

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF HIGHER EDUCATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 and 2005**

**AUDITORS OF PUBLIC ACCOUNTS
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December 6, 2006

**AUDITORS' REPORT
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We have examined the financial records of the Department of Higher Education for the fiscal years ended June 30, 2004 and 2005. This report on that examination consists of the Comments, Condition of Records, Recommendations and Certification, which follow.

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

COMMENTS

FOREWORD:

The Department of Higher Education, which serves as the administrative arm of the Board of Governors for Higher Education, operates, generally, under Sections 10a-1 through 10a-55c and 10a-161 through 10a-171 of the General Statutes.

The Board of Governors for Higher Education appoints the Commissioner of Higher Education in accordance with Section 10a-5 of the General Statutes. In accordance with Section 10a-6 of the General Statutes, the Board of Governors for Higher Education is also responsible for establishing a Statewide policy for Connecticut's system of public higher education. This responsibility includes: establishing a master plan for higher education and postsecondary education, establishing Statewide tuition and financial aid policies, the preparation of consolidated budgets, reviewing and commenting on operating and capital expenditure requests from constituent units of the higher education system, the licensure and accreditation of higher education institutions, and the continued development and maintenance of a central higher education information system.

Board of Governors and Officials:

The Board of Governors for Higher Education consists of eleven members appointed pursuant to Section 10a-2 of the General Statutes. Seven members of the Board are appointed by the Governor and the remaining four by designated members of the General Assembly. The President Pro Tempore of the Senate, Minority Leader of the Senate, Speaker of the House of Representatives and Minority Leader of the House of Representatives each appoint one member to the Board.

As of June 30, 2005, membership of the Board of Governors was as follows:

Harry H. Penner Jr.; Chairman	William Bevacqua
Jean Reynolds; Vice-Chairman	Frank W. Ridley
Albert B. Vertefeuille	Brian Flaherty
Dorothea E. Brennan	Patricia M. Vissepó
James Gatling	

As of June 30, 2005, the Board had two vacancies, including one which resulted from the resignation of Robert Lane, effective June 30, 2005. Brian Flaherty was appointed to the Board on March 1, 2005, but was not sworn in as a Board member until September 2005. It should also be noted that although Patricia Vissepó is listed as a Board member, she has not attended any Board meetings since April 2003. Alice Meyer and Leonard S. Cohen also served as Board members during the audited period.

Section 10a-5 of the General Statutes provides for the appointment of a Commissioner of Higher Education. Valerie F. Lewis was appointed Commissioner November 15, 2000, and served in that capacity through the audited period.

Recent Legislation:

The Public Acts presented below are the most significant Acts that were either effective or passed during the audited period that affected the operations of the Department of Higher Education.

Public Act 05-60, effective July 1, 2005, amended Section 10a-22c of the General Statutes as follows:

Section 1. Subsection (c) of section 10a-22c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2005*):

(c) No certificate to operate a new private occupational school shall be issued by the commissioner pursuant to section 10a-22d until such private occupational school seeking authorization files with the commissioner an irrevocable letter of credit in the penal amount of [ten] twenty thousand dollars guaranteeing the payments required of the school to the private occupational school student protection account in accordance with the provisions of section 10a-22u. The letter of credit shall be payable to the private occupational school student protection account in the event that such school fails to make payments to the account as provided in subsection (a) of section 10a-22u or in the event the state takes action to reimburse the account for a tuition refund paid to a student pursuant to the provisions of section 10a-22v, provided the amount of the letter of credit to be paid into the private occupational school student protection account shall not exceed the amounts owed to the account. The letter of credit required by this subsection shall be excused once a school has paid in excess of [ten] twenty thousand dollars

into the private occupational school student protection account or [five] eight years from the date of initial approval, whichever occurs first.

Section 31 of Public Act 03-1 (June Special Session), effective July 1, 2003, changed the amount of funds available for expenditure by the Department of Higher Education from the student protection account to \$206,000 and \$216,000 for the fiscal years ending June 30, 2004 and 2005, respectively. The Act also amended the amount appropriated to the Department of Higher Education for the fiscal years ending June 30, 2004 and 2005, by reallocating \$100,000 from the Minority Advancement Program to the Saturday Academy. Further, the Act provided that the amount of \$85,000 appropriated to the Department of Higher Education for the fiscal year ending June 30, 2003, for the National Service Act shall not lapse, and will be available for expenditure for the fiscal year ending June 30, 2004.

Public Act 03-6 of the June 30, 2003 Special Session of the General Assembly required that \$70,000, which was appropriated to the Department of Higher Education for the Minority Advancement Program, be transferred to Other Expenses to be used during the fiscal year ending June 30, 2004, for an international initiative in Germany. The Act also allowed for the transfer of \$100,000 from the Reserve for Salary Adjustment to the Department of Higher Education's personal services category to support one additional position within the Department.

Public Act 03-142 established a Connecticut Career Ladder Advisory Committee, effective October 1, 2003, to promote the creation of new career ladder programs and the enhancement of existing career ladder programs for occupations in this State with a projected workforce shortage. The advisory committee should meet at least bimonthly and each member shall serve two-year terms without compensation. The committee will consist of thirteen members selected or assigned with some stipulations.

Public Act 03-170, effective July 1, 2003, amends Section 10a-170h of the General Statutes, to require the Commissioners of Education and Higher Education to distribute 60 percent of awards for the scholarship loan program equally among applicants who reside in the State's five (no longer six) congressional districts. The balance is awarded on a statewide basis.

Section 81 of Public Act 04-2 (May Special Session), effective July 1, 2004, established a fund to be known as the "Grants and Restricted Accounts Fund". Upon certification by the Comptroller and the Secretary of the Office of Policy and Management that the Core-CT project for financial services is operational, the fund shall contain all moneys that are restricted, not available for general use and previously accounted for in the General Fund as "Federal and Other Grants". The Comptroller is authorized to make such transfers as are necessary to provide that all moneys that are restricted and not available for general use are in the Grants and Restricted Accounts Fund.

RÉSUMÉ OF OPERATIONS

General Fund:

General Fund receipts totaled \$10,080,117, \$153,343 and \$52,259 during the fiscal years ended June 30, 2003, 2004 and 2005, respectively. The totals for the 2003-2004 and 2004-2005 fiscal years are primarily made up of current year and prior year refunds of expenditures. The significant decrease in total General Fund receipts from the 2002-2003 fiscal year to the 2003-2004 fiscal year

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is attributable to a change in accounting for Federal contributions and other restricted accounts which, effective in the 2004 fiscal year, are no longer accounted for in the General Fund.

Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of two new Special Revenue Funds relative to grants and restricted accounts, one of which is applicable to the Department's operations. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund.

General Fund expenditures totaled \$42,180,234 and \$69,088,533 during the fiscal years ended June 30, 2004 and 2005, respectively. A comparative summary of General Fund expenditures from Department appropriations for the fiscal years under review and the preceding fiscal year follows:

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Personal services	\$2,559,313	\$ 2,454,532	\$2,617,611
Contractual services	686,058	375,423	602,908
Commodities	27,463	46,675	31,833
Grants	44,236,444	39,301,864	65,831,716
Capital outlay	1,804	1,740	4,465
Total General Fund Expenditures	<u>\$47,511,082</u>	<u>\$42,180,234</u>	<u>\$69,088,533</u>

Expenditures from budgeted appropriations fluctuated significantly during the audited period, primarily due to State Aid Grant payments. Grant expenditures decreased from the 2002-2003 fiscal year to the 2003-2004 fiscal year by \$4,9345,580, or 11.2 percent, and increased in the 2004-2005 fiscal year from the 2003-2004 fiscal year by \$26,529,852, or 67.5 percent. This wide fluctuation was due almost exclusively to Higher Education State Matching Grants not being funded in the 2003-2004 fiscal year and the resumption of such funding during the 2004-2005 fiscal year. Some of the most significant grants are presented below:

	<u>2003-2004</u>	<u>2004-2005</u>
Independent College Student Grant program	\$15,067,492	\$15,519,517
Aid for Public College Students program	\$16,039,728	\$16,520,920
Higher Education State Matching Grants	\$ 0	\$25,300,000
Capitol Scholarship program	\$ 5,141,237	\$ 5,160,907
Minority Advancement program	\$ 2,111,127	\$ 2,424,820

Expenditures for the Higher Education State Matching Grants Fund are made in the form of grant payments to State colleges and universities in matching amounts to private donations made to those institutions.

Grants and Restricted Accounts Fund:

As previously stated, Public Act 04-2 of the May Special Session of the 2004 General Assembly authorized the establishment of new Special Revenue Funds. During the 2003-2004 fiscal year, the State Comptroller established the "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use that were previously accounted for in the General Fund. During the 2003-2004 and 2004-2005 fiscal years \$6,274,435 and \$5,824,607, respectively, in Federal and non Federal contributions were deposited to this Grants and Restricted

Accounts Fund.

A summary of Grants and Restricted Accounts Fund receipts for the fiscal years ended June 30, 2004 and 2005 follows:

	<u>2003-2004</u>	<u>2004-2005</u>
Federal Aid – Restricted	\$3,953,905	\$3,755,514
Non Federal Aid – Restricted	1,469,115	1,221,861
Grants Transfers Federal – Restricted	775,667	201,000
Grants Transfers Non Federal – Restricted	3,050	530,713
Investment Interest	71,948	116,269
Refunds of Expenditures – Current	750	(750)
Total Grants and Restricted Accts Receipts	<u>\$6,274,435</u>	<u>\$5,824,607</u>

Restricted account activity during the audited years consisted primarily of the administration of Federal grant programs. Total Grants and Restricted Accounts Fund expenditures for fiscal years 2003-2004 and 2004-2005 were \$6,154,555 and \$6,253,080, respectively, and consisted primarily of expenditures for the AmeriCorps Federal program, which totaled \$1,049,979 and \$1,203,244, respectively, and the Gear Up Federal program, which totaled \$1,893,216 and \$1,849,284, respectively.

Endowed Chair Investment Fund:

The Department, under Section 10a-20a of the General Statutes, administers a fiduciary fund for endowed chairs at the University of Connecticut, the University of Connecticut Health Center, and the State University System. The distribution of earnings from the Fund to the various chairs totaled \$168,415 and \$83,684, respectively, during the 2003-2004 and 2004-2005 fiscal years. The Endowed Chair Investment Fund had a fund balance of \$5,101,995, as of June 30, 2005.

Academic Scholarship Loan Program Fund:

The Academic Scholarship Loan Program Fund was established under the provisions of Section 10a-163a of the General Statutes. Receipts from loan repayments totaled \$34,600 and \$22,788 during the 2003-2004 and 2004-2005 fiscal years, respectively.

The Academic Scholarship Loan Program Fund had a fund balance of \$554,088 as of June 30, 2005. Loans from the Fund are forgiven if the recipients perform certain teaching services as provided by Section 10a-170i of the General Statutes. As of June 30, 2005, the total amount of loans and interest receivable was \$110,525. Out of this amount, the Department listed \$18,648 as being in default and uncollectible, and \$54,972 as deferred, due to students being in hardship or in the process of fulfilling the requirements for teaching service.

Teacher Incentive Loan Program Fund:

The Teacher Incentive Loan Program Fund was established under Section 10a-163a of the General Statutes. There were no receipts to or disbursements from the Teacher Incentive Loan Program Fund during the 2003-2004 and 2004-2005 fiscal years, which marks four consecutive years of no receipts or disbursements.

The Teacher Incentive Loan Program Fund had a fund balance of \$61,099, as of June 30, 2005. Loans from the Fund are forgiven if the recipients perform certain teaching services as provided by Section 10a-163, subsection (f), of the General Statutes.

Private Occupational School Student Protection Account:

The Private Occupational School Student Protection Account is established by Section 10a-22u of the General Statutes and is administered by the Commissioner of Higher Education. It was established to maintain a reserve of resources to refund tuition paid by students to schools that subsequently become insolvent or cease operations. In accordance with Section 10a-22u, subsection (a), of the General Statutes, the account is also assessed for the personnel and administrative expenditures for the oversight and registration of private occupational schools.

Cash receipts of the account totaled \$360,141 and \$506,552 during the 2003-2004 and 2004-2005 fiscal years, respectively, and consisted of assessments to the schools and interest earned. Disbursements from the account, primarily for the administrative expenses of registering private occupational schools, totaled \$182,587 and \$470,864 during the 2003-2004 and 2004-2005 fiscal years, respectively. The increased disbursement amount in the 2004-2005 fiscal year is due to student refunds in the amount of \$274,469; the 2003-2004 fiscal year had no such refunds. The account had a cash balance of \$2,626,406, as of June 30, 2005.

Capital Equipment Purchase Fund:

Equipment purchases from the Capital Equipment Purchase Fund totaled \$32,123 and \$19,544 during the 2003-2004 and 2004-2005 fiscal years, respectively. These purchases consisted principally of office and electronic data processing equipment.

CONDITION OF RECORDS

Our examination of the records of the Department of Higher Education disclosed matters of concern requiring disclosure and agency attention, as discussed below.

Expenditures – Payment Processing:

Background: The Department submitted a request to the Office of Policy and Management (OPM) to have funds transferred from the Department’s “Info-Tech Scholarship Program” to “Other Expenses” in order to expend those funds, which would have otherwise lapsed at the end of the 2004 fiscal year. The request was approved by OPM June 7, 2004.

Criteria: Section 3-117 of the Connecticut General Statutes, “...upon the settlement of any claim against the state, the Comptroller shall draw an order on the Treasurer for its payment.... The agency shall certify that such articles or services have been received or performed or, if not yet received or performed, are covered (1) by contracts properly drawn and executed or (2) under procedures adopted by the Comptroller.”

Condition: The Department had an expenditure processed prior to having an approved vendor contract in place. A check dated June 29, 2004, in the amount of \$43,978 was received by the Department from the State Treasurer for the payment of services from a vendor under a contract that was accepted and approved by the vendor and the Department in August 2004, and by the Office of the Attorney General on September 21, 2004. The contract period ran between June 1, 2004 and October 31, 2005. The Department forwarded the check to the vendor on September 28, 2004.

Effect: The Department had a payment processed, and obtained payment for services of a vendor, prior to having an approved contract with the vendor. The Department processed a payment during fiscal year 2004, for which there was no obligation, thereby, charging and expending funds during the 2004 fiscal year for obligations committed and services provided after June 30, 2004.

Cause: The Department indicated that it had service needs that were unfunded and saw an opportunity to provide funding with funds that would have otherwise lapsed.

Recommendation: Department staff should adhere to the requirements of Section 3-117 of the Connecticut General Statutes when making payments to vendors (See Recommendation 1).

Agency Response: “The Department holds that its payment processing of the surplus funds in question was taken to maintain the State’s investment and

carry through on approved fund usage. In 2001 the Department received \$440,000 in surplus funding to implement Phase I of the Higher Education Asset Protection Program. Phase I evaluated the condition of Connecticut's public higher education facilities through a comprehensive facility condition assessment which involved a physical inspection of buildings and component systems by a team of qualified engineers. As part of the program, a web-based database application was created to provide each institution and the State with a capital planning and management tool to facilitate the preservation of Connecticut's public higher education facilities and optimize state investments. Phase I was completed in April 2004. At that time the Department did not have funding to continue the hosting agreement which allowed access to the database application. The Office of Policy and Management agreed to transfer \$43,978 from surplus funds available in a Department scholarship program to the Department's Other Expense to cover the database access cost for an additional year. Meanwhile, the Department was to request the necessary funding in the 2005-2007 biennial budgets for ongoing accessibility. The \$43,978 transfer was approved at the June 2004 Finance Advisory Committee meeting and, immediately following this approval, the Department initiated the Personal Services Agreement (PSA) process with the vendor and on June 21, 2004 forwarded the request for approval to the Office of Policy and Management. Upon understanding that the PSA would not be finalized until after July 1, 2004, at which time the requested funds would lapse, DHE processed on June 28, 2004 an OSC check for \$43,978 to prevent the state-wide loss of access to the database, and hence the results of the State's investment of \$440,000. The check was mailed to the Department and held in the Department's safe until the PSA was signed and executed. If the PSA had not been completed, the check would have been cancelled and the funds would have reverted to the State Treasurer's 2004 surplus fund."

Expenditures – Purchasing Card Program:

Background: The Office of the State Comptroller implemented a Purchasing Card Program that allows selected employees of State agencies to purchase certain commodities with an assigned State credit card. The Department participates in this program.

Criteria: The Office of the State Comptroller established an "Agency Purchasing Card Manual" which prescribes certain internal controls and procedures that must be in place in order to participate in the program. The Department has established procedures for the use of purchasing cards by its employees, which includes prohibitions against the purchase of specific commodities. The Department's purchasing policies also prescribe that, prior to purchasing commodities, requisition forms shall be submitted and approved.

<i>Condition:</i>	We reviewed 97 purchasing card transactions. Our review disclosed that one transaction was for the purchase of an advertisement, a specifically prohibited purchasing card commodity. Two other transactions had requisition approvals subsequent to the purchase of commodities. Four other transactions had requisitions that had no dates of approvals on the requisitions.
<i>Effect:</i>	A lack of adherence to internal control procedures creates an environment whereby the misuse of purchasing cards may occur and not be detected by Department management in a timely manner. Purchasing card restrictions are, on occasion, not being adhered to by the Department.
<i>Cause:</i>	Department staff may not be as familiar with internal control procedures and purchasing card restrictions as would be necessary to maintain effective supervision and adherence to control procedures.
<i>Recommendation:</i>	The Department should require that all holders of State purchasing cards are aware of the Office of the State Comptroller's and the Department of Higher Education's policies and procedures as they pertain to the use of purchasing cards and have those employees adhere to those policies and procedures (See Recommendation 2).
<i>Agency Response:</i>	"The Department's Purchasing Card procedures will be revised to remove "advertising" from the list of purchase restrictions. The Department's Purchasing Card procedures state that requisitions are not required for purchases under \$100. One of the two transactions that contained requisition approvals subsequent to the purchase of commodities was due to the fact that the purchased item originally was projected at \$95, but at time of purchase cost just over \$100. The card holder purchased the item, and then the requisition was provided after the fact. The four requisitions on which one of three required signatures was not dated were processed in a timely manner. The approver at issue has been notified that she must date her signature on all requisitions. Department staff is familiar with Purchasing Card internal control procedures. In addition to Business Office staff assisting Purchasing Card holders on a regular basis, detailed procedures are available to the staff on the Department's Employee's website portal. We perceive this finding to be insignificant relative to the overall volume of purchasing transactions."

Expenditures – General:

<i>Background:</i>	The Department of Administrative Services has developed statewide procurement procedures, as noted in the State Purchasing Manual, for the proper procurement of services and commodities. The Department of Higher Education has also developed procurement
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procedures as a supplement to the State Purchasing Manual for its internal use. Additionally, the State Comptroller has established rules and regulations for the processing of payments for authorized obligations of State agencies.

Criteria: The State Comptroller requires that, in general, payments for goods and services shall not be processed prior to the receipt of such goods and services, or the establishment of obligations by the State via commitments properly approved and authorized.

In a memorandum of understanding (MOU) it is noted that exchange students are required to pay their own expenses relative to fees for participation in courses.

Condition: During our tests of expenditure transactions it was revealed that the Department had a number of exceptions relating to a lack of adherence to control procedures that ensure expenditure transactions are only approved for properly executed obligations of the Department. We noted the following:

1. Several transactions were for services or commodities that were performed prior to the proper execution of purchase orders and/or the approval of purchase requisitions.
2. A payment totaling \$1,350, for the leasing of laptop computers, on behalf of German exchange students, even though according to the MOU they were responsible for their own expenses.

Effect: The Department has paid for services and commodities that were incurred without proper prior approval and has made payments on behalf of individuals who were not entitled to the resulting benefits, putting the Department at risk of expending State funds without proper authorization that could result in material misuse and abuse of State resources not being detected in a timely manner.

Cause: Although the Department states that it is committed to adhering to internal controls, circumstances occur that result in the Department taking facilitating actions, which are not in compliance with control procedures, to remedy situations.

Recommendation: The Department should ensure that its staff is familiar with the laws, regulations, policies, and procedures for transacting business on behalf of the State and the Department, and emphasize adherence to internal control procedures (See Recommendation 3).

Agency Response: “1. Department staff is absolutely committed to adhering to internal controls. Department management and Business Office staff routinely remind employees of the policies and procedures for proper

execution of requisitions and purchase orders. We acknowledge that not everyone is perfect and the occasional slip-up does occur.

2. The Department believes this was not a mishandling of State funds but rather a scholarship award granted to three deserving German exchange students who are approved participants in the Connecticut/Baden-Württemberg Higher Education Exchange (BW-Germany Exchange). The Department oversees this program in compliance with a resolution passed by the Connecticut Legislature in 1989 establishing an official state-to-state partnership between Baden-Württemberg and Connecticut. The policies and guidelines of the BW-Germany Exchange are outlined in a Memorandum of Understanding. Section IV Finances of this agreement clearly states that Connecticut exchange students are eligible to receive scholarships from the BW Ministry with a maximum amount of DM 7,950 (approximately \$ 4,500) and that German exchange students be granted scholarship money as well. The circumstances of the matter in question were as follows: The three German exchange students learned after arrival at UConn in August 2004 that the Business School was implementing a new program and policy which required all students taking business courses to lease a computer at a cost of \$450 per semester. These students were totally surprised by this development and were equally unprepared to pay this fee. Since their financial responsibilities changed without their knowledge or that of this agency, we paid the lease on their behalf for the 2004 fall semester under Section IV of the Baden-Württemberg Exchange Memorandum of Understanding. This is in keeping with the overriding principle of reciprocity which governs this exchange.

None of the above transactions were processed with the intention of misuse or abuse of State resources. Again, Department staff is committed to adhering to internal controls and Department management and Business Office staff routinely remind employees of the Department's internal control policies and procedures. In addition, all Department policies and procedures are available to the staff on the Department's Employee's website portal."

Minority Advancement Program - Grant Expenditure Reporting:

Background:

The Department administers the Minority Advancement Program, which provides grants to institutions of higher education to develop and implement pre-college, college transition, and college admission and retention programs for low income minority students. Our prior audit found errors of an administrative nature, and we have determined that those errors persist as noted below.

Criteria:

The Statement of Assurances for the program, agreed to by grantees, states that the grantees will submit interim and final expenditure

reports within specified periods.

The Statement of Assurances also states that program funding is based on a one-year grant, and that all unexpended funds must be returned to the Department with the final expenditure report. It also states that all goods and services paid for utilizing grant funds must be received within the program year and that “in-kind” or matching contribution resources must be reported on.

Condition:

Our review disclosed that several expenditure reports did not indicate proper approval by the Department. Among those, hard copies of some reports could not be located and the Department’s online database provided copies that sometimes did not have approvals indicated. For one electronically approved report the grantee did not meet the matching requirements. We also noted that in an additional report, in which the grantee did not meet the matching requirements (though it properly was not approved), there was no indication that the Department followed-up on the grantee’s failure to meet the matching requirements, in that, the report was submitted during fiscal year 2004 and not followed-up on as of May 21, 2006.

Of the twelve expenditure reports selected per our review, two could not be located in hardcopy form or on the online database.

We also noted a lack of control over the approval of expenditure reports submitted electronically through the online system. Reports are supposed to be approved online, which would result in an approval date in the upper right hand corner of the report. However, the Department has not restricted access to specific individuals within the Office of Educational Opportunity who may approve reports. Additionally, approval dates may be changed by anyone with access simply by approving the reports again, changing the approval dates to the most recent approvals.

Effect:

The lack of adherence to internal controls over monitoring records increases the likelihood that inappropriate uses of grant funds may occur and not be detected by management in a timely manner.

Cause:

The Department is not monitoring program activities, via grantee expenditure report reviews, in a satisfactory manner. The Department’s online database does not have sufficient controls over access and authority to approve reports.

Recommendation:

The Department of Higher Education should adhere to established internal controls, and improve efforts to follow-up on grantees that are not complying with the Statement of Assurances that they must provide. Additionally, the Department should develop restrictive access and approval controls for their online expenditure report submission and approval system (See Recommendation 5).

Agency Response: “The Department agrees that there have been minor problems with administration of the Minority Advancement Program expenditure reporting reviews. Since the release of the FY03/FY04 Audit report, direct oversight of the Minority Advancement Program has been transferred to the Associate Director, Educational Support Services as a result of duty reassignments within the Office of Educational Opportunity. Also during this time new support staff has been assigned to the division. One of the projects undertaken during FY05 to improve program oversight was the development of a computerized Minority Advancement Program data base which was officially implemented on July 1, 2006. Since the system is new we have taken the Auditors’ suggestions and updated the program: access has been restricted to the Associate Director, Educational Support Services and her support staff; two revision dates and reporting information may be added and approved, but the original approval date and information may no longer be changed. The Department has also revised its internal controls for monitoring and follow-up on grantees for assuring compliance of grant requirements.”

Program/Academic Documentation:

Background: The Department maintains records for all students that participate in the Connecticut Information Technology Scholarship Program to document participation in the program and to evidence supporting documentation relative to benefit qualification.

Criteria: The Department’s program application requirements state that applicants selected for the program will be required to provide verification of student loans (loan contracts, payment books, etc.).

Condition: Our check of student files disclosed that, for one out of five student files reviewed, relative to the Connecticut Information Technology Loan Reimbursement Program, there was no documentation in the applicant’s file evidencing that required verification of the student loans was obtained.

Effect: The Department paid \$5,000 to an applicant of the Connecticut Information Technology Loan Reimbursement Program without any information on file evidencing that the applicant’s loan information was verified by the Department. The lack of verification of applicant information increases the risk that the Department may pay program funds to individuals who do not meet eligibility requirements of the program.

- Cause:* The cause of the Department’s failure to either obtain applicant verification, or to retain such verification, could not be determined.
- Recommendation:* The Department should utilize a checklist or some other record to track the collection of required documents within applicants’ files for those applicants participating in the various programs offered through the Department and date-stamp the documents as they are received. The Department should also follow up on the noted exception and verify the loan information submitted by the applicant (See Recommendation 6).
- Agency Response:* “The Department agrees that the student loan verification document was not in the applicant’s file and may have been misplaced. We have contacted the loan reimbursement recipient in question who has agreed to send us another copy of the documentation which will be confirmed with the loan servicing company. Had the issue been brought to our attention during the audit, however, we would have taken steps to locate the document in question at that time. The program was a one-time, cohort-based program which is no longer in existence. Should the Department establish such a program in the future it will ensure appropriate document tracking mechanisms are in place.”

Cash Receipts – Untimely Deposit:

- Background:* The Department deposits receipts from a number of sources including educational facilities.
- Criteria:* Pursuant to Section 4-32 of the General Statutes, a Department that receives an amount of \$500 or more must deposit such amount within 24 hours, unless an exception has been granted by the State Treasurer.
- Condition:* Our test of cash receipts disclosed that four receipts, in amounts ranging from \$4,898.38 to \$17,536.17 were deposited one day late and another receipt for \$7,261.88 was deposited five days late.
- Effect:* The prompt deposit requirement prescribed within Section 4-32 of the General Statutes was, therefore, violated.
- Cause:* A cause for the late deposits was not determined.
- Recommendation:* The Department of Higher Education should ensure that cash receipts exceeding \$500 are deposited promptly, in accordance with Section 4-32 of the General Statutes (See Recommendation 7).
- Agency Response:* “The Department agrees that the reported receipts were not deposited within 24 hours. These five checks were all received through one division. Division staff has been reminded of the 24 hour deposit provision and will promptly deliver checks to the Business Office.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Department should utilize a checklist or some other record to track the collection of required documents within student files for those students participating in the Alternative Route to Certification Program, and date-stamp the documents as they are received.** Our current review disclosed marked improvement relative to the Alternative Route to Certification Program. However, we noted a student file, relative to the Connecticut Information Technology Scholarship Program, that was missing documentation necessary to support \$5,000 in payments to the student. Therefore, we are repeating this recommendation in modified form in Recommendation 5.
- **Department staff should ensure that correct receipt dates are entered on invoices to ensure that the appropriate fiscal year of an appropriation is recognized.** Our current review disclosed a condition in which the receipt date played a role in the processing of a vendor payment prior to the Department having an approved service agreement in place. Therefore, we are repeating, in part, this recommendation in Recommendation 1.
- **Department staff needs to improve efforts to ensure that receipts are retained for all purchasing card purchases, and that purchasing logs are signed by each employee and their respective supervisors.** Our current review disclosed that the conditions cited during the prior audit were not manifested during this current audit and we, therefore, consider this recommendation satisfied. However, this current review did disclose matters relative to purchasing cards that result in our making a recommendation as noted in Recommendation 2.
- **Department staff should take greater care to ensure that expenditures are coded to the appropriate accounts established by the State Comptroller within the State Accounting Manual.** There were no account code issues during our current audit. We therefore consider this recommendation satisfied.
- **The Department of Higher Education should adhere to established internal controls, and improve efforts to follow-up on grantees that are not complying with the Statement of Assurances that they must provide.** Our current examination revealed that portions of the exceptions of the prior audit persist. We are repeating this recommendation as noted in Recommendation 4.
- **The Department of Higher Education should ensure that cash receipts exceeding \$500 are deposited promptly, in accordance with Section 4-32 of the General Statutes.** This recommendation is being repeated in our current report as noted in Recommendation 6.

- **The Department of Higher Education should re-establish its procedure of reconciling its cash receipt records with those of the State Comptroller.** The Department appears to have demonstrated enough of an effort to not warrant a repeat of this finding.
- **The Department should prepare accountability reports over account receipts, and comply with the statutory requirements regarding the operation of the Private Occupational School Student Protection Account and the Student Benefit Account. If necessary, it should seek legislation to amend those requirements, so that the Student Benefit Account can be established.** The Department has implemented the recommendation relative to the preparation of accountability reports for the audited period. Relative to the establishment of the Student Benefit Account, it appears that the Department did not receive sufficient funds in interest transfers for each year of the audited period, after deducting administrative expenses, to transfer funds into a Student Benefit Account.

Current Audit Recommendations:

- 1. Department staff should adhere to requirements of Section 3-117 of the Connecticut General Statutes when making payments to vendors.**

Comment:

Our review revealed that an expenditure for \$43,978 was processed by the Department prior to the Department having an approved contract with the vendor, and before receiving services or commodities. Additionally, the services were provided in fiscal year 2005, while the expenditure transaction was processed and charged to the 2004 fiscal year.

- 2. Department should require all holders of State purchasing cards to be aware of the Office of the State Comptroller's and the Department of Higher Education's policies and procedures as they pertain to the use of purchasing cards and have those employees adhere to those policies and procedures.**

Comment:

Our examination of 97 purchasing card transactions revealed that, in one instance, the Department purchased advertisement, a prohibited purchasing card transaction, with a purchasing card; two transactions with approved purchase requisitions that had dates that were subsequent to the purchase dates; and four instances of purchase requisitions having no dates of approvals.

- 3. Department should ensure that its staff is familiar with the laws, regulations, policies, and procedures for transacting business on behalf of the State and the Department, and emphasize adherence to internal control procedures.**

Comment:

Our examination of the Department's expenditure transactions revealed that the Department had several transactions for services and commodities that were performed prior to the

proper execution of purchase orders or approval of purchase requisitions; paid \$1,350 on behalf of German exchange students who were not entitled to the benefit; and paid for the attendance of an individual to an awards dinner, who had no business ties to the Department or the State.

- 4. The Department of Higher Education should adhere to established internal controls and improve efforts to follow-up on grantees that are not complying with the Statement of Assurances that they must provide. Additionally, the Department should develop restrictive access and approval controls for their online expenditure report submission and approval system.**

Comment:

Our review of the Minority Advancement Program disclosed that some of the expenditure reports submitted by grantees did not have indications of approval by the Department. Two reports indicated that matching contributions were not met by the grantees; one of those reports indicated approval of the report by the Department, without indications of matching contributions being addressed. Two other reports could not be located by the Department. The Department's online database system does not restrict access to the approval of reports to designated staff. Online approvals of reports do not identify the approvers, and the approval dates may be changed to any current dates by approving the reports again on those dates.

- 5. The Department should utilize a checklist or some other record to track the collection of required documents within applicants' files for those applicants participating in the various programs offered through the Department and date-stamp the documents as they are received. The Department should also follow-up on the noted exception and verify the loan information submitted by the applicant.**

Comment:

The Department paid \$5,000 to an applicant of the Connecticut Information Technology Loan Reimbursement Program but had no information on file evidencing that the applicant's loan information was verified by the Department. The lack of verification of applicant information increases the risk that the Department may pay program funds to individuals who do not meet eligibility requirements of the program.

- 6. The Department of Higher Education should ensure that cash receipts exceeding \$500 are deposited promptly, in accordance with Section 4-32 of the General Statutes.**

Comment:

The Department of Higher Education should ensure that cash receipts exceeding \$500 are deposited promptly, in accordance with Section 4-32 of the General Statutes.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Higher Education for the fiscal years ended June 30, 2004 and 2005. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Higher Education for the fiscal years ended June 30, 2004 and 2005 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

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

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Higher Education is the responsibility of the Department of Higher Education's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2004 and 2005, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Department of Higher Education is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the

Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Higher Education's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations and contracts and not to provide assurance on the internal control over those control objectives.

Our consideration of the internal control over the Department's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or failure to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

However, we did note certain matters involving internal control over the Department's financial operations and compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Department of Higher Education during this examination.

Mark Dickerson
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts