school failed to execute disposal requests for 2 vehicles after one and a half years.

Effect: By not complying with established policies and procedures regarding donated vehicles, SDE cannot adequately protect those assets from theft or loss.

Cause: SDE has not sufficiently implemented the established policies and procedures for donated vehicles.

Recommendation: The Department of Education should take the necessary steps to improve and implement internal controls over the acceptance, ownership, and disposal of donated vehicles. (See Recommendation 32.)

Agency Response: “We agree with this finding and have taken steps to resolve the issue. There were internal control issues over the acceptance, ownership, and disposal of donated vehicles during the fiscal years ended June 30, 2009, 2010, and 2011. The CTHSS has updated its vehicle donation process and all vehicles accepted since December 2015, have followed this process.”

CTHSS – Control Activities over Inventory

Criteria: The State Property Control Manual (SPCM) requires state agencies to maintain adequate inventory controls and accountability systems for personal property. Each agency should continuously survey its assets to determine what is unnecessary; reassign property when it is determined to be no longer required for its current use; and report to the Property Distribution Center personal property considered to be surplus or that is deemed unserviceable, obsolete, or otherwise unusable. Property that may be considered obsolete or unusable by one agency may serve another agency's operational needs. State agencies shall not stockpile property. The manual also requires that all computer or electronic equipment deemed unusable must be recycled.

The Inventory Procedure Manual requires that the help desk ticketing system be used to request disposal of equipment such as computers, monitors, and printers.

SPCM requires a physical inventory of all property, taken annually, to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year.

Condition:

During a technical high school site visit, we noticed the following significant concerns:

- An excessive amount of obsolete computers were stored in various locations within the school. We asked the staff to provide us with the help desk tickets submitted to dispose of these computers, and were informed that there were 3 outstanding tickets that were more than a month old and had not been approved for disposal. Without the approval, the school was not authorized to contact the recycling company to schedule pick up of the computers. The 2 tickets that we reviewed had only 21 computers listed. We noticed significantly more than 21 obsolete computers. However, we were unable to verify whether the help desk tickets were issued for all of them because SDE could not find the third outstanding ticket.
- Stockpiles of computers and printers were neither redistributed, nor treated as surplus.
- Six out of 25 items randomly selected for physical inspection were broken and unusable, and 4 out of 25 items were found in locations different than where the records indicated.
- A random selection of 20 items found 1 item was broken and unusable but still appeared in the inventory records. An additional 3 items were found in locations different than where the records indicated.

At a second technical high school, our observation of 25 items revealed that 3 items did not have tag numbers; therefore, we were unable to verify whether their proper locations were recorded in Core-CT.

Effect:

Assets stockpiled by SDE may be useable at another department. Property control records may not accurately reflect actual inventory on hand.

Cause:

SDE does not follow established policies and procedures for the disposal of equipment and does not properly perform annual physical inventories at the Connecticut Technical High School System.

Recommendation:

The Department of Education should improve controls over the storage, organization, and disposition of obsolete and surplus

inventory. SDE should also ensure that all assets are tagged and inventory records are accurate. (See Recommendation 33.)

Agency Response: “We agree with this finding. The CTHSS will work with the Department of Education’s Bureau of Fiscal Services to address weaknesses in the inventory control process and improve use of the existing electronic Transfer/Disposal system.”

Property Control – Accounting and Reporting

Criteria: Core-CT is the official record for each agency’s inventory. The State Property Control Manual states that Form CO-59 (CO-59) should be used to report all property owned by each state agency based on Core-CT Asset Management queries of capitalized assets. If the values reported on the CO-59 do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy in an attachment.

Section 4-36 of the General Statutes requires that, “each state agency shall establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October 1st, transmit to the Comptroller a detailed inventory, as of June 30th, of all of the following property owned by the state and in the custody of such agency: (1) Real property, and (2) personal property having a value of one thousand dollars or more.” The methods prescribed by the Comptroller are published in the State Property Control Manual. Chapter 7 of the SPCM states, “agency developed software which the state has ownership to and is capitalized and reportable on the CO-59 and classified under the software category must be recorded within the asset management module of Core-CT.” Chapter 6 of the SPCM includes information on maintenance of the property control system. According to this chapter, “all internally prepared property control accounting records, and other related property management data shall be reconciled to the Core-CT Asset Management Module [to ensure] the accounting data maintained is valid. The format used for the reconciliation should establish an ‘audit trail’ so that the reconciliation can be traced to the source documents.”

Condition: Our review of the Department of Education’s CO-59 Inventory Report for the fiscal years ended June 30, 2009, 2010, and 2011, disclosed the following:

Incomplete Records in Core-CT:

- Capitalized software reported on the CO-59 was not recorded within the Core-CT Asset Management module.

- A Connecticut technical high school building worth \$7.5 million has not been recorded in Core-CT since FY 2009. SDE informed us that it is still in the process of setting up a Core-CT code for this building. In addition, the land associated with this building is leased from the Department of Transportation (DOT) and, therefore, should not be added to the SDE inventory. During FY 2010, SDE incorrectly increased the number of acres reported on the CO-59 to include the land belonging to DOT.
- In 2009, the Office of the State Comptroller recommended SDE make a lump sum addition to site improvements reported on the CO-59 for the total amount of \$8,008,811. The entry has not been made.
- There were no Core-CT entries made for additions to buildings during the fiscal year ended June 30, 2009, for 4 projects in the amount of \$55.2 million, or in the fiscal year ended June 30, 2010, for 5 projects in the amount of \$202.2 million. Instead, the entries for these additions were made in the fiscal year ended June 30, 2012.

Reconciliation: SDE did not properly reconcile the CO-59 to Core-CT and did not provide an explanation for the discrepancies in the attachment to the CO-59. Such reconciliations could have identified some of the accounting errors noted previously.

Lack of Supporting Documentation: Prior to Core-CT, SDE used its own historical cost records for buildings as the basis for CO-59 reporting. SDE was unable to provide us with supporting documentation for the historical cost of buildings and site improvements reported on the CO-59.

Effect: SDE is not in compliance with the requirements of the State Property Control Manual.

Cause: It appears that the controls in place were not sufficient to prevent these conditions from occurring.

Recommendation: The Department of Education should maintain, reconcile, and report assets as prescribed by the State Property Control Manual. SDE should take the necessary steps to improve controls over its property control system to ensure that asset additions and deletions are promptly and accurately recorded. SDE should ensure that capitalized software is entered into Core-CT (See Recommendation 34.)

Agency Response: “We agree with this finding. [SDE] has procedures consistent with the State Property Control Manual, and will utilize these procedures to

improve controls that will ensure asset additions and deletions are recorded accurately and timely. The variance between the CO-59 and the Core-CT will be investigated, however, it appears that the difference has been the result of a carry forward discrepancy that will be corrected manually once identified. To that end, activity from Core-CT is directly utilized to prepare the CO-59 annually and the activity in Core-CT matches what is applied to the CO-59. As such the current year information placed on the CO-59 report does reconcile with Core-CT. Further, [SDE] recognizes the issue with capitalized software, and will review and identify any required adjustments and properly enter this into Core CT.”

Property Control – Documentation of Asset Purchases

Criteria: The State Property Control Manual prescribes that all agencies must have policies and procedures in place to ensure that purchased assets are properly recorded and reported. The SPCM dictates that as soon as each item is received and accepted, an identification number must be assigned and recorded on the receiving report.

Sound business practices suggest that receiving reports should have a date and location listed, and the business manager should sign off on it.

Conditions: We selected 25 purchases during the fiscal years ended June 30, 2009, 2010, and 2011. Our testing found that receiving reports were not signed by the business manager for 29 items; 1 of these reports also lacked a date and 3 did not have the asset location listed.

Effect: There is an increased risk that new assets are not properly recorded.

Cause: Insufficient inventory controls resulted in noncompliance with inventory procedures.

Recommendation: The Department of Education should ensure that the person receiving a new asset properly completes the receiving report, and that the business manager signs all receiving reports for equipment purchases to verify that all items were received. (See Recommendation 35.)

Agency Response: “We agree with this finding. The [SDE] Inventory Control Procedures Manual does require the business manager to enter asset information on the purchase order which carries forward to the receiving report, where the asset will be recorded in Core-CT prior to a voucher being processed. It is also the responsibility of the business manager to tag all assets upon receipt, and include that information with the receiving

report. Additional training will be provided to business managers to ensure compliance with these procedures.”

Property Control – Physical Control over Assets

Criteria: The State Property Control Manual states that a physical inventory of all property must be taken annually to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year. In addition, it is important to safeguard inventory items to prevent theft or loss.

The SDE Internal Inventory Control Procedure Manual requires that a scrap or recycle ticket should be referenced for each disposed item entered into the Property Distribution Center. Sound business practices suggest that each scrap ticket should have the tag number of the asset being disposed.

Condition: We noted several concerns regarding the Department of Education’s safeguarding of inventory items.

- SDE only performed physical inventories at each of the Connecticut technical high schools once in a 3 to 4 year period. For example, there was no physical inventory taken for a bus from the date of purchase in January 2011 until April 2015.
- Out of 15 items selected from the disposal listing, 1 had no tag number listed on its scrap ticket and 2 items had no support for the disposal.
- We received reports from the SDE Office of Internal Audit concerning lost, damaged, or stolen inventory at its central office and Connecticut Technical High School System. The reports included items that could not be located during physical inspections totaling \$295,492, \$241,873, and \$544,191 during the fiscal years ended June 30, 2009, 2010, and 2011, respectively.

Effect: Items that have not been properly secured could be lost or stolen. In the absence of annual physical inventories, the loss of assets may not be promptly detected by management and property control records may not reflect the actual inventory on hand.

Cause: There was an increase in the number of items lost and stolen at schools undergoing significant construction projects. SDE inventory controls have not been sufficient to adequately protect items from loss or theft.

Recommendation: The Department of Education should comply with the Comptroller's requirement to perform a physical inventory annually. SDE should properly secure assets to prevent theft or loss and improve controls over the disposal of inventory. (See Recommendation 36.)

Agency Response: "We agree with this finding. [SDE] has procedures consistent with the State Property Control Manual. Due to the volume of the reviews required and the amount of assets to be identified, it is not possible to conform with the annual requirement in the manual given the staff assigned to this function. Formal exception to the annual requirement will be requested from the Office of the State Comptroller. [SDE] will continue to strengthen the security of state assets to prevent theft or loss. Since the time of this audited period, many changes have been made to secure assets in locked areas. Protocols have been made for receiving of new equipment to prevent theft or loss, by tracking and controlling any received equipment immediately upon receipt. Disposal of inventory is controlled through processes guided by the Department of Administrative Services, which have been developed since this audited period, and [SDE] does follow all required procedures."

Property Control – State Education Resource Center

Background: During the audited period, the Rensselaer Hartford Graduate Center, Inc. (Rensselaer) contracted with SDE as the fiduciary agent for the State Education Resource Center at an annual cost of \$12 million. The contract requires that Rensselaer maintain and update a fixed asset inventory record of equipment purchased with SDE grant funds.

Criteria: Section 4-36 of the General Statutes requires that each state agency establish and keep an inventory account in the form prescribed by the Comptroller, and shall, annually, on or before October 1st, transmit to the Comptroller a detailed inventory, as of June 30th, of all of the following property owned by the state and in the custody of such agency: (1) Real property, and (2) personal property having a value of one thousand dollars or more. The methods prescribed by the Comptroller are published in the State Property Control Manual. Chapter 3 of the SPCM includes reporting requirements and categorical inclusions for the various valuations reported on the Asset Management/Inventory Report/GAAP Reporting Form (CO-59).

The SDE contract with Rensselaer states that all equipment purchased with SERC funds is the property of SDE.

Effective June 13, 2014, Public Act 2014-212 established SERC as a quasi-public agency separate from the State Board of Education.

Condition: SERC provided us with an inventory report as of June 30, 2012, which included 1,815 items that contractually belonged to SDE at that time. SDE never completed a physical inventory of these items, and the items with a cost greater than \$1,000 were not included on the SDE Form CO-59 report. The following table provides a summary of the items' cost.

<u>Description</u>	<u>Count</u>	<u>Total Cost</u>
No Cost or Description	243	\$ -
Cost < \$1,000	1,341	378,973
Cost > \$1,000	<u>231</u>	<u>550,947</u>
Total	<u>1,815</u>	<u>\$929,920</u>

Effect: Deficiencies in the control over equipment inventory result in a decreased ability to properly safeguard assets.

Cause: SDE did not include the assets purchased by SERC in its procedures for property control.

Conclusion: As part of establishing SERC as a quasi-public agency, ownership of the property was transferred to SERC. As the property no longer belongs to SDE, this finding is being presented for informational purposes only.

Agency Response: "This finding has been resolved. Since SERC has become a quasi-public entity and all assets were formally transferred to SERC, this finding is no longer relevant."

Failure to Adequately Monitor Surrogate Parent Services

Background: The Surrogate Parent Program appoints advocates for children whose parent or guardian is unknown or unavailable or are wards of the state and who need or may need special education services in accordance with state and federal laws. During the audited period, payments to surrogate parents totaled nearly \$5 million.

Criteria: In accordance with Section 10-94f of the General Statutes, the Department of Education appoints individuals to provide surrogate parent representation whenever a student meeting the established criteria requires or may require special education. A surrogate parent advocates for a child in the educational decision-making process in place of the child's parents or guardian. The educational decision-making process includes the identification, evaluation, placement, hearing, mediation, and appeal procedures that may be available to a child subsequent to the receipt of special education and related services.

Individual contracts between SDE and surrogate parents incorporate the Surrogate Parent Procedure Manual that states, “A surrogate parent appointed for a child is responsible for representing the child in all matters relating to the identification, evaluation, and educational placement of the child and relating to the provision of a free and appropriate public education to the child.” The contract stipulates, among other things, the following surrogate parent responsibilities:

- Routine duties performed on an ongoing basis, including specified interactions performed at least 3 times per year for each child.
- Non-routine compensation eligible activities, such as observations and attending meetings.
- Timely, accurate, and reliable written documentation that reflects the efforts made on behalf of the student.

Condition: The Department of Education’s controls do not ensure that eligible students actually receive all of the required services.

- SDE does not have policies and procedures to adequately monitor surrogate parent services.
- The contracts between SDE and surrogate parents do not require surrogate parents to submit supporting documentation regarding the routine services provided to all children in their caseloads; therefore, SDE did not sufficiently monitor those services.
- Monthly bills from surrogate parents do not contain sufficient documentation of the services provided, and SDE does not independently verify whether the services billed were provided to eligible students.

Effect: By not verifying the routine and specified services provided to eligible students, SDE has not determined that students received the required services. In addition, SDE may not identify whether surrogate parents are accurately and appropriately billing for the services provided.

Cause: SDE has not established sufficient policies and procedures for the monitoring of surrogate parents. A lack of administrative oversight contributed to this condition.

Recommendation: The Department of Education should establish policies and procedures to monitor surrogate parent compliance with program requirements that include independent verification of surrogate parent services rendered, student eligibility, and that only proper payments are made. SDE contract language should require supporting documentation of the

performance of routine and non-routine duties for all students. (See Recommendation 37.)

Agency Response: “We agree with this finding. Since the... [fiscal year ended June 30, 2016], the department has been transitioning to clarify this concern. The contract was revised... to require all Surrogate Parents (SP) log activities on Form 300A. Additionally this year, 'Routine Duties' has been removed from the contract and SP are no longer reimbursed for these activities. The meetings reported to the Bureau of Special Education on Form 300 are verified with the school and the IEP. Finally, this year's contracts for SP include language allowing for reviews of case files with SP coordinator to ensure documentation of performance is accurate.”

Annual Status Reports on the Implementation of Regulations

Criteria: Section 4-170b of the General Statutes indicates that “on or before December first of each year, each agency shall submit to the standing legislative regulation review committee the following information:

1. A list of every section of the General Statutes that requires the agency to adopt regulations on or before January first of such year if the agency (A) has not submitted the proposed regulations to the committee as provided in Section 4-170 by said December first, or (B) submitted proposed regulations which were rejected without prejudice by the committee and the agency has not resubmitted the proposed regulations to the committee as provided in Section 4-170 by said December first;
2. A date by which the agency proposes to submit or resubmit each of the proposed regulations; and
3. An explanation in writing by the administrative head of the agency of the reasons each such proposed regulation was not submitted or resubmitted to the committee on or before the date by which the agency is required by the General Statutes to adopt the regulation.”

Condition: The reports required under Sections 4-170b of the General Statutes were not submitted during the audited period. SDE was required to adopt regulations during the audited period, but we were unable to determine whether any were outstanding as of December 1, 2009, 2010, and 2011. Additionally, employees assigned to handle regulations retired, and no one was assigned to prepare the report until we asked about it in June 2014.

- Effect:* Without annual reports on the progress of developing regulations, it may be difficult for the Legislative Regulation Review Committee to track whether mandated regulations have been properly developed.
- Cause:* A lack of management oversight contributed to the condition. No one was assigned to monitor the development of regulations and report on their status after an employee retired.
- Recommendation:* The Department of Education should review reporting responsibilities within Section 4-170b of General Statutes and comply with its provisions. (See Recommendation 38.)
- Agency Response:* “We agree with this finding and it has been resolved. [SDE] recognizes that its obligation to make reports relating to regulations under Section 4-170b of the General Statutes concerns regulations that are required to be adopted by state statute. Some statutes contemplate a possible need for regulations but leave the decision whether to promulgate them to the discretion of [SDE], by, for example, providing that regulations may or should be adopted ‘as necessary.’ Where a statute categorically requires [SDE] to adopt regulations without discretion and irrespective of a department determination of need, [SDE] is prepared to fulfill its statutory reporting obligations in this area. [SDE] has implemented oversight in this area following staff turnover noted in the draft audit report. [SDE]’s legal staff will work with programmatic staff annually to identify statutes covered by Section 4-170b’s reporting obligation, and, as a result of this review process, [SDE] will prepare and submit any reports that are required by the statute.”

Agency Administered Construction Projects

Criteria: Sound business practices require that written policies and procedures be established to provide a defined and consistent approach to all phases of construction project administration, including responsibilities for administering and reporting.

The Agency Administered Projects (AAP) Procedure Manual issued by the former Department of Public Works (DPW), currently the Department of Administrative Services (DAS), authorizes agencies to perform certain activities and establishes requirements such as:

- Agencies must formally request and receive approval from the AAP Unit to administer their own project.
- Each agency is authorized to perform emergency building repairs up to \$10,000 without AAP Unit approval. However, the AAP unit

requires a quarterly report to be submitted on all such emergency repairs.

- Each agency must electronically file an annual report summarizing the projects completed and the status of the bond funds allotted for each project.
- Each agency must submit a Certificate of Compliance (Form 715F) for the construction portion of the project, to certify that the completed project is in substantial compliance with the approved plans, specifications, and the requirements of the State of Connecticut Building Code and all other applicable codes.
- Agencies must bid projects in accordance with procurement rules. At least 2 bids must be received for construction contracts valued at less than \$95,000 and 3 bids if greater than \$95,000.

Condition:

The Department of Education informed us that they follow the policies and procedures contained in the AAP procedure manual. However, from our interviews, email communication, and sampling, we determined that the staff is not aware of some of the manual's requirements and the responsibilities regarding agency-administered projects:

- SDE was unable to provide us with all of the AAP Unit authorizations to administer their own projects for the audited period. To support our testing, we instead obtained the letters of permission to administer the projects during the audited period directly from the AAP Unit.
- SDE did not submit quarterly reports to the AAP Unit on emergency repairs under the \$10,000 limit, as required by the AAP manual.
- SDE did not provide the AAP Unit with an annual report listing all balances of unexpended bond funds remaining from completed projects.
- In our sample of 10 projects, 9 did not have a certificate of compliance on file.
- In our sample of 10 projects, 3 did not have bid quotes on file.

Effect:

Failure to comply with the AAP procedure manual increases the risk for noncompliance with state laws and regulations regarding agency-administered projects.

- Cause:* SDE's internal controls over agency administered projects were inadequate.
- Recommendation:* The Department of Education should improve its internal controls over agency administered projects to ensure compliance with the Agency Administered Projects Procedure Manual. (See Recommendation 39.)
- Agency Response:* "We agree with this finding. The Superintendent of Schools is working with [the Office of Policy and Management] to secure the immediate refill of the vacant Chief of Engineering Services position, as this position is responsible for the completion of the necessary reports to DPW/DAS. Until such time as the refill is complete, the Superintendent will be responsible for overseeing the creation of any required DPW/DAS reports."

Gift-giving Between Individuals in State Service

- Criteria:* Section 1-84 subsection (p)(1) of the General Statutes provides that, "No public official or state employee or member of the immediate family of a public official or state employee shall knowingly accept, directly or indirectly, any gift costing one hundred dollars or more from a public official or state employee who is under the supervision of such public official or state employee."
- Ethics Advisory Opinion 2009-6 indicates that, if the benefit was part of a single occasion or transaction, it will be considered one gift.
- Condition:* We were informed that a bureau chief received a gift of a spa day worth approximately \$500 from a number of her staff. Some employees contributed \$20 while others did not give anything. As a result of our inquiries, SDE provided the employee with options for correcting the ethics violation. The employee indicated her intention to reimburse the staff; however, SDE never confirmed which actions, if any, were taken before the employee resigned.
- Effect:* SDE employees did not comply with the state requirements.
- Cause:* Controls in place were not sufficient to prevent and detect noncompliance with the requirements.
- Recommendation:* The Department of Education should ensure that employees comply with state laws concerning the acceptance of gifts. In addition, SDE should monitor the resolution of identified violations. (See Recommendation 40.)
- Agency Response:* "We agree with this finding and it has been resolved. The employee verified in writing that she would purchase the gift certificate and staff

would be reimbursed. [SDE's] Ethics Liaison distributes gift-giving guidelines to all staff annually. The Ethics Liaison will continue to ensure that staff receives regular communication regarding the state laws in accepting gifts. In addition, the Ethics Liaison will monitor the resolution of identified violations.”

RECOMMENDATIONS

Our prior report contained 14 recommendations. Four of the prior recommendations have been resolved. The remaining 10 recommendations have been repeated or restated to reflect current conditions. An additional 30 recommendations are being presented as a result of our current examination.

Status of Prior Audit Recommendations:

- **It is recommended that the department continue with its efforts (presently scheduled for completion at the end of fiscal year 2012-2013) to establish the State Education Resource Center 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. This finding is repeated in part. SERC has been established as a quasi-public agency and the payment process has been designed to consider deliverables, outcomes and timelines based on SERC’s actual cash needs. We will repeat the portion of the finding as it relates to monitoring SERC through audits. (See Recommendation 9.)**
- **The Department of Education 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. Furthermore, 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. SDE has established the necessary guidance and procedures to obtain the projected student enrollment data as part of the application process. Therefore, this recommendation will not be repeated.**
- **The Department of Education 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. This recommendation will be repeated in modified form.**

Our review and that of the department's Office of Internal Audit continue to note significant control deficiencies. (See Recommendation 27.)

- **The Department of Education should comply with established policies and procedures with respect to travel requests and improve internal controls over travel related expenditures.** Our testing noted sufficient justification to support travel expenditures. Therefore, this recommendation will not be repeated.
- **The Department of Education 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 received.** This recommendation will be repeated. Inventory controls are not sufficient to ensure that additions and deletions to inventory are properly and accurately recorded. CTHSS business managers continue to receive new assets without properly documenting the transaction on a receiving report, and physical inventories are not completed annually. (See Recommendations 35 and 36)
- **The Department of Education 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.** This recommendation will be repeated in modified form. Our review continued to note that employees worked overtime and compensatory time prior to management's authorization. (See Recommendation 12.)
- **The Department of Education should comply with Section 5-208a of the General Statutes and state dual employment policies to appropriately document and monitor dual employment situations.** This recommendation will be repeated in modified form. We continue to note the existing controls were not sufficient to ensure that dual employment certification forms were properly completed and maintained on file by the department. (See Recommendation 13.)
- **The Department of Education 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.** This recommendation will be repeated in modified form. We continue to note weaknesses in the performance of reviews for improper use and unauthorized software. (See Recommendation 21.)
- **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.** This recommendation will be repeated in modified form. The department has not fully developed and implemented the necessary administrative and

accounting controls to ensure the accountability of revenues received. (See Recommendation 20.)

- **The Department of Education 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.** The department has established and distributed the necessary policy regarding management service organizations' sharing board members and management employees, including the monitoring for such activities. This recommendation has been resolved.
- **The Department of Education 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 whether the rates are properly calculated and supported.** This recommendation will be repeated in modified form. 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 whether the rates are properly calculated and supported. (See Recommendation 6.)
- **The Department of Education 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.** SDE has added the necessary language to Charter School laws and regulations. Adequate policies and procedures have been implemented to inform charter schools of the requirements and monitor Charter School compliance. This recommendation has been resolved.
- **The Department of Education should resume performing programmatic site reviews of the magnet schools on a sample or scheduled basis to ensure that they are making their best efforts toward achieving the goal of reducing racial, ethnic, and economic isolation.** This recommendation will be repeated in modified form. SDE has not consistently performed programmatic site reviews of magnet schools. (See Recommendation 2.)

- **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. This recommendation will be repeated in modified form. Laws, regulations, and procedures have been amended to improve SDE's monitoring of magnet schools without needing to expand the number of schools audited each year. However, SDE did not monitor the results of the required audits. (See Recommendation 3.)**

Current Audit Recommendations:

1. **The Department of Education should comply with the Sheff agreement and ensure a fair process for admitting students to magnet schools. SDE should establish formal and cohesive policies and procedures for the Regional School Choice Office. Internal controls over magnet school enrollment should be designed to detect and prevent fraud. SDE should verify that only applicants selected through the Regional School Choice Office lottery are admitted to magnet schools. SDE should perform a review of all magnet school operational plans to ensure compliance with the Sheff agreement. Additionally, SDE should only pay for students who are enrolled through the blind lottery process.**

Comment:

A variety of control deficiencies reduced the assurances that only students selected through the lottery process were admitted to Sheff area magnet schools. We identified 128 students at four schools who were not admitted based on the lottery process.

2. **The Department of Education should resume performing programmatic site reviews of magnet schools to ensure they are achieving the goal of reducing racial, ethnic, and economic isolation through a special and high quality curriculum.**

Comment:

The small number of interdistrict magnet schools undergoing programmatic site reviews does not provide SDE with sufficient data to determine whether the curriculum meets program requirements or that a reduction in racial, ethnic, and economic isolation has been achieved.

3. **The Department of Education should establish policies and procedures to monitor magnet school compliance with statutory reporting requirements.**

Comment:

SDE has not been monitoring the audit's completion and, therefore, is unaware of the results.

4. **The Department of Education should comply with the reporting requirements contained in Section 10-264l subsection (b) of the General Statutes.**

Comment:

SDE prepared interdistrict magnet school reports but did not submit them to the legislature as required by Section 10-264l of the General Statutes.

- 5. The Department of Education should perform sufficient, well-documented reviews of charter school applications. SDE should ensure the evaluations are performed by independent, qualified individuals so that SDE only recommends the State Board of Education’s approval of financially and educationally viable charter schools. SDE should include justifications for the scores in the documentation of the review process. In addition, SDE should establish policies and procedures for evaluating revisions to charter school applications.**

Comment:

We noted various concerns regarding SDE reviews of applications for 4 new charter schools that put federal and state resources and children’s education at risk.

- 6. The Department of Education should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates based, in part, on a schedule of allowable costs. SDE should formalize and distribute the policy to all charter schools and establish formal monitoring procedures designed to periodically test that service fee rates are calculated properly and represent allowable costs.**

Comment:

SDE policies and methods for calculating the service rates for management service organizations are not designed to detect whether inappropriate, extravagant or excessive charges have occurred.

- 7. The Department of Education should complete the Internal Control Questionnaire annually and keep it on file. SDE should include a report in the file of any identified deficiencies and corrective action to address those deficiencies.**

Comment:

SDE was unable to document whether it had completed internal control self-assessments during the audited period.

- 8. The Department of Education should implement sound business practices, documented in state laws, regulations, policies, and procedures, with regard to contracts with and payments to state education organizations. SDE contracts should, at a minimum, be based on a fair and open bidding process resulting in written agreements that sufficiently document the contract’s purpose, scope, activities, deliverables, outcomes, and timeline.**

Comment:

Section 10-66p of the General Statutes exempts payments to state education organizations from the state’s standard contracting laws, policies, and procedures. Significant amounts were paid to these organizations without soliciting bids,

establishing formal contracts, or the commitment of funds. This does not represent sound business practices.

9. **The Department of Education should ensure that any future contracts with service organizations are properly monitored. SDE monitoring should include ensuring that its service organization's controls are properly designed and operating effectively by requiring and obtaining an SSAE, type 2 report. In addition, the Office of Internal Audit should review audit reports in accordance with the SDE standard monitoring procedures.**

Comment:

SDE never requested an SSAE report from the State Education Resource Center.

10. **The Department of Education should terminate long-term agreements that are not being utilized.**

Comment:

SDE did not close long-term agreements upon completion of the projects related to those agreements.

11. **The Department of Education should periodically review the Core-CT access granted to employees to determine whether access is still appropriate. SDE should remove access privileges for those employees who no longer need it.**

Comment:

Six employees assigned to work outside of the payroll and human resources units have the ability to modify payroll records and human resources records in Core-CT.

12. **The Department of Education should strengthen internal controls over the proper completion and approval of timesheets. SDE should implement the necessary controls to ensure that the authorization of compensatory time and overtime is made in advance of the work performed and sufficient documentation is retained in support of those approvals.**

Comment:

A majority of the compensatory and overtime payroll records we tested either lacked appropriate documentation or contained incomplete documentation.

13. **The Department of Education should strengthen dual employment procedures and controls to ensure compliance with Section 5-208a of the General Statutes.**

Comment:

The majority of dual employment forms tested were either missing or incomplete.

- 14. The Department of Education should accurately calculate workers' compensation leave balance adjustments in compliance with the Introduction to Workers' Compensation & Core-CT Claim Processing Manual. SDE should promptly record those adjustments.**

Comment:

Three calculation errors were noted in our testing of 10 workers' compensation claims.

- 15. The Department of Education should improve controls over the review and approval of timesheets to ensure compliance with bargaining unit contracts.**

Comment:

Employees were permitted to use increments of leave time that were less than the minimum set by bargaining unit agreements.

- 16. The Department of Education should ensure the accuracy of the calculation of employee termination payments by strengthening controls over staff training and supervisory monitoring.**

Comment:

Termination payouts to 7 out of 13 former employees were either over or understated between (\$1,704) and \$33,066.

- 17. The Department of Education's business office should only make payroll adjustments when they are based on properly approved supporting documentation.**

Comment:

Payroll adjustments for a single employee were approved as much as 1 year after the original payroll activity occurred. Such delays increase the risk for errors.

- 18. The Department of Education should establish formal regulations or policies to govern the use of administrative leave.**

Comment:

SDE occasionally places employees on paid administrative leave, but union agreements and state statutes do not provide adequate guidance, and there are no written policies and procedures.

19. **The Department of Education should generate and review grants receivable reports that facilitate the identification of aged accounts, and pursue the prompt resolution of grantee receivable balances.**

Comment:

Grants receivable from 28 organizations totaling \$7.9 million were still outstanding after 1 year. No collection efforts had been made between March 2011 and June 2014 for an invoice for \$113,895, dated November 10, 2008. SDE did not exercise its option to recover overpayments by reducing future grant payments.

20. **The Department of Education should establish procedures and controls over the issuance of teacher certifications and the collection, accounting, and review of associated fees, including accountability and reconciliation procedures, as a means to monitor the issuances of certificates and substantiate revenue balances.**

SDE should pursue improvements to the Connecticut Educator Certification System to strengthen data input controls, generate accurate and effective reporting, and stabilize functionality.

Comment:

Internal controls over the Connecticut Education Certification System, the issuance of teacher certifications, and the collection, accounting and review of fees are insufficient to properly manage the teacher certification program.

21. **The Department of Education should develop a procedure to monitor employee internet activity and downloads, evaluate that activity for appropriateness, and document those efforts along with any corrective action taken.**

Comment:

SDE does not have procedures in place to identify and monitor employees who are able to gain access to blocked websites.

22. **The Department of Education should develop policies and procedures to document and monitor program changes to information systems. SDE policy should require that approvals be obtained prior to the implementation of changes to the systems by a member of management. SDE should track all changes made to the systems and ensure there is appropriate documentation to support the approval, implementation, and testing of changes.**

Comment:

SDE has not implemented policies and procedures to adequately document, monitor, or approve changes to information systems.

- 23. The Department of Education should maintain security over its information systems by promptly terminating employees' system access upon their separation from employment.**

Comment:

We identified 8 former employees with access to the Connecticut Educator Certification System who terminated their employment during the audited period and still had access to the system at the time of our review in April 2014. Of those 8 employees, 2 user accounts had login dates after their date of termination.

- 24. The Department of Education should establish and implement a standard for the maintenance and cleanliness of the Connecticut Technical High Schools. SDE should maintain adequate maintenance and custodial staffing levels at all facilities.**

Comment:

The SDE Office of Internal Audit and our own observations noted that some CTHSS facilities were dirty and suffered from a lack of maintenance.

- 25. The Department of Education should implement interim safety procedures, and management oversight should be exercised to ensure maximum safety controls are achieved with reasonably available resources.**

Comment:

During site visits to technical high schools, we noted insufficient controls at 1 school over building access and poor visitor tracking. In addition, the CTHSS Faculty and Staff Handbook lacks a comprehensive security policy.

- 26. The Department of Education's CTHSS should obtain and review the foundation's records. In addition, CTHSS should complete the dissolution process.**

Comment:

The board members of the Connecticut Technical High School System Foundation voted to dissolve the foundation in December 2011. However it does not appear that any further action was taken.

- 27. The Department of Education should take the necessary steps to ensure that internal control deficiencies detected by the internal auditors of CTHSS are adequately corrected in a timely manner.**

Comment:

The SDE Office of Internal Audit presented nearly 70 recommendations during the audited period to address internal control deficiencies that are similar to those presented in multiple prior audit periods. SDE has not successfully implemented

sufficient internal controls over CTHSS operations to prevent and detect the recurrence of such internal control deficiencies.

28. **The Department of Education should improve controls to ensure compliance with policies and procedures for the collection, accounting, and substantiation of adult education program fees and tuition, and implement improved business processes accordingly.**

Comment:

Our testing, combined with a recommendation issued by SDE Office of Internal Audit, identified continued lapses in business practices and noncompliance with internal controls related to the collection and accounting for adult education program fees.

29. **The Department of Education should reinforce procedures and training relative to cash and receipt transactions, including collections, banking, and accounting. The department should maintain adequate segregation of duties and backup capabilities to facilitate continued controls during periods of employee absence and turnover.**

Comment:

We noted a lack of segregation of duties over the collection of funds, missing petty cash records, inappropriate assignment of duties, and missing deposit documentation at some CTHSS business office operations.

30. **The Department of Education should establish the necessary internal controls to ensure that the Connecticut technical high school student trustee accounts and activities are in accordance with established policies and procedures.**

Comment:

The SDE Office of Internal Audit noted control weakness over the Connecticut technical high school student trustee accounts and activities that increase the risk that student assets held in trust might not be sufficiently safeguarded and could be misappropriated.

31. **The Department of Education should implement the necessary internal controls to ensure that the Connecticut technical high schools' production funds and activities are in accordance with established policies and procedures.**

Comment:

False, missing, and incomplete production orders for the Automotive Technology Shop were noted. Nine vehicles belonging to school employees were on the premises without an associated production order, and documentation for other vehicles falsely indicated that repairs were completed. At the Culinary Arts Shop, we noted

unresolved cash discrepancies, inadequate segregation of duties, and deviations from policies and procedures.

- 32. The Department of Education should take the necessary steps to improve and implement internal controls over the acceptance, ownership, and disposal of donated vehicles.**

Comment:

We noted missing, incorrect and incomplete documentation relating to donated vehicles for all 6 of the schools reviewed.

- 33. The Department of Education should improve controls over the storage, organization, and disposition of obsolete and surplus inventory. SDE should also ensure that all assets are tagged and inventory records are accurate.**

Comment:

Two technical high schools did not properly manage obsolete and surplus equipment so that both useable and scrap assets were being stockpiled. In addition, inventory was not properly tagged and records were not accurate.

- 34. The Department of Education should maintain, reconcile, and report assets as prescribed by the State Property Control Manual. SDE should take the necessary steps to improve controls over its property control system to ensure that asset additions and deletions are promptly and accurately recorded. SDE should ensure that capitalized software is entered into Core-CT**

Comment:

Our audit of asset reporting noted incomplete and inaccurate inventory records, failure to reconcile the report to accounting records, and a lack of supporting documentation for the historical cost of buildings and site improvements.

- 35. The Department of Education should ensure that the person receiving a new asset properly completes the receiving report, and that the business manager signs all receiving reports for equipment purchases to verify that all items were received.**

Comment:

In a sample of 25 purchases, we noted that the receiving reports for 29 items were not signed by a business manager. We also noted that 1 report lacked a date and 3 reports did not indicate the items' locations.

- 36. The Department of Education should comply with the Comptroller's requirement to perform a physical inventory annually. SDE should properly secure assets to prevent theft or loss and improve controls over the disposal of inventory.**

Comment:

SDE's failure to properly secure and monitor assets during the audited period contributed to its inability to locate assets with a total cost of over \$1 million during physical inspections.

- 37. The Department of Education should establish policies and procedures to monitor surrogate parent compliance with program requirements that include independent verification of surrogate parent services rendered, student eligibility, and that only proper payments are made. SDE contract language should require supporting documentation of the performance of routine and non-routine duties for all students.**

Comment:

SDE controls do not ensure that eligible students receive all of the required surrogate parent services that have been contracted for.

- 38. The Department of Education should review reporting responsibilities within Section 4-170b of General Statutes and comply with its provisions.**

Comment:

SDE was unaware of the requirement to report to the General Assembly regarding the status of regulations proposed during the audited period. In addition, it was unable to document whether the reports were filed during the audited period or if any regulations had been proposed.

- 39. The Department of Education should improve its internal controls over agency administered projects to ensure compliance with the Agency Administered Projects Procedure Manual.**

Comment:

SDE informed us that they follow the policies and procedures as contained in the Agency Administered Projects Procedure Manual. However, we determined that SDE employees are not aware of some of the manual's requirements and responsibilities.

40. **The Department of Education should ensure that employees comply with state laws concerning the acceptance of gifts. In addition, SDE should monitor the resolution of identified violations.**

Comment:

A bureau chief received a gift worth approximately \$500 from a number of her staff. SDE provided the employee with options for correcting the ethics violation, but did not monitor whether any action was taken before the employee left state employment.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the State Department of Education for the fiscal years ended June 30, 2009, 2010, and 2011. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the department are complied with, (2) the financial transactions of the department are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the department are safeguarded against loss or unauthorized use. The financial statement audit of the State Department of Education for the fiscal years ended June 30, 2009, 2010, and 2011, is included as a part of our Statewide Single Audit of the State of Connecticut for those fiscal years.

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

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

Management of the State Department of Education is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants applicable to the department. In planning and performing our audit, we considered the department's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the department's financial operations in order to determine our auditing procedures for the purpose of evaluating the State Department of Education's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Accordingly, we do not express an opinion of the effectiveness of the department's internal control over those control objectives.

A *deficiency in internal control* 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 and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the State Department of Education's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify deficiencies in internal control over the State Department of Education's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. We noted the following matters involving the internal control over the department's financial operations, safeguarding of assets, and/or compliance that we consider to be significant reportable conditions.

Recommendation 1-Magnet School Lottery, Recommendation 2-Magnet School Reviews, Recommendation 3-Magnet School Audits, Recommendation 4-Magnet School Plan, Recommendation 5-Charter School Applications, Recommendation 6-Charter School Service Fee Rates, Recommendation 7-Internal Control Self-assessment, Recommendation 8-Circumvention of Hiring and Contracting, Recommendation 9-Monitoring of Service Organizations, Recommendation 10-Perpetual Contracts, Recommendation 11-Core-CT Payroll User Roles, Recommendation 12-Wages, Overtime and Compensatory Time, Recommendation 13-Dual Employment, Recommendation 14-Workers' Compensation, Recommendation 15-Employee Leave, Recommendation 16-Employee Termination Payments, Recommendation 17-Accounting Corrections, Recommendation 18-Paid Administrative Leave, Recommendation 19-Grants Refunds Receivable, Recommendation 20-Educator Certification System Revenue, Recommendation 21-Non-Business Use of Computers, Recommendation 22-Program Changes, Recommendation 23-User Access Controls, Recommendation 24-Facility Maintenance, Recommendation 25-School Security, Recommendation 26-Foundation Oversight, Recommendation 27-Ineffective Internal Controls, Recommendation 28-Adult Education Fee Revenue and Receivables, Recommendation 29-CTTHS Cash and Receipts, Recommendation 30-Student Trustee Accounts, Recommendation 31-Shop Production, Recommendation 32-Donated Vehicles, Recommendation 33-Inventory, Recommendation 34-Property Control Accounting and Reporting, Recommendation 35-Asset Purchases, Recommendation 36-Control Over Assets Recommendation 37-State Education Resource Center Assets, Recommendation 38-Surrogate Parent Services, Recommendation 39-Implementation of Regulations, Recommendation 40-Construction Projects, Recommendation 41-Gift Giving

These matters are described in detail in the accompanying Condition of Records and Recommendations sections of this report. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the department's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the department's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the State Department of Education is the responsibility of the State Department of Education's management. As part of obtaining reasonable assurance about whether the department complied

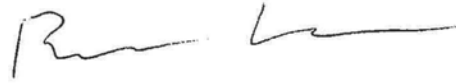
with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the department's financial operations for the fiscal years ended June 30, 2009, 2010, and 2011, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under generally accepted government auditing standards. We also noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying Condition of Records and Recommendations sections of this report.

The State Department of Education's responses to the findings identified in our audit are included in the accompanying Condition of Records section of this report. We did not audit the State Department of Education's responses and, accordingly, we do not express an opinion on them.

This report is intended for the information and use of the State Department of Education's management, 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 courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the Department of Education greatly facilitated the conduct of this examination.



Ramona Weingart
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
Auditor of Public Accounts