

STATE OF CONNECTICUT



***AUDITORS' REPORT
STATE DEPARTMENT OF EDUCATION
FISCAL YEARS ENDED JUNE 30, 2012, 2013, 2014 AND 2015***

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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EXECUTIVE SUMMARY

The State Department of Education (SDE) operates primarily under the provisions of Title 10, Chapters 163 through 166, 168 through 170, and 172 of the General Statutes. In fulfillment of our duties under Section 2-90 of the General Statutes, we present 28 recommendations within this report, including matters concerning reporting systems, inventory, revenue, payroll, information technology, and the following three matters:

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

The enrollment audit performed by the SDE Sheff Office for the Capital Preparatory Magnet School for the 2015-2016 school year disclosed that 19 students were enrolled outside the Regional School Choice Office (RSCO) lottery. Of those 19 students, 15 were non-Hartford residents for whom the school did not receive tuition payments. We recommend that SDE should verify that only applicants selected through the RSCO lottery be admitted to magnet schools.

Property Control – Physical Inventory at the Wright Technical High School

During our review of the inventory process at the Connecticut Technical High School System (CTHSS), we were informed about issues at Wright Technical High School (Wright). The school, which suspended operations in 2009, underwent renovation projects costing \$90.2 million and reopened to 145 freshmen students in August 2014. In December 2015, the newly appointed principal requested that SDE conduct a complete inventory to formally identify issues related to asset management. The CTHSS Superintendent’s Office postponed the inventory; therefore, it did not start until March 2016. The first inventory was completed in June 2016 and resulted in 225 items that could not be accounted for. SDE did not file a CO-853 with the Office of the State Comptroller and Auditors of Public Accounts. We recommend that SDE comply with the State Property Control Manual by maintaining accurate inventory records and reporting all missing equipment.

CTHSS – Insufficient School Maintenance

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 February 2017, 16 out of 18 schools did not have sufficient staff to ensure that buildings were clean enough to provide students with a healthy and comfortable environment. Staffing required for the 16 schools range between 1 and 6 positions. Only 2 schools met those health and comfort standards.

CTHSS spent approximately \$3.9 million in total custodial overtime during fiscal years 2012 through 2015 across all schools. Approximately \$2.3 million (60%) of those costs went to schools staffed below the acceptable standard. We recommend that CTHSS maintain adequate maintenance and custodial staffing levels at all facilities. CTHSS should fill approved positions to provide a clean and safe environment for students.

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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November 1, 2018

INTRODUCTION

AUDITORS' REPORT STATE DEPARTMENT OF EDUCATION FOR THE FISCAL YEARS ENDED JUNE 30, 2012, 2013, 2014 AND 2015

We have audited certain operations of the State Department of Education (SDE) in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2012, 2013, 2014, and 2015. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions.
2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department. For the areas audited, we identified:

1. Deficiencies in internal controls,
2. Apparent noncompliance with legal provisions, and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the State Department of Education.

COMMENTS

FOREWORD

The State Department of Education operates primarily under the provisions of Title 10, Chapters 163 through 166, 168 through 170, and 172 of the General Statutes. SDE also operated under the provisions of Title 10, Chapter 173 (Public School Building Projects) until June 30, 2014. [Public Act 14-90](#) transferred most of the responsibilities and duties related to school building projects to the Department of Administrative Services (DAS).

SDE, under the direction of the Commissioner of Education, serves as the administrative arm of the State Board of Education (SBE), 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 SBE. The fiscal duties of the department include the administration of state and federal grants, which are paid to local and regional educational agencies. SDE also administers the Connecticut Technical High School System.

Members of the State Board of Education

The State Board of Education consists of 14 members. As of June 30, 2015, the board consisted of 13 members, at least 2 of whom have experience in manufacturing or a trade offered at CTHSS, 1 with a background in vocational agriculture, and 2 nonvoting grade 12 student members. The Governor appoints the members to the board with the advice and consent of the General Assembly. The 12 voting members are appointed to 4-year terms, and the student members are appointed to

1-year terms. The president of the Board of Regents for Higher Education serves as an ex officio, nonvoting member. SBE recommends the appointment of the Commissioner of Education to the Governor, 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, 2015 were as follows:

Allan B. Taylor, Chairperson
Theresa H-Staton, Vice Chairperson
Erin D. Benham
Terry H. Jones
Estela López
Patricia Luke
Maria I Mojica
Joseph J. Vrabely Jr.
Stephen P. Wright
Dianna R. Wentzell, Ph.D., Interim Commissioner of Education
Gregory W Gray, President of the Board of Regents for Higher Education, Ex-officio
Robert Trefry
Michael Caminer, Student Member
Megan Foell, Student Member

Stefan Pryor resigned as Commissioner of Education, effective January 8, 2015. SBE appointed Dianna R Wentzell Ph.D. as Acting Commissioner of Education, effective January 7, 2015. Dianna R. Wentzell Ph.D. was appointed commissioner on April 17, 2015 and continues to serve in that capacity.

Legislative Changes

Notable legislative changes that took effect during the audited period are as follows:

Interdistrict Magnet School

[Public Act 12-120 sections 22-24](#), effective July 1, 2012, made the Community-Technical Colleges Board of Trustees, on behalf of Quinebaug Valley Community College and Three Rivers Community College, eligible for state interdistrict magnet school grants.

[Public Act 13-122 sections 1 and 2](#), effective July 1, 2013, specified that interdistrict magnet school operators, rather than the school's administration, must provide annual financial audits to the education commissioner. The act also requires operators to submit 2 types of audits. The first is for each magnet school by its operator, as required under existing law. The second is an audit combining all magnet schools run by the operator. The act requires SDE to adjust the final grant payment to an interdistrict magnet school operator in a fiscal year based upon the aggregate and financial audits.

School Construction

[June 12 Special Session, Public Act 12-1 sections 226 to 229](#), effective July 1, 2012, (1) authorized \$344.5 million in grant commitments for new local, vocational agriculture, and interdistrict magnet school construction projects; (2) reauthorized and changed grant commitments for 3 previously authorized projects with significant changes in cost and scope with a total net increase of \$1.85 million in grant commitments; and (3) exempted specified school construction projects from various statutory and regulatory requirements to allow them to qualify for state grants.

[Public Act 13-239](#) effective July 1, 2013, authorized state general obligation bonds for the fiscal years ended June 30, 2014 and 2015 for school construction. It also transferred the responsibility for existing bond authorizations for school construction from the Department of Construction Services (DCS) to the Department of Administrative Services (DAS).

Connecticut Technical High School System Governing Board and Budget

[Public Act 12-116 sections 69 to 87](#), effective July 1, 2012, changed the name of the Connecticut Regional Vocational Technical High Schools System to Connecticut Technical High School System and created an 11 member board to govern it. The new board consists of 4 business executives appointed by the Governor, 5 members appointed by SBE, and the Economic and Community Development and Labor commissioners. The Governor appoints the chairperson, who also serves as a nonvoting ex-officio member of the SBE. The act requires the CTHSS superintendent to submit a proposed operating budget to the CTHSS board, which may amend and approve it before submitting it to SBE and the Office of Policy Management.

Office of Early Childhood

[Public Act 13-247 section 1](#), effective July 1, 2013, allocated funds for the creation of an Office of Early Childhood (OEC) for fiscal years 2014 and 2015. [Governor Malloy's Executive Order No. 35](#) created the office.

[Public Act 14-39](#), effective July 1, 2014, created OEC as the lead agency for the early care and education of young children. OEC is responsible for administering early childhood programs previously administered by SDE, the Department of Social Services, and the Department of Public Health.

School Safety Infrastructure Council

[Public Act 13-3 section 80](#), effective July 1, 2013, created the School Safety Infrastructure Council to develop school safety infrastructure standards for (1) the existing school construction project program; and (2) a new school security infrastructure competitive grant program. The new standards must be submitted to the Department of Emergency Services and Public Protection, the SDE Commissioner, School Building Project Advisory Council, and the Public Safety and Education committees by January 1, 2014 and annually every year thereafter. The standards must conform to industry norms for school building infrastructure and address minimum design requirements.

State Education Resource Center

[Public Act 13-286 section 4](#), effective July 12, 2013, required SDE to plan for the transition of the State Education Resource Center from its status under section 10-4q of the General Statutes to a quasi-public agency.

RÉSUMÉ OF OPERATIONS

A summary of receipts by category follows:

| (In Thousands of Dollars) | <u>Fiscal Years</u> | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <u>2010-2011</u> | <u>2011-2012</u> | <u>2012-2013</u> | <u>2013-2014</u> | <u>2014-2015</u> |
| Federal Grants - Restricted | \$ 838,289 | \$ 557,242 | \$ 490,844 | \$ 456,026 | \$ 466,476 |
| Grants - Other than Restricted | 2,626 | 15,869 | 17,089 | 6,830 | 7,036 |
| Total Federal Grants | <u>840,915</u> | <u>573,111</u> | <u>507,933</u> | <u>462,856</u> | <u>473,512</u> |
| Connecticut Technical Extension | 2,780 | 3,097 | 3,247 | 3,417 | 3,656 |
| Total Connecticut Technical | <u>2,780</u> | <u>3,097</u> | <u>3,247</u> | <u>3,417</u> | <u>3,656</u> |
| Teacher Certification Fees | 3,726 | 3,776 | 3,489 | 3,468 | 3,566 |
| Other | 1,340 | 674 | 749 | 1,862 | 1,107 |
| Total General Fund Receipts | <u>5,066</u> | <u>4,450</u> | <u>4,238</u> | <u>5,330</u> | <u>4,673</u> |
| Total Receipts | <u><u>\$ 848,761</u></u> | <u><u>\$ 580,658</u></u> | <u><u>\$ 515,418</u></u> | <u><u>\$ 471,603</u></u> | <u><u>\$ 481,841</u></u> |

As presented in the summary above, the decrease in revenues as compared to the fiscal year ended 2011 was primarily attributable to a reduction in federal grants, including the American Recovery and Reinvestment Act (ARRA).

Total expenditures for the general fund are presented below by category.

| | <u>Fiscal Years</u> | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2010-2011</u> | <u>2011-2012</u> | <u>2012-2013</u> | <u>2013-2014</u> | <u>2014-2015</u> |
| Personal Services | \$ 135,938,627 | \$ 143,701,085 | \$ 155,759,276 | \$ 162,417,201 | \$ 152,733,552 |
| Other Expenses | 25,855,532 | 3,685,995 | 4,652,338 | 3,273,096 | 3,235,963 |
| Capital Outlay | 300,001 | - | - | - | - |
| Other Current Expenses | 47,130,996 | 79,772,583 | 96,417,279 | 86,166,255 | 91,314,524 |
| Payments to Other Than Local Governments | 83,690,451 | 88,311,535 | 32,742,231 | 26,243,448 | 26,944,207 |
| Payments to Local Governments | 2,427,957,466 | 2,454,814,286 | 2,608,116,096 | 2,655,393,746 | 2,739,858,136 |
| Total – General Fund | <u>\$ 2,720,873,053</u> | <u>\$ 2,770,285,484</u> | <u>\$ 2,897,687,220</u> | <u>\$ 2,933,493,747</u> | <u>\$ 3,014,086,382</u> |
| Federal Grants | 567,347,759 | 555,351,194 | 483,773,856 | 474,505,362 | 479,133,046 |
| Restricted Grants | 2,743,735 | 2,468,869 | 5,655,610 | 1,943,674 | 1,688,646 |
| Grant Transfers | 3,670,354 | 1,014,309 | 4,483,200 | 11,362,966 | 10,452,627 |
| Total – Federal and Restricted | 573,761,848 | 558,823,039 | 493,912,666 | 487,812,001 | 491,274,319 |
| Total Funds | <u>\$ 3,294,634,901</u> | <u>\$ 3,329,108,523</u> | <u>\$ 3,295,182,606</u> | <u>\$ 3,421,305,748</u> | <u>\$ 3,505,360,701</u> |

The General Assembly increased funding for grants from \$2.7 billion during the fiscal year ended June 30, 2011 to \$3.0 billion during the fiscal year ended June 30, 2015. This is primarily attributable to increases in payments to municipal governments for primary and secondary education (e.g. education cost sharing and the magnet school funding grants).

The majority of personal services expenditures from all funds related to the operation of CTHSS. Expenditures for this system totaled \$119.0, \$124.0, \$117.7, \$123.6, and \$132.2 million for the fiscal years ended June 30, 2011, 2012, 2013, 2014 and 2015, respectively.

The overall decrease in federal expenditures during the fiscal years ended June 30, 2012 through 2014 was primarily due to the elimination of ARRA funding.

A summary of grants to educational agencies and other payments made from budgeted appropriations, presented with the fiscal year ended June 30, 2011, is as follows:

| (In Thousands of Dollars) | Fiscal Year | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2010-2011</u> | <u>2011-2012</u> | <u>2012-2013</u> | <u>2013-2014</u> | <u>2014-2015</u> |
| Education Equalization Grants | \$ 1,889,023 | \$ 1,889,229 | \$ 1,995,090 | \$ 2,067,196 | \$ 2,122,676 |
| Magnet Schools | 183,330 | 206,742 | 244,638 | 287,172 | 310,660 |
| Excess Cost – Student-Based | 139,811 | 139,829 | 139,832 | 139,806 | 139,830 |
| Priority School Districts | 115,656 | 115,787 | 118,699 | 47,727 | 46,947 |
| Charter Schools | 52,768 | 56,926 | - | - | - |
| Transportation of School Children | 28,740 | 25,785 | 24,921 | 24,885 | 24,885 |
| Adult Education | 19,565 | 20,002 | 19,995 | 19,983 | 20,004 |
| Development of Mastery Exams | 19,565 | 19,221 | 18,090 | 13,237 | 14,165 |
| Open Choice Program | 16,757 | 21,205 | 27,184 | 30,488 | 32,990 |
| Interdistrict Cooperation | 11,081 | 10,801 | 8,959 | 9,181 | 9,112 |
| American School for the Deaf | 9,480 | 9,768 | 10,247 | 10,659 | 10,659 |
| Sheff Settlement | 7,351 | 8,031 | 12,084 | 9,010 | 9,819 |
| Family Resource Centers | 6,041 | 5,739 | 7,582 | 7,582 | 8,052 |
| Early Childhood Program | 5,007 | 5,153 | 6,596 | - | - |
| Vocational Agriculture | 4,561 | 5,061 | 6,486 | 9,486 | 11,018 |
| After School Programs | 4,320 | 4,095 | 4,020 | 4,320 | 6,180 |
| Health and Welfare Services | 4,298 | 4,298 | 4,298 | 4,298 | 4,298 |
| Nonpublic School Transportation | 3,995 | 3,596 | 3,596 | 3,596 | 3,596 |
| Health Foods Initiative | 3,622 | 3,710 | 3,872 | 3,861 | 4,151 |
| Miscellaneous Program Payments | 29,493 | 193,455 | 199,093 | 200,521 | 212,446 |
| Total Grants to Educational Agencies and Other Payments | <u>\$ 2,554,464</u> | <u>\$ 2,748,433</u> | <u>\$ 2,855,282</u> | <u>\$ 2,893,008</u> | <u>\$ 2,991,488</u> |

Education Equalization Grants to Towns

Sections 10-261a to 10-262j of the General Statutes provide for education equalization aid to each town maintaining public schools. Aid distributed to a town under this grant program is to be expended for educational purposes only when authorized by the local or regional board of education.

Excess Cost – Student Based

The Excess Cost – Student-Based Grant provides state support for special education placements under the provisions of Sections 10-76d, 10-76g, and 10-253 (b) of the General Statutes. Certain state agency placements are subject to 100% state funding. The excess cost grant is computed twice yearly, in February and May.

Priority School Districts

This grant program was established under the provisions of Sections 10-266p through 10-266r of the General Statutes and is designed to provide assistance to improve student achievement and enhance educational opportunities in certain school districts. Priority school districts fall into 1 or more of 3 categories: 1) the 8 towns in the state with the largest populations; 2) the 11 towns with the highest number of students; and 3) the highest percentage of children in families participating in the Temporary Assistance for Needy Families Program, adjusted by certain factors from the towns' mastery test results. School districts receiving priority school district funding during the fiscal year ended June 30, 2015 included Bridgeport, Danbury, Derby, 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 is 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 where their school is located. Eligibility is dependent upon a cooperative arrangement involving 2 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 70 on June 30, 2011 to 91 on June 30, 2017.

Transportation Grants

Transportation grants are 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.

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 an amount specified in its charter annually. There were approximately 24 charter schools operating in the fiscal year ended June 30, 2017.

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 ranged 0 to 65%.

School Construction Grants

[Public Act 11-51](#), effective July 1, 2011, established the Department of Construction Services (DCS) as a successor to the State Department of Education in accordance with the provisions of Sections 4-38d, 4-38e and 4-39 of the General Statutes with respect to the issuance of school construction grants in accordance with chapter 173 of the General Statutes. As of July 1, 2011 any State Board of Education regulation adopted pursuant to chapter 173 of the General Statutes shall continue in force and effect until the Commissioner of Education, in consultation with the Commissioner of Construction Services, determines which regulations need to be transferred to DCS, and either DCS or SBE amends such regulations to effect such transfer. Where any order or regulation of said departments conflict, the Commissioner of Construction Services or Commissioner of Education may implement policies or procedures consistent with the provisions of chapter 173 while in the process of adopting such policies or procedures in regulation form, provided notice of intent to adopt such regulations is printed in the Connecticut Law Journal not later than 20 days after implementation. Any such policies or procedures shall be valid until the time final regulations are adopted.

[Public Act 13-239](#), effective July 1, 2013, authorized state general obligation bonds for fiscal years ended 2014 and 2015 for school construction. It also transferred responsibility for existing bond authorizations for school construction from DCS to DAS.

Vocational Education Extension Fund

The Vocational Education Extension Fund (VEEF), 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 School System. Section 10-99 of the General Statutes enables VEEF to retain up to a \$500,000 balance in the industrial account. Amounts in excess of the allowed \$500,000 must be transferred to the General Fund within 10 months of the close of a fiscal year. For the fiscal years ended June 30, 2011, 2012, 2013, 2014 and 2015, no transfers were required under Section 10-99 of the General Statutes. The VEEF cash receipts and disbursements for the fiscal years ended June 30, 2012, 2013, 2014 and 2015, are shown with fiscal year ended June 30, 2011 below:

| | Fiscal Year | | | | |
|-----------------------|--------------------|------------------|------------------|------------------|------------------|
| | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014 | 2014-2015 |
| Beginning Cash | \$ 378,489 | \$ 1,280,709 | \$ 967,696 | \$ 620,387 | \$ 983,559 |
| Receipts | \$ 2,780,247 | \$ 3,097,343 | \$ 3,246,681 | \$ 3,417,276 | \$ 3,656,016 |
| Disbursements | \$ (1,878,027) | \$ (3,410,356) | \$ (3,593,990) | \$ (3,054,104) | \$ (3,464,252) |
| Ending Cash | \$ 1,280,709 | \$ 967,696 | \$ 620,387 | \$ 983,559 | \$ 1,175,323 |
| | | | | | |

Approximately 70% of the VEEF cash receipts were from tuition fees for adult education. The remaining receipts were from customer fees generated in the production shops. Adult education related expenses accounted for 71% of the fund's disbursements. The remaining disbursements were for costs associated with the operation of the production shops.

The increase in receipts was related to the variance of the educational fees from one year to the next. The fees are subject to changes in tuition rates, programming, and the availability of seats for postgraduates. Disbursements, during the fiscal year ended June 30, 2012, increased due to the resumption of the Licensed Practical Nursing Program at all of the technical high schools. Educational fees between the fiscal years ended June 30, 2012 and 2013 increased due to increased tuition and fee collections in the Aviation Program. The primary increase between the fiscal years ended June 30, 2013 and 2014 is directly attributable to the tripling of the tuition rate for apprentice programs. Prior to fiscal year 2014, the apprentice tuition rate was capped at \$100 dollars per course. A legislative change removed the cap and the State Board of Education approved a tuition rate increase to \$300 dollars per course for registered apprentices and \$325 dollars per course for non-apprentices. The increase between fiscal years ended 2014 and 2015 is due to the increased tuition for a post-graduate program at Bristol Technical Education Center and increased tuition revenue from the Medical Program at Platt Technical High School.

OTHER MATTERS

Investigation of the CTHSS Superintendent and Connection to Pita Communications, LLC

At the request of the State Department of Education's chief financial officer (CFO), the Office of Internal Audit (OIA) initiated an audit of the purchasing function within CTHSS related to payments made to Pita Communications, LLC (Pita). The period under review included fiscal years ended June 30, 2015, 2016, and 2017. For these years, OIA noted payments to Pita totaling \$2,466,724, \$1,006,822 and \$190,970, respectively. The OIA review of the CTHSS Pita transactions also revealed a credit balance with Pita. While some expenditures were paid using the credit balance, CTHSS continued to pay Pita its full monthly retainer, which allowed the balance to grow. As of January 19, 2016, the CTHSS credit balance with Pita was \$1,453,206. By January 19, 2017, this amount decreased by \$1,023,011 to \$430,195. As of May 8, 2017, SDE received a refund check in the amount of \$107,488 for the balance of unspent funds.

On March 15, 2017, the Commissioner of SDE requested that the Department of Administrative Services (DAS) conduct an investigation regarding various issues of concern in connection with the ongoing financial audit of CTHSS payments to Pita. These issues included potential violations of state and federal laws and regulations, potential violations of policies concerning contracting, procurement and use of state or federal funds, potential neglect or misuse of state funds, and the possibility that activities detrimental to the best interests of the agency or the state had occurred. On August 17, 2017, DAS sent Pita a notice of contract termination.

SDE engaged an external audit firm to complete the work initiated by the OIA. This review will determine the appropriateness and validity of the costs incurred by Pita for its services as well as the markup applied to invoices for services subcontracted by Pita. Also, the review will verify refund amounts due from Pita as a result of unspent balances and invalid charges.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

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

Background:

A 1996 Connecticut Supreme Court decision in the *Sheff v. O’Neill* case concluded that students in the Hartford Public Schools (HPS) were racially, ethnically, and economically isolated, and as a result, 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 Supreme Court and General Assembly.

To comply with the 2008 Sheff settlement, the State 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 included 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 a method of reducing racial, ethnic, and economic isolation.

As of June 30, 2017, there were 91 magnet schools in Connecticut. Of these 91 schools, 33 were operated by the Regional Educational Service Center (RESC). The state’s share of the operating costs (excluding transportation and construction) of the magnet schools was approximately \$313.4 million for fiscal year ended June 30, 2017.

Criteria:

Admission to interdistrict magnet schools is open to all students. To assist in compliance with the 2008 Sheff settlement, SDE created RSCO, which was responsible for developing and implementing a common application and unified lottery process as the sole tools for application, selection, and placement of students for Sheff compliant programming. As a result, RSCO established a randomized computer-based application and lottery process, taking 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 school and programs that are part of Sheff initiative in accordance with the preferences and policies adopted and approved by RSCO.”

Condition:

The enrollment audit performed by the SDE Sheff Office, for the Capital Preparatory Magnet School for the 2015-2016 school year, disclosed that

19 students were enrolled outside the RSCO lottery. Of those 19 students, 15 were non-Hartford residents, for whom the school did not receive tuition payments.

The enrollment audit performed by the SDE Sheff Office, for all Sheff magnet schools for the 2016-2017 school year, disclosed that 47 students enrolled outside the RSCO lottery. Twenty-nine were enrolled in HPS, 11 in CREC magnet schools, 3 in Bloomfield Public Schools (BPS), and 4 in East Hartford Public Schools.

Out of 29 students directly enrolled in HPS:

- 4 students were admitted to Breakthrough Magnet School
- 1 student was admitted to Hartford PreK Magnet School
- 1 student was admitted to Hartford Magnet Trinity College Academy
- 11 students were admitted to Noah Webster
- 2 students were admitted to RJ Kinsella
- 8 students were admitted to Sports & Medical Sciences Academy
- 2 students were admitted to University High of Science and Engineering

Out of 11 students directly enrolled in the CREC magnet schools:

- 3 students were admitted to Greater Hartford Academy of Arts
- 2 students were admitted to Metropolitan Learning Center
- 5 students were admitted to Museum Academy
- 1 student was admitted to Public Safety Academy

All 3 students directly enrolled in Bloomfield Public Schools were enrolled in the Global Experience Magnet School and were resident students.

Effect:

Enrollment of students to magnet schools outside the RSCO lottery is a violation of the Sheff agreement and may inhibit the reduction of racial, ethnic, and economic isolation of students residing in Hartford. The goal of

providing an equal opportunity to Hartford's minority students to enroll in less racially isolated magnet schools may not be achieved.

Allowing admission to the magnet schools outside the lottery may result in minority applicants being shut out of the school they applied to.

The enrollment audit resulted in withholding of payments for each student enrolled outside of the lottery in the total amount of \$195,810 and \$359,154 during the 2015-2016 and 2016-2017 school years respectively.

Cause: SDE lacked an administrative post-lottery overview of the placements.

Admission outside the lottery may be done to manipulate the enrollment data to meet the statutory requirements of the Sheff desegregation rate for magnet schools. The school risks losing its magnet status when it fails to meet diversity standards by having at least 25% of its students classified as "reduced-isolation."

Recommendation: The State Department of Education should comply with the Sheff agreement and ensure a fair magnet school admission process. The State Department of Education should verify that only applicants selected through the Regional School Choice Office lottery are admitted to magnet schools. (Recommendation 1.)

Agency Response: "We disagree with this finding. Full implementation of the corrective action from the prior audit has been implemented. This is documented within the "condition section" of this finding where non-payment of tuition exists for improperly enrolled students."

Auditors' Concluding

Comment: The SDE withholding of tuition after the fact does not address the issue of students being enrolled in schools outside of the lottery process. Their admission policy takes spaces from students who followed the appropriate process and deserved admission.

Magnet Schools – Programmatic and Site Reviews

Criteria: Section 10-264l (a) of the General Statutes directed the State Department of Education to establish, 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.

Section 10-264l (e) states that SDE may retain up to ½ of 1% of the amount appropriated for evaluation and administration of the grant program.

According to the Sheff Stipulation, the SDE Sheff Office should serve as the central authority to evaluate, monitor, and report on the progress of all programs designed to reduce the racial, ethnic, and economic isolation of Hartford's minority students.

To assess interdistrict magnet school operations, SDE should conduct comprehensive site reviews. SDE developed a monitoring and accountability tool to evaluate pupil participation, enrollment, recruitment procedures, staff development, parental involvement, plant and facility, curriculum, programmatic review, and other considerations.

Condition: SDE did not perform comprehensive site reviews of magnet schools during the audited period. Magnet schools were only visited for specific issues related to non-compliance with the desegregation requirement. The desegregation requirement for magnet schools calls for the student enrollment to be at least 25% reduced-isolation (American Indian or Alaska Native, Asian, Native Hawaiian or other Pacific Islander, or Caucasian). When a school fails to meet the desegregation requirement, it must develop an enrollment management plan. SDE offers assistance in developing and implementing those plans. However, the SDE site visits are not comprehensive and do not look at all of the elements in the SDE monitoring and accountability tool.

Effect: Without comprehensive programmatic site reviews, SDE cannot assess whether magnet schools are reducing racial, ethnic, and economic isolation or evaluate whether the curriculum is meeting its program requirements.

Cause: The increasing number of magnet schools combined with the decreasing number of SDE staff to conduct programmatic site reviews contributed to this condition.

Recommendation: The State Department of Education should consider performing programmatic site reviews of magnet schools to ensure that 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 disagree with this finding. There is no statutory requirement for the agency to conduct programmatic and site reviews. The previous audit finding that identified this same issue is now being satisfied using statutorily required actions such as enrollment management plans, audits, and compliance reporting."

Auditors' Concluding Comment: We were unable to ascertain whether the new practices are effective, as they were not used during the audited period. We are disclosing the matter to highlight our concerns during the audited period.

Payroll – Core-CT User Roles

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|-------------------------|---|
| <i>Criteria:</i> | 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 for a proper segregation of duties. Management should ensure that users only have the roles needed to perform their business functions.” |
| <i>Condition:</i> | We tested 20 users with user role conflicts in Core-CT. Four users had conflicting roles that were not addressed by SDE until we brought it to SDE’s attention. Once SDE became aware of the issue, the agency promptly addressed the matter by removing conflicting roles from user access. |
| <i>Effect:</i> | Inappropriate access to an information system increases the risk of data system error and fraud. |
| <i>Cause:</i> | Management did not monitor Core-CT user roles in an effective manner. |
| <i>Recommendation:</i> | The State Department of Education should periodically review Core-CT access granted to employees to ensure that user role conflicts are addressed in a timely manner. (See Recommendation 3.) |
| <i>Agency Response:</i> | “We agree with this finding, and it has been resolved. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. 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 supervision on a quarterly basis.” |

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

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|-------------------|--|
| <i>Criteria:</i> | Proper business practice dictates that compensatory time and overtime authorization forms are prepared and approved in advance by appropriate management personnel. |
| <i>Condition:</i> | Our review of compensatory time and overtime transactions for the fiscal years ended June 30, 2012, 2013, 2014, and 2015 revealed the following: <ol style="list-style-type: none">1. We were unable to confirm that compensatory time was authorized in advance for all 5 of the employees selected for testing. In 3 out of 5 instances, the employee signed and dated the authorization form after the time was earned. In 2 out of 5 instances, we were unable to determine whether approvals were made in advance. |

2. There were 2 out of 5 overtime authorizations that were not approved, and 2 out of 5 authorizations that were not approved in advance.

Effect: There is less assurance that a supervisor verified the need for compensatory or overtime hours.

Cause: SDE did not properly document or retain evidence that compensatory and overtime hours were necessary.

Recommendation: The State Department of Education should ensure that compensatory time and overtime is preapproved, and should retain sufficient supporting documentation. (See Recommendation 4.)

Agency Response: “We agree with this finding, and it has been resolved. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. State Department of Education will ensure compliance with the authorization of compensatory time and overtime in advance of the work being performed. State Department of Education will communicate this requirement and monitor its compliance.”

Payroll - Dual Employment

Criteria: Section 5-208a of the General Statutes states, “No state employee shall be compensated for services rendered to more than one state agency during a biweekly pay period unless the appointing authority of each agency or such authority’s designee certifies that the duties performed are outside the responsibility of the agency of principal employment, that the hours worked at each agency are documented and reviewed to preclude duplicate payment and that no conflicts of interest exist between services performed.”

Condition: We reviewed 10 certifications and found that the agency did not sign 2 and an employee did not sign until after the dual employment status began.

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

Cause: The SDE internal controls were not adequate to ensure that dual employment agreements were preauthorized.

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

Agency Response: “We agree with this finding, and it has been resolved. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. 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 Department of Administrative Services to help us streamline and correct the process. We will continue to communicate with Connecticut Technical High School System Business Managers and central office managers in an attempt to ensure compliance. Human Resource works in conjunction and regularly communicates with the Department of Administrative Services, as required, and for questions and advisement.”

Payroll - Workers' Compensation Accrual Adjustments

Criteria: In accordance with the Department of Administrative Services (DAS) Workers' Compensation Manual, for each new workers' compensation claim, employees are required to fill out the forms in the DAS Claim Packet and submit them to their employer. DAS Form PER-WC 211 is completed to identify whether the injured worker has any employment other than the State of Connecticut for potential concurrent employment benefits and to identify any third party that may be responsible for the injury. The form is due within 3 days. Office of the State Comptroller Form CO-715 is used to designate the use of accrued leave to supplement lost wage workers' compensation benefits for the injured worker. This form is due within 10 business days.

Condition: Our review of 3 workers' compensation claims found 2 instances in which the PER-WC 211 form was not on file and 1 instance in which the WC-715 form was not on file.

Effect: The lack of necessary forms on file increases the risk for errors and fraudulent activities.

Cause: Lack of managerial oversight and improperly implemented internal controls.

Recommendation: The State Department of Education should improve oversight of its workers' compensation procedures and practices. (See Recommendation 6.)

Agency Response: “We agree with this finding, and it has been resolved. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. 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, 2017.”

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 bargaining unit contracts require employees to record leave time in a minimum increment of 15 minutes.

Condition: SDE does not have a policy currently on file regarding the appropriate use of increments of leave time. During the fiscal year ended June 30, 2015, there were 744 instances of employees using leave time in increments inconsistent with the established bargaining unit contracts.

Effect: Use of leave time in increments less than the mandated minimum may result in undue administrative burden.

Cause: The department has not developed guidelines regarding the appropriate use of leave time increments.

Recommendation: The State Department of Education should develop guidelines regarding the appropriate use of leave time increments. (See Recommendation 7.)

Agency Response: “We agree with this finding. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. 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.”

Property Control – CO-59 Asset Management/Inventory Report

Criteria: Core-CT is the official record for each agency’s inventory. The State Property Control Manual states that the 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.

Section 4-36 requires each state agency to keep inventory records in the form prescribed by the State Comptroller and to submit an annual report to the Office of the State Comptroller of its inventory balances.

Condition: Our review of the SDE CO-59 for fiscal year ended June 30, 2015 disclosed that:

- 1) Equipment reported on the CO-59 did not agree with the values reported in Core-CT. There was a difference of \$8,664,955.
- 2) Capitalized software was reported on the CO-59 in the amount of \$9,693,200, but was not recorded in Core-CT.
- 3) Stores and Supplies inventory of \$13,536 was not recorded in Core-CT.

- 4) Construction in Progress values reported on the CO-59 did not agree with the Core-CT balance. Construction in Progress was overstated in Core-CT by \$6,250 due to a coding error.

Effect: There is a decreased ability to safeguard state assets. Although the department is aware that those values were overstated, management has not adjusted them in Core-CT.

Cause: Management did not follow proper procedures included in the property control manual.

Recommendation: The State Department of Education should maintain, reconcile, and report assets as proscribed by the State Property Control Manual. The State Department of Education should run queries for all categories of assets reported on the CO-59 to reconcile those balances to Core-CT. (See Recommendation 8.)

Agency Response: “We agree in part with this finding. This is a restated finding from the previous audit, and the response below is revised from the initial response. SDE has procedures consistent with the SPCM 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 has been investigated and corrected. The past differences had been the result of a carry forward discrepancy that were corrected manually. 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 has properly entered this into Core-CT.”

Property Control – Documentation of Asset Purchases

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

Condition: In 5 out of 25 transactions we reviewed (20%), SDE did not comply with the manual’s tagging process. Seven assets were not tagged and 13 assets were not tagged in a timely manner. We found that 3 receiving reports lacked a date and 4 assets, totaling \$18,366, were coded to the incorrect account.

Effect: There is an increased risk that purchased assets are not properly recorded in the Core-CT Asset Management module and not properly reported on the CO-59.

Cause: SDE has insufficient internal controls over the process of recording and reporting the purchase of new assets. The coding errors were caused by incorrect information entered into Core-CT when purchase orders were recorded.

Recommendation: The State Department of Education should ensure that the individual receiving a new asset properly completes the receiving report, and that the business manager provides an overview of the receiving process, including timely tagging of an asset. The State Department of Education should improve controls regarding preparation and approval of purchase orders to ensure that expenditures are coded properly. (See Recommendation 9.)

Agency Response: “We agree with this finding. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. SDE’s Inventory Control Procedures Manual does require Business Managers 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 complete physical inventory of all property must be taken by the end of the fiscal year to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year”.

Condition: We have noted several concerns regarding the SDE safeguarding of inventory.

SDE did not perform physical inventories annually. At the Connecticut technical high schools, inventory was often performed once every 3 or 4 years.

The CO-853 Loss Reports SDE submitted to the Comptroller’s Office and the Auditors of Public Accounts concerning lost, damaged or stolen inventory at the Connecticut Technical High School System and SDE offices in Hartford and Middletown totaled \$1,159,672 during the fiscal years ended June 30, 2012 through 2015.

Effect: There is less assurance that inventory is recorded accurately or promptly reported as lost or stolen. Inventory records may be misstated.

Cause: After the implementation of the electronic reporting system, SDE had an increase in the number of items that could not be located at the Connecticut

technical high schools. Additionally, many items were reported as lost at schools undergoing significant construction projects. SDE inventory controls have not been sufficient to adequately protect items from loss or theft.

Recommendation: The State Department of Education should comply with the Comptroller's requirement to perform an annual physical inventory. The State Department of Education should improve internal controls over the custody of assets to prevent theft or loss. (See Recommendation 10.)

Agency Response: "We agree in part with this finding. This is a restated finding from the previous audit. We disagree that there is an internal control issue that causes theft or loss. There is a lack of compliance with procedures for the proper disposal of equipment which causes items to be not found during the physical inventory process. This is exclusive to Connecticut Technical High School System and not SDE central office, as was stated in the finding. We do agree that the State Property Control Manual articulates that each year a physical inventory should be conducted, but staffing levels and the new CORE-CT roles surrounding Asset Management do not allow the agency to comply with this requirement."

Property Control – Licensed Software

Criteria: The State Property Control Manual states that all agencies must establish a software library to track, inventory, and report all software media and licenses.

Condition: Our review of SDE records disclosed that SDE has not updated the licensed software inventory since the fiscal year ended June 30, 2011.

Effect: Inadequate software inventory records and the lack of physical inventories weaken the agency's control and accountability of its software and could result in misuse or violations of copyright and software laws and regulations.

Cause: SDE had inadequate internal controls over licensed software.

Recommendation: The State Department of Education should maintain its licensed software inventory to track and control its software media, licenses or end user license agreements, and certificates of authenticity. (See Recommendation 11.)

Agency Response: "We disagree with this finding. The documentation of licensed software has been maintained by the IT office on a rolling basis. The database had not been updated at the time of the audit, but all documentation was available in manual form. Since the time of this audit, the database has been updated to include all current information related to licensed software. Further, the

IT department could not identify any licensed software in excess of \$1,000 per user, seat, or node that would require entry into CORE-CT.”

Auditors’ Concluding

Comment: Despite the disagreement in SDE’s response, SDE management acknowledges that it had not updated its database of licensed software, as required by the State Property Control Manual.

Reporting System

Criteria: The State Department of Education is required to submit numerous reports under various statutes and public acts. The information provided by the reports is necessary to facilitate both executive and legislative branch oversight of SDE projects.

Section 10-4 (c) of the General Statutes requires that the State Board of Education prepare and submit to the Governor and the General Assembly a comprehensive plan for elementary, secondary, vocational career, and adult education every 5 years. The plan should include the board’s goals, objectives, cost analysis, measurement criteria, and action plan.

Public Act 13-247 section 41 requires that the State Department of Education implement a fiscal accountability data collection and report on all amounts and uses of all public and private funds by school districts and public schools, including charter schools. SDE shall report, not later than December 31, 2014, and annually thereafter, all such data, as well as school size, student demographics, geography, cost-of-living indicators, and other factors to the General Assembly.

Public Act 12-1 section 238 of the June Special Session requires that the Commissioner of Education shall submit a report assessing the school nutritional rating system pilot grant program to the General Assembly not later than October 1, 2014. The report should include any recommendations relating to the expansion of such school nutritional rating system pilot grant program.

Section 10-66gg of the General Statutes requires that the Commissioner of Education submit a report to the General Assembly not later than January 1, 2012 and biennially thereafter, on the operation of charter schools.

Section 10-97b (b) of the General Statutes requires that the superintendent of the Connecticut Technical High School System submit a report on the replacement of school buses in service in the CTHSS to the Secretary of the Office of Policy and Management and the General Assembly no later than July 1, 2011, and biennially thereafter.

Section 10-99g (b) of the General Statutes requires that the superintendent of CTHSS submit the operating budget and expenses for each technical high school to the Secretary of the Office of Policy and Management and to the General Assembly.

Public Act 13-286 section 3 requires that, no later than January 15, 2014 and annually thereafter, the Commissioner of Education submit to the General Assembly a report on (1) all contracts, including personal service agreements awarded by SDE and the State Education Resource Center (SERC) to private vendors and regional service centers; (2) all amounts and sources of private funding; and (3) the amounts paid by SDE or SERC for the salary, fringe benefits, and other compensation for any department, center employee, or consultant.

Condition: Our review of the SDE reporting requirements noted the following exceptions:

- SDE never prepared or submitted the comprehensive plan for elementary, secondary, vocational career, and adult education.
- SDE did not submit the fiscal accountability data collection report to the General Assembly.
- SDE did not submit a report on the operating agreements with SERC to the General Assembly.
- SDE filed the school nutritional rating system report over 2½ months late.
- SDE filed the report on the operation of charter schools 11 and 4½ months late for the fiscal years ended June 30, 2012 and 2014, respectively.
- SDE filed 3 reports on the need to replace school buses a total of 10 months late.
- SDE submitted the operating budget and expenses report for the 2011 school year 12 months late.

Effect: The intended recipients of the reports are not able to evaluate the required information.

Cause: SDE informed us that the reports were not prepared or submitted due to staff turnover and multiple vacancies in the legal unit.

Recommendation: The State Department of Education should comply with reporting requirements. The department should implement an adequate system of

internal controls to ensure that all state-mandated reports are prepared and submitted in a timely manner. (See Recommendation 12.)

Agency Response: “We agree with this finding. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. 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 the department, 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.”

Reports required under CGS Section 4-60

Criteria: Section 4-60 of the General Statutes states: “the executive head of each budgeted agency shall, on or before September 1st, annually, deliver to the Governor a report of the activities of such agency during the fiscal year ended the preceding June thirtieth.”

Condition: SDE did not file the report in accordance with Section 4-60 of the General Statutes for the fiscal years ended June 30, 2013, 2014, and 2015.

Effect: The required report is not available to the public.

Cause: SDE informed us that the employee responsible for filing this report retired and was not replaced.

Recommendation: The State Department of Education should comply with the reporting requirements contained in Section 4-60 of the General Statutes and submit an administrative report to the Governor on or before the due date. (See Recommendation 13.)

Agency Response: “We agree in part with this finding. The 2015 administrative report to the Governor is online on the Department of Administrative Services web site. We agree that the 2013 and 2014 years were not filed timely.”

CTHSS – Insufficient School Maintenance

- Criteria:* The U.S. Department of Education established benchmarks to determine optimal staffing levels to adequately maintain school buildings
- The State Board of Education has issued a “Position Statement on Creating a Healthy Learning Environment that is Physically, Emotionally and Intellectually Safe.” The document states, in part, that “students learn best when physical settings are clean, well maintained, bright and secure”
- Condition:* The Connecticut Technical High School System business office provides a custodial staffing report to management and the Bureau of Human Resources 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 February 2017, 16 out of 18 schools did not have sufficient staffing to ensure the buildings were clean enough to provide students with a healthy and comfortable environment.
- According to the report of the 18 schools’ custodial staffing levels; 1 school was considered “below not healthy,” 4 schools were considered “below not acceptable,” 5 schools were considered “not acceptable,” and 6 schools “above not acceptable.”
- SDE provided us reports indicating there were 41 and 52 vacant maintenance positions as of February 2, and June 28, 2017, respectively.
- Effect:* An inadequate maintenance program may pose health risks resulting from the failure to provide students with a clean and safe learning environment and may lead to premature deterioration of buildings.
- Cause:* CTHSS failed to fill vacant maintenance positions.
- Recommendation:* The State Department of Education should maintain adequate maintenance and custodial staffing levels at all facilities. Approved positions should be filled to provide a clean and safe environment for students. (See Recommendation 14.)
- Agency Response:* “We agree with this finding. This is a repeated finding from the previous audit, and the previous response shown below is still appropriate. The report referenced in the audit report was developed by district staff and is updated periodically and shared with Office of Policy Management. Connecticut Technical High School System will continue to pursue refill of maintenance vacancies.”

Property Control – Registered Vehicles

Criteria: The State Property Control Manual states that each agency is responsible for the control, care, and security of all property within the agency regardless of the dollar value.

Sound business practices suggest that a record of certificates of title for all registered vehicles should be maintained and original certificates be kept in a secure location.

Condition: Our testing of 10 vehicles found that SDE was not able to provide certificates of title for 3 of the vehicles (30%). Additionally, the certificates of title were not kept in a secure location.

Effect: Deficiencies in the control over motor vehicle inventory provides a decreased ability to properly safeguard state assets.

Cause: SDE had insufficient internal controls over registered vehicles.

Recommendation: The State Department of Education should maintain all certificates of title for registered vehicles and keep the certificates in a secure location. (See Recommendation 15.)

Agency Response: “We agree with this finding. This has been resolved. The agency will take necessary steps to improve the registered vehicle controls. Noting that no vehicles were actually missing, this is an administrative function of managing the hardcopy of the records, and that has been corrected. Replacement titles will be requested from the Connecticut Department of Motor Vehicles for those that are missing.”

Property Control – Physical Inventory at the Wright Technical High School

Criteria: The State Property Control Manual states that each agency should have complete and accurate property records. It also states that “A complete physical inventory of all property must be taken by the end of the fiscal year to ensure that property control records accurately reflect the actual inventory on hand within the current fiscal year”.

The manual states that all lost, missing, unaccountable, expired, spoiled or damaged items must be immediately removed from the property record and a CO-853 form report of loss or damage to state owned real or personal property must be completed.

The SDE Internal Inventory Procedure Manual (IIPM) states that it is the responsibility of the Bureau Chief of Fiscal Services to “determine the necessary action to be taken with final inventory reports prior to closeout.”

- Condition:* Wright Technical High School (Wright) suspended operations in 2009 and underwent renovations. Wright reopened for the 2015-2016 school year and the newly appointed principal requested that SDE conduct a complete inventory. The inventory was postponed by the CTHSS Superintendent's Office and did not start until March 2016. The inventory was completed in June 2016 and resulted in 225 unaccounted items. SDE did not file a CO-853 with the Office of the State Comptroller and the Auditors of Public Accounts.
- Effect:* Insufficient controls can lead to increased risk of loss and lack of accountability.
- Cause:* Lack of management oversight.
- Recommendation:* The State Department of Education should comply with the State Property Control Manual by maintaining accurate inventory records and report all missing equipment. (See Recommendation 16.)
- Agency Response:* "We agree with this finding. The Wright Technical High School inventory file has been closed with no adjustments made to Core-CT based on the initial review. A process will be developed to assess the incomplete inventory data in planning for the next complete physical inventory conducted at the school. The agency could not complete the initial inventory within a reasonable time frame due to changes in the Core-CT Asset Management Module. All future inventories will be conducted in compliance with the Office of the State Comptroller requirements whenever possible. Staff are currently being trained in the new methods required in Core-CT Asset Management Module, and new roles and segregation of duties for the staff exist. It should be noted that the new roles have created additional restrictions that limit the ability of staff to process the physical inventory as they have in the past."

Revenues – Accountability Reports for Teacher Certifications

Background: The State Department of Education's Teacher Certification Office (TCO) collected certification fees of approximately \$3.7, \$3.4, \$3.4, and \$3.5 million for the fiscal years ended June 30, 2012, 2013, 2014, and 2015 respectively.

Criteria: Section 10-145b (l) of the General Statutes establishes SDE's responsibility for collecting teacher certification fees.

In accordance with the State Accounting Manual, internal controls over cash receipts shall be established to minimize the risk of loss. Additionally, accountability reports should be periodically prepared to compare the receipts with the certificates. Agencies desiring assistance in designing Accountability Reports should contact the Office of the State Comptroller.

Condition: The SDE Connecticut Educator Certification System lacks the reporting capabilities to facilitate the preparation of revenue accountability reports. Neither the Bureau of Financial Services nor TCO prepares revenue accountability reports to reconcile the received and deposited fees to the certificates issued. Therefore, we could not verify whether SDE collected the correct fee for each license or the amount of fees collected for licenses not yet issued.

Effect: The lack of accountability procedures prevents reconciliation of expected revenue with deposited amounts.

Cause: SDE management has not established sufficient controls over the issuance of teacher certifications and the collection, accounting, and review of associated fees.

Recommendation: The State Department of Education should contact the Office of the State Comptroller to assist in the establishment of procedures and internal controls over the issuance of teacher certifications and the collection, accounting, and review of associated fees. This should include accountability and reconciliation procedures to monitor the issuance of certificates and substantiate revenue due to the state. (See Recommendation 17.)

Agency Response: “We agree in part with this finding. This is a repeated finding from the previous audit. Though the response to the initial audit finding was correct at the time, upon further review, “revenue accountability reports” are unlikely to be developed to satisfy the needs identified above, nor does the agency feel that is necessary, as we do control individual account balances based on payments and certificates issued. Due to the timing of the receipt of funds and the issuance of certificates, it would be impossible to develop a report that would tie in the certificates to the funding received in any certain period. The agency will investigate other possible ways to manage the program in order to attempt to provide reporting to satisfy the above issue.”

Auditors’ Concluding

Comment: The State Department of Education should follow the internal controls established by the Office of the State Comptroller.

CTHSS – Ineffective Internal Controls

Background: The SDE Office of Internal Audit (OIA) is responsible for conducting audits as outlined in an annual audit plan approved by the State Board of Education. The audit plans include CTHSS on-site compliance reviews and implementation reviews to determine whether prior audit recommendations were addressed.

- 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 129 recommendations during the fiscal years ended June 30, 2012, 2013, 2014, and 2015. These recommendations address internal control deficiencies in the following operational areas: 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:** These internal control deficiencies inhibit 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 management is not sufficiently addressing recommendations from its internal and external auditors.
- Recommendation:** The State Department of Education should take the necessary steps to ensure that identified internal control deficiencies are adequately addressed in a timely manner. (See Recommendation 18.)
- Agency Response:** "We agree with this finding and have prioritized a review and update of various policies and procedures, including the Educational Production Work Manual and the Student Activity Association Manual."

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/or monitored: bookkeeping, access to assets, independent reconciliation, and authorization of transactions.
- Condition:** The State Department of Education Office of Internal Audit performed reviews of CTHSS operations during the fiscal years ended June 30, 2012, 2013, 2014, and 2015. 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's cash and

receipts. OIA made recommendations for improvements regarding cash and receipts at 4 out of 5 schools reviewed during the audited period.

- At 3 out of 5 schools, only 1 person was responsible for the majority of cash handling functions: collections, banking, Core-CT recording, and maintenance of source documentation.
- At 1 out of 5 schools, the school did not document reconciliations of Core-CT revenue reports to bank deposits and original source documentation.

Effect: Failure to comply with established policies and procedures, such as proper segregation of duties and cash handling controls, increases the risk that cash receipt and deposit errors and irregularities might not be prevented or promptly detected.

Cause: Internal controls over cash and receipts were not properly implemented. CTHSS informed us that it continues to face staffing challenges in several school business offices.

Recommendation: The Connecticut Technical High School System should comply with established controls relative to cash handling and maintain adequate segregation of duties. (See Recommendation 19.)

Agency Response: “We agree with this finding. The ability to comply with segregation of duties requirements is contingent on appropriate business office staffing, which is currently reduced due to the state’s ongoing fiscal challenges. The district will continue to pursue refill of business office vacancies.”

CTHSS – Control Activities over Shop Production Activities

Background: Separate production funds are maintained at Connecticut Technical High Schools (CTHS) to account for the financial activities of each trade area. Associated revenues were \$895,503, \$869,130, \$837,522, and \$895,819, for the fiscal years ended June 30, 2012, 2013, 2014, and 2015, respectively.

Criteria: The State Department of Education issued formal procedures for the 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: OIA performed reviews of Connecticut Technical High School System production areas for the fiscal years ended June 30, 2013, 2014, and 2015. Those reviews resulted in recommendations for compliance with established policies and procedures, and weaknesses in internal controls.

Automotive Technology Shop

Five OIA reviews identified instances in which production work orders related to the Automotive Technology Shop were not supported by adequate documentation, including vehicle registrations and proof of insurance. OIA noted that several work orders were not approved by an administrator at 1 of the schools.

OIA also noted instances in which customers did not provide immediate payment for repairs. During 1 review, OIA noted several production orders were paid between 1 and 37 days late. A second review showed payments outstanding. OIA also identified donated vehicles that were not recorded in the inventory records or lacked documentation to support the donation.

Culinary Arts Shop

OIA reviews identified deviations from culinary shop policies and procedures, including lack of supervisory review over cash handling and review or approval of production forms. They also identified instances of incomplete documentation, including quantities and costs of goods sold. One review also identified unresolved cash discrepancies.

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

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

Recommendation: The State Department of Education should implement the necessary internal controls to ensure that the Connecticut Technical High School System's production funds and activities comply with established policies and procedures. (See Recommendation 20.)

Agency Response: "We agree with this finding. As noted in an above finding, the district has prioritized a review and update of various policies and procedures, including the Educational Production Work Manual. Once completed, training of school administrators, business office staff and appropriate instructional staff will be conducted."

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 must 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 State Department of Education published extensive policies and procedures to address revenues and receipts; purchasing and disbursements, and associated controls; and reporting of the Student Activity Program and its associated fund. The manual addresses a fairly substantial variety of transactions at each 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.

SDE procedures state that “the maximum reasonable amount of cash to be maintained in a Student Trustee Account checking account is \$10,000.”

Condition:

The SDE Office of Internal Audit performed reviews of the Connecticut technical high school student trustee accounts and activities for the fiscal years ended June 30, 2013, 2014, and 2015. The OIA reviews included recommendations for improvements regarding the following matters at 5 schools:

- The reviews noted 1 school had weak internal controls over cash, including an unreconciled difference between the Short Term Investment Fund (STIF), the general ledger, and the bank statement. OIA could not verify 2 schools’ timeliness of bank reconciliations performed because the documentation was not dated or date stamped.
- OIA also noted that 3 schools were not compliant regarding documentation for financial reporting, fundraising, and journal vouchers. OIA noted that 3 schools had excessive checking account balances. The schools maintained excess amounts between \$40,000 to \$50,000, \$30,000 to \$40,000, and \$1,000 to \$16,000, respectively.

Effect:

There is an increased risk that student assets held in trust might not be sufficiently safeguarded and could be misappropriated. Interest did not accrue on the excess checking account balances because the funds were not transferred to the STIF account.

Cause:

Management did not implement the necessary controls over student trustee accounts and activities.

Recommendation:

The State Department of Education should establish the necessary internal controls to ensure that the Connecticut Technical High School System

student trustee accounts and activities comply with established policies and procedures. (See Recommendation 21.)

Agency Response: “We agree with this finding. As noted in an above finding, the district has prioritized a review and update of various policies and procedures, including the Student Activity Association Manual. Once completed, training of school administrators, business office staff and appropriate student activity advisors will be conducted.”

Information Technology – User Access Controls over Information Systems

Criteria: Sound internal controls require termination policies for employees separated 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 (CECS) identified 2 former employees who still had access to the system.

Our review of access to the Prepayment Grants System identified 11 former employees who still had access to the system. We found that 1 of 11 users logged in after the termination date. This user approved budgets subsequent to their termination.

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 State Department of Education should maintain security over its information systems by promptly terminating employee system access upon separation from employment. (See Recommendation 22.)

Agency Response: “We agree with this finding. A review of our process for Human Resources to notify IT when an employee leaves is underway to ensure timely notification so access to data systems can be terminated.”

Agency Administered Construction Projects

Criteria: Sound business practice requires that written policies and procedures be established to provide a defined and consistent approach to all phases of construction projects. This includes responsibilities for administering projects and reporting.

The Agency Administered Projects (AAP) Procedure Manual issued by the Department of Administrative Services (DAS), through an AAP Unit,

authorizes agencies to perform certain activities and establishes requirements such as:

- Agencies must formally request and receive AAP approval to administer their projects.
- Each agency is authorized to perform emergency building repairs up to \$10,000 without AAP 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 completed projects and the status of 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 and specifications and the requirements of the state building code and all other applicable codes.
- Agencies must bid projects in accordance with procurement rules. They must receive at least 2 bids for construction contracts valued at less than \$95,000 and 3 bids if greater than \$95,000.

Condition:

The State Department of Education was unable to provide the following documentation to support our sample of 10 projects:

- 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, 8 did not have a purchase authorization, 8 did not have a certificate of compliance on file, and 5 did not have bid quotes on file.

Effect:

Failure to comply with the AAP manual increases the risk of noncompliance with state laws and regulations regarding agency administered projects. Noncompliance with reporting requirements combined with a failure to submit purchase authorizations contributes to a lack of transparency.

Cause:

SDE has inadequate internal controls over agency administered projects and has experienced staff reductions in addition to a retirement in a key position that contributed to this condition.

Recommendation: The State Department of Education should improve its internal controls over agency administered projects to ensure compliance with the Agency Administered Projects Procedure Manual. (See Recommendation 23.)

Agency Response: “We agree with this finding. Responsibility for the quarterly and annual reports has been reassigned, and the CTHSS is now in compliance.”

Charter Schools – Charter School Applications

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

Condition: We followed up on a prior audit recommendation related to charter school applications and found that SDE has not taken corrective action to resolve this recommendation during the audited period. SDE is in the process of developing a detailed charter school application designed to determine the educational and financial viability and organizational capacity of a proposed charter school.

Effect: Lack of reviews of applications for new charter schools put federal and state resources at risk.

Cause: SDE management did not follow its own policies and procedures regarding application reviews of charter schools.

Recommendation: The State Department of Education should perform sufficient, well-documented reviews of charter school applications. (See Recommendation 24.)

Agency Response: “We agree. During the course of the audit, the department has been in the midst of developing a new detailed charter school application process that will be implemented as part of the review of any newly proposed charter school application.”

CTHSS – Purchase of Chromebooks

Criteria: Connecticut Technical high school students receive Chromebook computers during the school year. The computers are purchased through a multi-state National Association of State Procurement Officials (NASPO) contract available to state agencies. Vendors have a dedicated website for state agencies to view pricing information.

Condition: We could not trace the pricing noted on 2 invoices to the contract documentation and were unable to confirm the pricing for 48 Dell Chromebooks purchased at \$280 each, totaling \$13,440, and 220 HP Chromebooks purchased at \$159 each, totaling \$55,880. The Connecticut Technical High School System purchased the HP Chromebooks with a 4-year warranty at a cost of \$95 each. CTHSS purchased the Dell Chromebook warranties separately and we were unable to verify their cost.

Effect: CTHSS could be overpaying for equipment.

Cause: Administrative oversight may have been a contributing factor.

Recommendation: The Connecticut Technical High School System should reconcile contract pricing against each invoice to ensure that payments are made at the correct amount. (See Recommendation 25.)

Agency Response: “We agree with this finding. The CTHSS will work with the SDE Purchasing Unit to implement additional steps to ensure compliance with state contract pricing.”

CTHSS – Incomplete Documentation

Criteria: The State Accounting Manual requires that an "agency employee must certify the accuracy and completeness of expenditure documents; determine that the payment has a receipt document and purchase order/contract; and ensure that the payment is made from an original vendor invoice, not a statement."

Condition: We reviewed several expenditure transactions and noted the following:

- One transaction for professional development, in the amount of \$247,731, was not supported by an agreement or contract.
- One payment for on-call ambulance services related to a CTHSS sporting event, in the amount \$300, did not include detailed information to support the date and location of the event.
- One payment for substitute teacher answering services was not supported by the “Substitute Service Agreement,” as specified on the purchase order.
- One payment for travel expenses, in the amount of \$3,465, was incurred by a team performing a site visit of 1 technical high school. The invoice did not include documentation to support the expenses.
- One transaction for \$3,385 was not supported by a purchase justification. CTHSS informed us that this transaction was for the

purchase of an institutional membership enabling the district to purchase professional development publications at a discounted rate in the future. CTHSS also informed us that no publications were actually purchased from this vendor during the fiscal year ended June 30, 2015.

- Effect:* There is less assurance that purchases made are valid and reasonable.
- Cause:* CTHSS did not have effective controls in place to ensure that expenses were supported by detailed documentation prior to payment.
- Recommendation:* The Connecticut Technical High School System should ensure that expenditure transactions are supported by adequate and complete documentation. (See Recommendation 26.)
- Agency Response:* “We agree with this finding and will work with school business personnel and SDE fiscal staff to ensure compliance with the State Accounting Manual.”

CTHSS – Use of Contracts

Criteria: The Department of Administrative Services (DAS) General Letter 71 (GL-71) permits minor, nonrecurring purchases of goods and services (costing less than \$50,000) to be made without prior approval from DAS. General Letter 71, part (b) states that “Purchases over \$2,500 and up to \$10,000 (annually) must be based upon, when possible, at least three written quotations or bids, from responsible and qualified sources of supply.” This General Letter also lists several limitations. One limitation is that “Agencies may not use the authority granted by this General Letter to purchase goods and contractual services that are already the subject of existing DAS contracts. Those goods and contractual services must be purchased against those existing contracts.”

Section 4a-57 of the General Statutes requires purchases of goods and services to be based, when possible, on competitive bids or competitive negotiation.

Section 4-98 of the General Statutes prohibits agencies from incurring obligations without the benefit of a properly executed commitment document.

Sound internal controls dictate that evidence should be available to indicate that vendors adhered to the actual terms of contracts.

Condition: The State Department of Education authorized information technology services in error, totaling \$18,500 on May 20, 2016, based upon provisions within an expired contract. In citing GL-71 as the rationale for purchasing

in lieu of the contract, SDE exceeded its authority because the purchase exceeded \$10,000 and did not include appropriate bidding.

The Connecticut Technical High School System purchased \$253 of clothing for trade programs without utilizing an available DAS contract. DAS granted a waiver to CTHSS per Section 4a-57b of the General Statutes that expired on October 31, 2013, which was prior to the purchase. In addition, CTHSS failed to submit the required annual report of its expenditures to DAS. CTHSS purchased an additional \$11,389 for clothing and footwear during the remainder of the audited period subsequent to the waiver expiration. We also noted that unit prices did not agree to the receiving documentation for 3 of 7 items purchased.

CTHSS purchased educational magazines for \$1,227 and inappropriately used GL-71 when statewide contracts were available through DAS.

Effect: The lack of competitive procurement may result in overpaying for goods and services.

Cause: CTHSS management failed to effectively implement formal policies and procedures and ignored internal controls when it inappropriately switched the purchasing authority from an expired contract to GL-71.

Recommendation: The Connecticut Technical High School System should comply with procurement laws and implement formal policies and procedures. (See Recommendation 27.)

Agency Response: “We agree with the finding. The CTHSS will seek a renewal of the waiver from the Department of Administrative Services and will utilize appropriate state contracts when available. In addition, fiscal staff will be provided additional training on appropriate purchasing and payment requirements.”

CTHSS – Expenditure Coding

Criteria: The Office of the State Comptroller (OSC) established an account coding system designed to identify and track funds that state agencies receive and expend. The accurate classification of transactions is essential for managing and reporting an agency’s financial activities.

Expenditures must be supported by adequate and relevant documentation that addresses the amount and purpose of the payment, and the authorization for the payment.

Condition: We reviewed expenditure variances identified during the fiscal years ended June 30, 2013, 2014, and 2015. CTHSS management provided us explanations for those variances and also informed us that it made several coding errors.

- CTHSS incorrectly charged \$266,543 for 3 data processing equipment vouchers to an account code for catering services.
- CTHSS incorrectly coded \$63,430 of membership dues to fees and permits.
- We reviewed 4 payments for athletic trainer services related to various CTHSS sporting events and noted that CTHSS charged each expenditure to a different account code.
- CTHSS coded a \$20,919 payment for IT hardware to IT consultant services.
- We found inconsistencies in the coding of ambulance services. CTHSS charged 1 transaction to transportation of persons. This same service was also charged to fees and permits.
- We reviewed payments made for student scholarships. The payments were charged to 4 different program codes.

Effect: The miscoding of expenditures could result in misappropriation and could impede financial management and reporting.

Cause: SDE has not effectively implemented formalized expenditure coding policies and procedures for CTHSS.

CTHSS made coding errors in recording expenditure transactions, and controls were inadequate to detect the errors. Organizational changes have exacerbated the problem, including business staff reductions.

Recommendation: The Connecticut Technical High School System should enhance its internal controls related to recording transactions to ensure that they are properly identified and charged to the appropriate funds, codes, and accounts in order to maintain accurate records for financial management and reporting. (See Recommendation 28.)

Agency Response: “We agree with this finding. The CTHSS will develop and distribute an expenditure coding guide to all school business personnel and SDE fiscal staff in order to ensure consistency across the district. In addition, the CTHSS will generate monthly expenditure reports and review and correct coding as necessary.”

RECOMMENDATIONS

Our prior report contained 40 recommendations. Twenty of the prior recommendations have been resolved. The remaining 20 recommendations have been repeated or restated to reflect current conditions. An additional 8 recommendations are being presented as a result of our current examination.

Status of Prior 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. **This recommendation will be repeated in modified form. (See Recommendation 1.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 2.)**
3. The Department of Education should establish policies and procedures to monitor magnet school compliance with statutory reporting requirements. **This recommendation has been resolved.**
4. The Department of Education should comply with the reporting requirements contained in Section 10-264l (b) of the General Statutes. **This recommendation has been resolved.**
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. **This recommendation will be repeated in modified form. (See Recommendation 24.)**
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. **This recommendation has been resolved.**

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. **This recommendation has been resolved.**
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. **This recommendation has been resolved.**
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. **This recommendation has been resolved.**
10. The Department of Education should terminate long-term agreements that are not being utilized. **This recommendation has been resolved.**
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. **This recommendation has been modified to reflect current conditions. (See Recommendation 3.)**
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. **This recommendation will be repeated in modified form. (See recommendation 4.)**
13. The Department of Education should strengthen dual employment procedures and controls to ensure compliance with Section 5-208a of the General Statutes. **This recommendation will be repeated in modified form. (See recommendation 5.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 6.)**
15. The Department of Education should improve controls over the review and approval of timesheets to ensure compliance with bargaining unit contracts. **This recommendation will be repeated in modified form. (See Recommendation 7.)**

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. **This recommendation has been resolved.**
17. The Department of Education's business office should only make payroll adjustments when they are based on properly approved supporting documentation. **This recommendation has been resolved.**
18. The Department of Education should establish formal regulations or policies to govern the use of administrative leave. **This recommendation has been resolved.**
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. **This recommendation has been resolved.**
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.

State Department of Education should pursue improvements to the Connecticut Educator Certification System to strengthen data input controls, generate accurate and effective reporting, and stabilize functionality. **This recommendation will be repeated in modified form. (See Recommendation 17.)**

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. **This recommendation has been resolved.**
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. **This recommendation has been resolved.**
23. The Department of Education should maintain security over its information systems by promptly terminating employees' system access upon their separation from employment. **This recommendation will be repeated in modified form. (See Recommendation 22.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 14.)**

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. **This recommendation has been resolved.**
26. The Department of Education's CTHSS should obtain and review the foundation's records. In addition, CTHSS should complete the dissolution process. **This recommendation has been resolved.**
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. **This recommendation will be repeated in modified form. (See Recommendation 18.)**
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. **This recommendation has been resolved.**
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. **This recommendation will be repeated in modified form. (See Recommendation 19.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 21.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 20.)**
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. **This recommendation has been resolved.**
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. **This recommendation will be repeated in modified form. (See Recommendation 10.)**

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. **This recommendation will be repeated in modified form. (See Recommendation 8.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 9.)**
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. **This recommendation will be repeated in modified form. (See Recommendation 10.)**
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. **This recommendation has been resolved.**
38. The Department of Education should review reporting responsibilities within Section 4-170b of General Statutes and comply with its provisions. **This recommendation has been resolved.**
39. The Department of Education should improve its internal controls over agency administered projects to ensure compliance with the Agency Administered Projects Procedure Manual. **This recommendation will be repeated in modified form. (See Recommendation 23.)**
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. **This recommendation has been resolved.**

Current Audit Recommendations:

- 1. The State Department of Education should comply with the Sheff agreement and ensure a fair magnet school admission process. The State Department of Education should verify that only applicants selected through the Regional School Choice Office lottery are admitted to magnet schools.**

Comment:

Enrollment of students to magnet schools outside the Regional School Choice Office (RSCO) lottery is a violation of the Sheff agreement and may impede the reduction of racial, ethnic, and economic isolation of Hartford students.

The SDE enrollment audit resulted in withholding of payments for each student enrolled outside of the lottery in the total amount of \$195,810 during the 2015-2016 school year and \$359,154 for the 2016-2017 school year. However, admitting students outside of the lottery system takes spaces from students who followed the appropriate process and deserved admission.

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

Comment:

SDE did not perform comprehensive site reviews of magnet schools during the audited period. Without programmatic site reviews, SDE cannot assess whether magnet schools are reducing racial, ethnic, and economic isolation or evaluate whether the curriculum is meeting its program requirements.

- 3. The State Department of Education should periodically review Core-CT access granted to employees to ensure that user role conflicts are addressed in a timely manner.**

Comment:

We tested 20 users with user role conflicts in Core-CT. Four users had conflicting roles that were not addressed by SDE until we brought it to SDE's attention.

- 4. The State Department of Education should ensure that compensatory time and overtime is preapproved, and should retain sufficient supporting documentation.**

Comment:

Our review of 5 compensatory time transactions revealed lack of evidence of advanced authorization or that employee forms were properly signed. Our review of 5 overtime transactions revealed authorizations that were not approved in advance or not approved at all.

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

Comment:

We reviewed 10 certifications and found that the agency did not sign 2 and an employee did not sign until after the dual employment status began.

- 6. The State Department of Education should improve oversight of its workers' compensation procedures and practices.**

Comment:

Our review of 3 workers' compensation claims found 2 instances in which the PER-WC 211 form was not on file and 1 instance in which the WC-715 form was not on file.

- 7. The State Department of Education should develop guidelines regarding the appropriate use of leave time increments.**

Comment:

SDE does not have a policy currently on file regarding the appropriate use of increments of leave time. During the fiscal year ended June 30, 2015, there were 744 instances of employees using leave time in increments inconsistent with the established bargaining unit contracts.

- 8. The State Department of Education should maintain, reconcile, and report assets as proscribed by the State Property Control Manual. The State Department of Education should run queries for all categories of assets reported on the CO-59 and reconcile those balances to Core-CT.**

Comment:

Equipment reported on the CO-59 did not agree with the values reported in Core-CT. Capitalized software was reported on the CO-59 in the amount of \$9,693,200, but was not recorded in Core-CT. Stores and Supplies inventory of \$13,536 was not recorded in Core-CT. Construction in Progress values reported on the CO-59 did not agree with the Core-CT balance. Construction in Progress was overstated in Core-CT by \$6,250 due to a coding error.

- 9. The State Department of Education should ensure that the individual receiving a new asset properly completes the receiving report, and that the business manager provides an overview of the receiving process, including timely tagging of an asset. The State Department of Education should improve controls regarding preparation and approval of purchase orders to ensure that expenditures are coded properly.**

Comment:

Five out of 25 transactions we reviewed (20%) did not comply with the manual's tagging process. Seven assets were not tagged and 13 assets were not tagged in a timely manner. We found that 3 receiving reports lacked a date and 4 assets, totaling \$18,366, were coded to the incorrect account.

- 10. The State Department of Education should comply with the Comptroller's requirement to perform an annual physical inventory. The State Department of Education should improve internal controls over the custody of assets to prevent theft or loss.**

Comment:

SDE did not perform physical inventories annually. At the Connecticut technical high schools, inventories were often performed once every 3 or 4 years.

- 11. The State Department of Education should maintain its licensed software inventory to track and control its software media, licenses or end user license agreements, and certificates of authenticity.**

Comment:

Our review of SDE records disclosed that SDE has not updated the licensed software inventory since the fiscal year ended June 30, 2011.

- 12. The State Department of Education should comply with reporting requirements. The department should implement an adequate system of internal controls to ensure that all state mandated reports are prepared and submitted in a timely manner.**

Comment:

SDE did not submit or did not timely submit various statutorily required reports.

- 13. The State Department of Education should comply with the reporting requirements and submit an administrative report to the Governor on or before the due date.**

Comment:

SDE did not file the report in accordance with Section 4-60 of the General Statutes for the fiscal years ended June 30, 2013, 2014, and 2015.

- 14. The State Department of Education should maintain adequate maintenance and custodial staffing levels at all facilities. Approved positions should be filled to provide a clean and safe environment for students.**

Comment:

The SDE analysis of custodial staffing levels at the trade schools determined that, during February 2017, 16 out of 18 schools did not have sufficient staffing to ensure the buildings were clean enough to provide students with a healthy and comfortable environment.

- 15. The State Department of Education should maintain all certificates of title for registered vehicles and keep the certificates in a secure location.**

Comment:

Our testing of 10 vehicles found that SDE was not able to provide certificates of title for 3 of the vehicles (30%). Additionally, the certificates of title were not kept in a secure location.

- 16. The State Department of Education should comply with the State Property Control Manual by maintaining accurate inventory records and report all missing equipment.**

Comment:

SDE did not complete an annual inventory of Wright Technical High School.

- 17. The State Department of Education should contact the Comptroller's Office to assist in the establishment of procedures and internal controls over the issuance of teacher certifications and the collection, accounting, and review of associated fees. This should include accountability and reconciliation procedures to monitor the issuance of certificates and substantiate revenue due to the state.**

Comment:

The SDE Connecticut Educator Certification System lacks the reporting capabilities to facilitate the preparation of revenue accountability reports. Neither the Bureau of Financial Services nor TCO prepares revenue accountability reports to reconcile the received and deposited fees to the certificates issued.

- 18. The State Department of Education should take the necessary steps to ensure that identified internal control deficiencies are adequately addressed in a timely manner.**

Comment:

SDE has not successfully developed and implemented sufficient controls over CTHSS operations as a result of repeat Office of Internal Audit findings.

19. The Connecticut Technical High School System should comply with established controls relative to cash handling and maintain adequate segregation of duties.

Comment:

SDE Office of Internal Audit reviews continued to identify common and persistent failures to comply with established policies and procedures, and weaknesses in internal controls over school business offices cash and receipts.

20. The State Department of Education should implement the necessary internal controls to ensure that the Connecticut Technical High Schools System's production funds and activities comply with established policies and procedures.

Comment:

OIA performed reviews of Connecticut Technical High School System production areas for the fiscal years ended June 30, 2013, 2014, and 2015. Those reviews resulted in recommendations for compliance with established policies and procedures, and weaknesses in internal controls.

21. The State Department of Education should establish the necessary internal controls to ensure that the Connecticut Technical High School System student trustee accounts and activities comply with established policies and procedures.

Comment:

One school had weak internal controls over cash, including an unreconciled difference between the Short Term Investment Fund (STIF), the general ledger, and the bank statement. The SDE Office of Internal Audit could not verify 2 schools' timeliness of bank reconciliations performed because the documentation was not dated or date stamped.

OIA also noted that 3 schools were not compliant regarding documentation for financial reporting, fundraising, and journal vouchers. OIA noted that 3 schools had excessive checking account balances.

22. The State Department of Education should maintain security over its information systems by promptly terminating employee system access upon separation from employment.

Comment:

Our review of access to the Connecticut Educator Certification System (CECS) identified 2 former employees who still had access to the system.

Our review of access to the Prepayment Grants System identified 11 former employees who still had access to the system. One of 11 users logged in after the termination date. This user approved budgets subsequent to termination.

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

Comment:

SDE did not provide reports related to various construction projects, including quarterly reports to the AAP Unit on emergency repairs, reports listing all balances of unexpended bond funds remaining from completed projects.

In addition, in our sample of 10 projects, 8 did not have a purchase authorization, 8 did not have a certificate of compliance on file, and 5 did not have bid quotes on file.

24. The State Department of Education should perform sufficient, well-documented reviews of charter school applications.

Comment:

SDE management did not follow its own policies and procedures regarding application reviews of charter schools.

25. The Connecticut Technical High School System should reconcile contract pricing against each invoice to ensure that payments are made at the correct amount.

Comment:

We could not trace the pricing noted on 2 invoices to the contract documentation. CTHSS could be overpaying for equipment purchased.

26. The Connecticut Technical High School System should ensure that expenditure transactions are supported by adequate and complete documentation.

Comment:

Several CTHSS expenditure transactions lacked adequate and complete documentation.

27. The Connecticut Technical High School System should comply with procurement laws and implement formal policies and procedures.

Comment:

The State Department of Education authorized information technology services in error based upon provisions within an expired contract.

28. The Connecticut Technical High School System should enhance its internal controls related to recording transactions to ensure that they are properly identified and charged to the appropriate funds, codes, and accounts in order to maintain accurate records for financial management and reporting.

Comment:

CTHSS miscoded several expenditures. This type of error could result in misappropriation.

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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 State Department of Education greatly facilitated the conduct of this examination.



Nikolaos Perdikakis
Principal Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor